# ACEA FINANCIAL STATEMENTS

# FORM AND STRUCTURE

## GENERAL INFORMATION

The financial statements of Acea S.p.A. for the year ended 31 December 2018 were approved by resolution of the Board of Directors on 6 March 2019, which authorised their publication. Acea is an Italian public limited company, with a registered office in Italy, Rome, piazzale Ostiense 2, whose shares are traded on the Milan stock exchange.

## COMPLIANCE WITH IAS/IFRS

The financial statements have been drafted in accordance with the International Financial Reporting Standards (IFRS) effective on the date of drafting the financial statements, approved by the International Accounting Standards Board (IASB) and adopted by the European Union, consisting of the International Financial Reporting Standards (IFRS), by the International Accounting Standards (IAS) and by the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), collectively referred to as "IFRS" and pursuant to Art. 9 of Italian Legislative Decree 38/05.

Acea S.p.A. adopts the international accounting standards, International Financial Reporting Standards (IFRS), with effect from the financial year 2006, with transition date to the IFRS at 1 January 2005. The latest financial statements drafted according to the Italian accounting standards refer to the financial year ended on 31 December 2005.

## BASIS OF PRESENTATION

The Financial Statements for the year ended on 31 December 2018 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows and the Statement of Changes in Equity - all drafted according to the provisions of IAS 1 - as well as the Explanatory and Supplementary Notes, drafted in accordance with applicable IAS / IFRS provisions.
It is specified that the Income Statement is classified based on the nature of the costs, the Balance Sheet and Financial Position based on the liquidity criterion with the subdivision of items between current and non-current, while the Cash Flow Statement is presented using the indirect method.
The financial statements for the year ended on 31 December 2018 have been drafted in Euro and all amounts are rounded to thousands of Euro unless otherwise indicated.

## ALTERNATIVE PERFORMANCE INDICATORS

On 5 October 2015, the ESMA (European Security and Markets Authority) published its guidelines (ESMA / 2015/1415) on the criteria for submitting alternative performance indicators that replace, with effect from 3 July 2016, the recommendations of CESR/05-178b these guidelines have been incorporated into our system with CONSOB's Notice no. 0092543 of 3/12/2015.

This orientation was acknowledged in our system in CONSOB Communication no. 0092543 dated 3/12/2015. The content and meaning of the non-GAAP measures of performance and other alternative performance indicators used in these financial statements are illustrated below:

1. the gross operating margin (or EBITDA) represents an indicator of operating performance and includes, from 1 January 2014; the gross operating margin is calculated by adding to the Operating results the item "Depreciation, Provisions and Write-downs" as the main non-cash items;
2. the net financial position is an indicator of the financial structure and is obtained from the sum of non-current payables and financial liabilities net of non-current financial assets (financial receivables excluding a part of receivables related to Acea S.p.A.'s IFRIC 12 and securities other than equity investments), current financial payables and other current net current liabilities current financial assets and cash and cash equivalents;
3. net invested capital is the sum of "Current assets", "Non-current assets" and Assets and Liabilities held for sale, less "Current liabilities" and "Non-current liabilities", excluding items taken into account when calculating the net financial position;
4. net working capital is the sum of current receivables, inventories, the net balance of other current assets and liabilities and current payables, excluding the items considered in determining the net financial position.

## USE OF ESTIMATES

Drafting of the Financial Statements, in application of the IFRS, requires the making of estimates and assumptions that affect the values of revenues, costs, assets and liabilities in the financial statements and information on potential assets and liabilities reference date. Furthermore, in making the estimates, the main sources of uncertainties that could have an impact on the valuation processes are considered. The actual amounts may differ from such estimates. The estimates were used in the assessment of the impairment test, to determine some sales revenues, for provisions for risks and charges, the allowance for doubtful receivables and other provisions for depreciation, amortisation, valuations of derivative instruments, employee benefits and taxes. The estimates and assumptions are reviewed periodically and the effects of each change are immediately recorded in the financial statements.
The estimates also took into account assumptions based on the parameters and market and regulatory information available at the time the financial statements were drafted. Current facts and circumstances influencing the assumptions on future development and events may change due to the effect, for example, of changes in market trends or the applicable regulations that are beyond the control of the Company. These changes in assumptions are also reflected in the financial statements when they occur.
In addition, it should be noted that certain estimation processes, particularly the more complex such as the calculation of any impairment of non-current assets, are generally performed in full only when drafting the annual financial statements, unless there are signs of impairment that call for immediate impairment testing.

For more information on the methods in question, please refer to the following paragraphs.

# ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

The most significant principles and criteria are explained below.

## NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (and discontinued operations groups) classified as held for sale are valued at the lower of their previous carrying amount and market value less costs to sell.
Non-current assets (and disposal groups) are classified as held for sale when it is expected that their carrying amount will be recovered through a sale transaction rather than their use in the company's operations. This condition is met only when the sale is highly probable, the asset (or group of assets) is available for immediate sale in its current conditions and the Management has made a commitment to the sale, which must take place within twelve months from the date of classification in this item.

## EXCHANGE DIFFERENCES

The functional and presentation currency adopted by Acea S.p.A. and by subsidiaries in Europe is the Euro (€). Transactions in foreign currencies are initially recognised at the exchange rate in force on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies were reconverted into the functional currency at the exchange rate prevailing at the balance sheet date. All exchange differences are recorded in the Income Statement of the financial statements, with the exception of differences deriving from loans in foreign currency that have been entered into to hedge a net investment in a foreign company. These differences are recognised directly in equity until the net investment is disposed of and at that time any subsequent exchange rate difference is recognised in the Income Statement. The tax effect and receivables attributable to the exchange differences deriving from this type of loan are also attributed directly to equity. Non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate in force on the date of initial recognition of the transaction. Non-monetary items recorded at fair value are converted using the exchange rate on the date of calculation of this value.
The currency used by Latin American subsidiaries is the official currency of their country. On the balance sheet date, the assets and liabilities of these companies are converted into the presentation currency adopted by Acea S.p.A. using the exchange rate in effect on the balance sheet date, and their Income Statement is converted using the average exchange rate for the year or the exchange rates prevailing on the date of execution of the relevant transactions. Differences in translation emerging from the different exchange rates used for the income statement with respect to the balance sheet are recorded directly in equity and are shown separately in one of its specific reserves. At the time of disposal of a foreign economic entity, the accumulated foreign exchange differences recorded in the shareholders' equity in a specific reserve will be recognised in the Income Statement.

## REVENUE RECOGNITION

In accordance with the provisions of IFRS 15 "Revenues from contracts with customers", revenues are recognised for an amount that reflects the consideration to which the entity believes it is entitled in exchange for the transfer of goods or services to the customer. The fundamental parts for accounting purposes are:

1. *identify the commercial contract, defined as a (written or verbal) agreement between two or more parties which results in rights and obligations with the customer having the right to legal protection;*
2. *identify the separately identifiable obligations to do something (also "performance obligations") contained in the contract;*
3. *determine the price of the transaction, as the fee the enterprise expects to receive for the transfer of assets or the performance of services to the customer, in accordance with the techniques in the Standard and depending on the possible presence of financial and variable components;*
4. *allocate a price to each performance obligation;*
5. *to recognize the revenue when the revenue obligation is fulfilled by the entity, allowing for the fact that the services may not be provided at a specific time, but over a period of time.*

Revenues are valued at the fair value of the consideration received or receivable, taking into account the value of any commercial discounts, returns and rebates granted by the Group.

## FINANCIAL INCOME

Income is recognised on the basis of interest accrued on the net value of the relevant financial assets using the effective interest rate (rate that exactly discounts estimated future cash flows at the net carrying amount of the asset). Interest is recorded as an increase in the financial assets shown in the financial statements.

## DIVIDENDS

These are recognised when the unconditional right of shareholders is established to receive payment. These are classified in the Income Statement under the item financial income.

## CONTRIBUTIONS

Contributions obtained for investments in plants, both by public bodies and by private third parties, are recognised at fair value when there is a reasonable certainty that they will be received and that expected conditions will be met. Contributions received for specific plants whose value is recorded under fixed assets are recorded among other non-current liabilities and progressively released to the Income Statement in constant instalments over a period equal to the useful life of the reference asset.
Operating grants (granted for the purpose of providing immediate financial assistance to the company or as compensation for expenses and losses incurred in a previous year) are recognised in full in the Income Statement when the conditions for recognition are met.

## CONSTRUCTION CONTRACTS IN PROGRESS

Construction contracts in progress are assessed on the basis of the contractual fees accrued with reasonable certainty, according to

the percentage of completion criterion (the so-called cost to cost), so as to attribute the revenues and the economic result of the contract to the individual financial years in proportion to the progress of the works. The positive or negative difference between the value of the contracts and the advances received is recorded respectively in the assets or in the liabilities side of the balance sheet.
Contract revenues, in addition to contractual fees, include variants, price revisions and recognition of incentives to the extent that they are likely to represent actual revenues and if these can be determined reliably. Ascertained losses are recognised regardless of the progress of orders.

## COSTS RELATED TO BORROWING

Costs related to the assumption of loans directly attributable to the acquisition, construction or production of assets that necessarily require a significant period of time before being ready for use or sale, are included in the cost of these assets, up until where they are ready for use or sale. The proceeds from the temporary liquidity investment obtained from the aforementioned loans are deducted from capitalised interest. All other charges of this nature are recognised in the Income Statement when they are incurred.

## EMPLOYEE BENEFITS

Benefits guaranteed to employees paid in connection with or following termination of employment through defined benefit and defined contribution plans (such as: Employee severance indemnity, additional monthly salaries, tariff concessions, as described in the notes) or other long-term benefits are recognised in the period of accrual of the right. The valuation of the liability is carried out by independent actuaries. These funds and benefits are not funded. The cost of benefits envisaged by the various plans is determined separately for each plan using the actuarial valuation method of the unit credit projection, making the actuarial valuations at the end of each year.
Profits and losses deriving from the actuarial calculation are recorded in the statement of comprehensive income, then in a specific Shareholders' equity Reserve, and are not subsequently charged to the Income Statement.

## TAXES

Income taxes for the year represent the sum of current taxes (as per tax consolidation) and deferred taxes.

**Current taxes** are based on the taxable results for the year. Taxable income differs from the results reported in the Income Statement because it excludes positive and negative components that will be taxable or deductible in other financial years and also excludes items that will never be taxable or deductible. The liability for current taxes is calculated using the rates in force or in fact in force at the balance sheet date as well as taxation instruments allowed by tax legislation (national tax consolidation, taxation for transparency).

**Deferred taxes** are the taxes that are expected to be paid or recovered on temporary differences between the book value of assets and liabilities in the financial statements and the corresponding tax value used in the calculation of the taxable income, recorded according to the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, while deferred tax assets are recognised to the extent where it is probable that there will be future taxable results that allow the use of deductible temporary differences.
The carrying amount of deferred tax assets is revised at each balance sheet date and reduced to the extent that, based on the plans approved by the Board of Directors, the existence of sufficient taxable income is not considered likely to allow all or partly the recovery of these assets.
Deferred taxes are calculated based on the tax rate that is expected to be in effect at the time the asset is realised or the liability is relieved. Deferred taxes are charged directly to the Income Statement, with the exception of those relating to items recognised directly in equity, in which case the relevant deferred taxes are also recognised in equity.

## TANGIBLE ASSETS

Tangible assets are recognised at cost, including ancillary costs directly attributable and necessary for putting the asset into service for the use for which it was purchased, net of the relevant accumulated depreciation and any accumulated impairment losses.
The cost includes the costs of the dismantling and removal of the assets and the costs of reclamation of the site on which the tangible assets stand, if they comply with the provisions of IAS 37. Assets composed of components of a significant amount with a different useful life.
The costs for improvements, modernisation and transformation that increase the value of tangible assets are recognised as assets when it is probable that they will increase the expected future economic benefits of the asset.
Land, whether free of construction or annexed to civil and industrial buildings, is not depreciated as it has an unlimited useful life.
Depreciation is calculated on a straight-line basis over the estimated useful life of the asset by applying the following percentage rates:

| DESCRIPTION | ECONOMIC-TECHNICAL DEPRECIATION RATE | | |
|---|---|---|---|
| | Min | | Max |
| Instrumental systems and equipment | 1.25% | | 6.67% |
| Non-instrumental systems and equipment | | 4% | |
| Instrumental industrial and commercial equipment | 2.5% | | 6.67% |
| Non-instrumental industrial and commercial equipment | | 6.67% | |
| Other capital goods | | 12.50% | |
| Other non-capital goods | 6.67% | | 19% |
| Instrumental vehicles | | 8.33% | |
| Non-instrumental vehicles | | 16.67% | |

Systems and equipment under construction for production purposes are recorded at cost, net of write-downs for losses in value. The cost includes any professional fees and, for some assets, financial charges capitalised in accordance with the Company's accounting policies. The depreciation of these assets, as for all other assets, begins when the assets are ready for use. For some types of complex goods for which long-lasting functional tests are required, the suitability for use is attested by the positive passing of these tests.
Tangible assets are subjected annually to a recoverability analysis in order to detect any loss in value: this analysis is carried out at the level of individual tangible aswsets or, possibly, at the level of the cash-generating unit.
Assets held as financial leases are depreciated in relation to their estimated useful life as for assets held as property or, if lower, based on the expiry dates of leases.
Profits and losses deriving from the sale or disposal of assets are determined as the difference between the sale revenue and the net book value of the asset and are recorded in the Income Statement for the year.

## REAL ESTATE INVESTMENTS

Real estate investments, represented by properties held for rental and / or capital appreciation, are recorded at purchase cost including negotiation costs net of the relevant accumulated depreciation and any impairment losses.
Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The percentages applied are between a minimum of 1.67% and a maximum of 11.11%.
Real estate investments are eliminated from the financial statements when they are sold or when the investment property is permanently unusable and no future economic benefits are expected from its possible sale.
The sale of real estate which results in the leaseback of the assets is recorded on the basis of the substantial nature of the transaction considered as a whole. In this regard, reference is made to what has been explained regarding Leases.
Any profit or loss deriving from the elimination of an investment property is recorded in the Income Statement in the year in which the elimination takes place.

## INTANGIBLE ASSETS

### Purchases separated or deriving from business combinations

Intangible assets acquired separately are capitalised at cost, while those acquired through business combinations are capitalised at the fair value defined on the purchase date. After the first entry into the category of intangible assets, the cost criterion applies.
The useful life of intangible assets can be qualified as definite or indefinite.
Intangible assets with an indefinite useful life are subjected annually to a recoverability analysis in order to detect any loss in value: this analysis is carried out at the level of the individual intangible asset or, possibly, at the level of the cash-generating unit.
The useful life is reviewed annually and any changes, where possible, are made by means of analytical tables.
Gains or losses deriving from the disposal of an intangible asset are determined as the difference between the disposal value and the carrying amount of the asset and are recorded in the Income Statement at the time of disposal.

### Research and development costs

Research costs are allocated to the income statement when incurred. Development costs incurred in relation to a given project are capitalised when their future recovery is deemed reasonably certain. Following initial recognition of development costs, these are valued using the cost criterion that can be decreased by any accumulated depreciation or loss.
Any capitalised development costs are depreciated for the entire period in which expected future revenues will be shown in respect of the project itself. The carrying value of development costs is reviewed annually for the performance of an adequacy analysis for the purpose of detecting any impairment losses when the asset is not yet in use, or more closely when an indicator during the period exercise may raise doubts about the recoverability of the carrying amount.

### Trademarks and patents

These are initially recognised at purchase cost and depreciated on a straight-line basis based on their useful life.
With regard to depreciation rates, please note that:

- development costs are depreciated over a period of five years in relation to the residual possibility of use;
- costs for intellectual property rights are amortized on the basis of a presumed period of three years.

## IMPAIRMENT

At every balance sheet date, Acea S.p.A. revises the carrying amount of its tangible, intangible and equity investments to determine whether there are indications that these assets have suffered impairment. If any indication exists, the Group estimates the recoverable amount of the asset in order to determine the impairment charge.
When it is not possible to estimate the recoverable amount of the individual asset, Acea S.p.A. estimates the recoverable amount of the cash-generating unit to which the asset belongs.
Intangible assets with indefinite useful lives, including goodwill, are tested for impairment annually and each time there is any indication that an asset may be impaired, in order to determine the impairment charge.
The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In determining the value in use, estimated future cash flows are discounted to their current value using a pre-tax rate that reflects current market assessments of the value of money and the specific risks of the asset.
If the recoverable amount of an asset (or of a cash-generating unit) is estimated to be lower than the relative book value, it is reduced to the lower recoverable value. An impairment loss is immediately recognised in the Income Statement, unless the asset is represented by land or buildings other than real estate investments recorded at revalued values, in which case the loss is recognised in the respective revaluation reserve.
When an impairment no longer exists, the carrying amount of the asset (or cash-generating unit), with the exception of goodwill, is increased to its new estimated recoverable amount. The reversal must not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment charge been recognised for the asset in prior periods. The reversal of an impairment charge is recognised immediately as income in the Income Statement, unless the asset is carried at a revalued amount, in which case the reversal is recognised in the revaluation reserve.
Where an impairment charge is recognised in the income statement, it is included among amortisation, depreciation and impairment charges.

## EQUITY INVESTMENTS

Investments in subsidiaries and associates are recorded in the bal-

ance sheet at the adjusted cost of any impairment losses on the individual equity investments. The cost of acquisition or subscription, for those relating to contributions, corresponds to the value determined by the experts in the estimate pursuant to Article 2343 of the Italian Civil Code.
Losses on equity investments relating to the amount exceeding the amount of shareholders' equity are classified in the provision for risks and charges even if there is a credit exposure and until the eventual formal waiver of the receivable. Charges for settlement of equity investments are recognised through the valuation of the investments themselves regardless of the allocation of charges in the financial statements of investee companies.
Investments in other companies, constituting non-current financial assets and not destined for trading activities, are measured at fair value if they can be determined: in this case, gains and losses deriving from the fair value measurement are booked directly to equity until the moment of the sale when all the accumulated profits and losses are charged to the Income Statement for the period.

Investments in other companies for which fair value is not available are recorded at cost, written down for any permanent losses in value. Dividends are recognised in the Income Statement when the right to receive payment is established only if they derive from the distribution of profits subsequent to the acquisition of the investee company. If, however, they derive from the distribution of reserves of the investee prior to the acquisition, these dividends are recorded as a reduction in the cost of the investment itself.

## TREASURY SHARES

The purchase cost of treasury shares is recognised as a decrease in equity. The effects of any subsequent transactions on these shares are also recognised directly in equity.

## FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised when Acea S.p.A. becomes part of the instrument's contractual clauses.

### Financial assets - debt instruments

Depending on the characteristics of the instrument and the business model implemented for its management, financial assets (which represent debt instruments) are classified into the following three categories: 1) financial assets measured at amortised cost; 2) financial assets measured at fair value with recognition of the effects among the other components of comprehensive income (hereinafter also OCI); 3) financial assets measured at fair value with recognition of the effects in the income statement.
Initial recognition takes place at fair value. For trade receivables without a significant financial component, the initial recognition value is represented by the transaction price.
Subsequent to initial recognition, financial assets that generate contractual cash flows exclusively representing capital and interest payments are valued at amortised cost if held for the purpose of collecting contractual cash flows (so-called "hold to collect" model). According to the amortised cost method, the initial recognition value is subsequently adjusted to take into account capital repayments, any write-downs and the amortisation of the difference between the repayment amount and the initial recognition value.
Amortisation is based on the effective internal interest rate, which represents the rate that makes the present value of expected cash flows and the initial book value equal at the time of initial recognition.
Receivables and other financial assets measured at amortised cost are presented in the balance sheet net of the related provision for bad debts.
The financial assets representing debt instruments whose business model envisages both the possibility of collecting contractual cash flows and the possibility of realising capital gains on disposal (so-called "hold to collect and sell" business model) are valued at fair value with allocation of the effects to OCI (hereinafter also FVTOCI).

In this case, changes in the fair value of the instrument are recognised under shareholders' equity among other components of comprehensive income. The cumulative amount of changes in fair value recognised in the shareholders' equity reserve that includes the other components of the overall profit is reversed in the income statement when the instrument is derecognised. Interest income calculated using the effective interest rate, exchange rate differences and write-downs is recognised in the income statement.
A financial asset representing a debt instrument that is not valued at amortised cost or at the FVTOCI is valued at fair value with the effects being charged to the income statement (hereinafter FVTPL). This category includes financial assets held for trading purposes.
When the purchase or sale of financial assets takes place according to a contract that envisages the settlement of the transaction and the delivery of the asset within a specified number of days, established by the market control bodies or by market conventions (e.g. purchase of securities on regulated markets), the transaction is recognised on the date of settlement.
The financial assets sold are derecognised when the contractual rights associated with obtaining the cash flows associated with the financial instrument expire or are transferred to third parties.

### Write-downs of financial assets

The assessment of the recoverability of the financial assets representing debt instruments not valued at fair value with effects on the income statement is made on the basis of the so-called "Expected credit loss model".
In particular, expected losses are generally determined on the basis of the product between: 1) the exposure owed to the counterparty net of the relative mitigating factors (so-called "Exposure at Default"); 2) the probability that the counterparty does not comply with its payment obligation (so-called "Probability of Default"); 3) the estimate in percentage terms of the amount of credit that will not be able to be recovered in the event of a default (so-called "Loss Given Default"), based on past experience and possible recovery actions that can be taken (e.g. out-of-court actions, legal disputes, etc.).
In this regard, the internal ratings already used for the assignment have been adopted to determine the probability of default of the counterparties. For counterparties represented by State Entities and in particular for the National Oil Companies, the probability of default – essentially represented by the probability of late payment – is determined using as input the country risk premiums implemented for the purposes of determining the WACC for the impairment of non-financial assets.
For retail customers not having internal ratings, the assessment of expected losses is based on a provision matrix, constructed where appropriate by grouping the clustered receivables to which write-down percentages apply based on the experience of previous losses, adjusted where necessary to take account of forecast information regarding the credit risk of the counterparty or of clusters of counterparties.

### Minority holdings

Since they are not held for trading purposes, the financial assets representing minority shareholdings, are measured at fair value

with recognition of the effects in the equity reserve, which includes the other components of the overall profit, without providing for their reversal to the income statement in case of realisation.
Dividends from these investments are recognised in the income statement under the item "Income (costs) of equity investments". Valuation at the cost of a minority interest is permitted in the limited cases where the cost represents an adequate estimate of the fair value.

### Financial assets related to agreements for services under concession

With reference to the application of IFRIC 12 to the public lighting service concession, Acea has adopted the Financial Asset Model, recognising a financial asset to the extent that it has an unconditional contractual right to receive cash flows.

### Cash and cash equivalents

This item includes cash and bank current accounts and deposits repayable on demand and other highly liquid short-term financial investments, which are readily convertible into cash and are subject to a non-significant risk of changes in value.

### Financial liabilities

Financial liabilities other than derivative instruments – including financial payables, trade payables, other payables and other liabilities – are initially recognised at the fair value less any costs associated with the transaction. Subsequently they are recognised at amortised cost using the effective interest rate for discounting purposes, as illustrated in the previous point "Financial assets".
Financial liabilities are eliminated when they are extinguished or when the obligation specified in the contract is fulfilled, cancelled or expired.

### Offsetting of financial assets and liabilities

Financial assets and liabilities are offset in the balance sheet when there is a currently exercisable legal right to offset, and the intention is to settle the relationship on a net basis (i.e. to sell the asset and simultaneously settle the liability).

### Derivative financial instruments and hedge accounting

Derivative financial instruments, including implicit ones (Embedded derivatives) are assets and liabilities recognised at fair value according to the criteria specified in the point below, "Fair value valuations".
As part of the strategy and objectives set for risk management, the qualification of transactions as hedges requires:

1. verification of the existence of an economic relationship between the hedged item and the hedging instrument that can offset the related changes in value, and that this capacity to offset is not affected by the level of counterparty credit risk;
2. the definition of a hedge ratio consistent with risk management objectives, within the defined risk management strategy, where necessary making the appropriate rebalancing actions.

Changes in risk management objectives, the absence of the conditions specified above for the classification of transactions as hedges or the implementation of rebalancing operations results in the total or partial prospective discontinuation of the hedge.
When hedging derivatives cover the risk of changes in the fair value of the hedged instruments (fair value hedge; e.g. hedging of the variability of the fair value of fixed rate assets/liabilities), the derivatives are recognised at fair value with the allocation of effects in the income statement. Similarly, the hedged instruments in the income statement reflect the changes in fair value associated with the hedged risk, regardless of the provision of a different valuation criterion generally applicable to the type of instrument.
When derivatives hedge the risk of changes in the cash flows of the hedged instruments (cash flow hedge; e.g. hedging of the variability of the cash flows of assets/liabilities due to fluctuations in interest rates or exchange rates), the changes in the fair value of derivatives considered to be effective are initially recognised in the shareholders' equity reserve relating to the other components of comprehensive income, and subsequently recognised in the income statement consistent with the economic effects produced by the hedged transaction. In the case of hedging of future transactions that involve the recognition of a non-financial asset or liability, the accumulated changes in the fair value of hedging derivatives, recognised in equity, are recognised as an adjustment to the carrying amount of the asset./non-financial liability subject to hedging (so-called basis adjustment).
The ineffective portion of the hedge is recorded in the income statement item "Financial (costs)/income".
Changes in the fair value of derivatives that do not meet the conditions to be qualified as hedges, including any ineffective components of hedging derivatives, are recognised in the income statement. In particular, changes in the fair value of non-hedging derivatives on interest rates and currencies are recognised in the income statement item "Financial (costs)/income".
Embedded derivatives – embedded in financial assets – are not subject to separate accounting. In these cases, the entire hybrid instrument is classified according to the general criteria for the classification of financial assets.
Embedded derivatives embedded in financial liabilities and/or non-financial assets are separated from the main contract and recognised separately if the embedded instrument:

1. meets the definition of a derivative;
2. as a whole it is not valued at fair value with the effects being charged to the income statement (FVTPL);
3. if the characteristics and risks of the derivative are not strictly linked to those of the main contract.

Verification of the existence of embedded derivatives to be separated and valued separately is carried out when the company enters into the contract, and subsequently if there are changes in the terms of the contract that lead to significant changes in the cash flows generated by that contract.

### Valuation at fair value

The fair value is the consideration that can be received for the sale of an asset or that can be paid for the transfer of a liability in a regular transaction between market operators at the valuation date (i.e. exit price).
The fair value of an asset or liability is determined by adopting the valuations that market operators would use in determining the price of the asset or liability. The fair value measurement also assumes that the asset or liability is exchanged in the main market or, in the absence thereof, in the most advantageous market the company has access to.
The determination of the fair value of a non-financial asset is made considering the ability of market operators to generate economic benefits by using this asset in its highest and best use or by selling it to another participant in the market able to use it, maximising its value. The determination of the highest and best use of the asset is made from the point of view of market operators even in the case where the company intends to use it differently. It is assumed that the company's current use of a non-financial asset is its highest and best use unless the market or other factors suggest that a different use by market operators is able to maximise its value.
The valuation of the fair value of a liability, both financial and non-financial or of a capital instrument, takes into account the quoted price for the transfer of an identical or similar liability or equity instrument. If this quoted price is not available, the valuation of the corresponding asset held by a market operator at the valuation date is considered. The fair value of financial instruments is determined considering the credit risk of the counterparty of a financial asset (so-called "Credit Valuation Adjustment" - CVA) and the risk of default by the entity itself, with reference to a financial liabil-

ity (so-called "Debit Valuation Adjustment" - DVA). In determining fair value, a hierarchy of criteria is defined based on the origin, type and quality of the information used in the calculation. This classification aims to establish a hierarchy in terms of reliability of the fair value, giving precedence to the use of observable market parameters that reflect the assumptions that market participants would use in the valuation of the asset/liability. The fair value hierarchy has the following levels:

- level 1: inputs represented by quoted prices (unmodified) in active markets for identical assets or liabilities that can be accessed on the valuation date;
- level 2: inputs other than the prices included in Level 1 that are directly or indirectly observable for the assets or liabilities to be valued;
- level 3: unobservable inputs for the asset or liability. In the absence of available market quotations, the fair value is determined using valuation techniques appropriate to the individual cases that maximise the use of relevant observable inputs, minimising the use of unobservable inputs.

### PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are made when Acea has to meet a current obligation (legal or implicit) deriving from a past event, where it is probable that an outlay of resources will be required to satisfy the obligation and a reliable estimate can be made on the amount of the obligation.
The provisions are allocated based on the Management's best estimate for the costs required to fulfil the obligation at the balance sheet date, and if the effect is significant.

When the financial effect of time is significant and the payment dates of the obligations can be reliably estimated, the provision is determined by discounting the expected future cash flows at the average rate of the company's debt taking into account the risks associated with the obligation; the increase in the provision associated with the passage of time is recognised in the Income Statement under the item "Financial income/(charges)".

# ACCOUNTING STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS APPLIED AS OF 1 JANUARY 2018

The following documents have already been issued by the IASB and endorsed by the European Union as amendments to international accounting standards in force from 1 January 2018.

### IFRS 9 FINANCIAL INSTRUMENTS

In July 2014, the IASB published IFRS 9 - Financial Instruments (IFRS 9) which deals with the new international accounting rules for the Classification & Measurement of financial instruments, Impairment of assets and Hedge Accounting.
Adoption of IFRS 9 is mandatory for Companies beginning 1 January 2018, replacing the previous IAS 39 accounting principle.

**I. Classification and measurement of financial assets and liabilities**
The new standard provides for the classification of financial assets on the basis of the Business Model with which the Company manages the financial assets and the contractual characteristics of the cash flows of these instruments (*Solely payments of principal and interest on the principal amount outstanding Test*):

- The assessment of the Business Model determines the classification of the instrument based on the objective with which the instrument is held within the company's portfolio. Financial assets are measured at amortised cost if they are held with the aim of collecting contractual cash flows (Held to Collect). Financial assets are measured at fair value with changes in value charged to Other Comprehensive Income (OCI) if these are held with the aim of both collecting contractual cash flows and being sold (Held to Collect and Sell). Finally, they are measured at fair value with changes in value charged to the income statement if they are not held with the objectives typical of the other Business Models.
- The assessment of the characteristics of the contractual cash flows requires that the financial assets be valued at amortised cost if the characteristics of the contractual cash flows represent only expected cash flows that provide for the repayment of the principal and interest accrued on that capital. In the event that this condition is not respected, an assessment will be made by determining the fair value.

**2. Impairment of Financial Assets**
IFRS 9 introduces a new framework related to the calculation of the impairment of financial assets and certain types of off-balance sheet financial instruments (loan commitment and financial guarantees). The new calculation method provides for the estimate of the devaluation of certain financial instruments on the basis of the concept of expected loss which differs from the methodology provided by IAS 39 which provides for the determination of losses based on a concept of incurred loss.
The adoption of the Expected Credit Loss model for impairment of financial assets brings with it the reporting of devaluation of financial assets based on a predictive approach, based on forecast of the counterparty's default (probability of default) and the ability to recover in cases in which a default event occurs (loss given default).
IFRS 9 requires the Group to record expected credit losses on all portfolio obligations, loans and trade receivables, with reference to either a 12-month period or the entire contractual term of the instrument (e.g. lifetime expected loss) according to the adoption of the General or Simplified Model. Given the characteristics and duration of the exposures, the Group will apply the simplified approach for trade receivables and therefore record the expected losses based on their residual contractual duration.
In particular, during 2017 activities have been completed for the definition and the implementation of methods for the impairment of financial assets, through the identification of the following models and parameters:
The expected loss is a function of the probability of default (PD), exposure at default (EAD) and the loss given default (LGD) and

this estimate must be made both by incorporating forward-looking information and through the use of ratings dictated by credit experience in order to reflect factors that are not captured by the models. PD is the probability that an activity has not been paid for and will default, the dimension being determined to be in a period of 12 months (stage 1) or over a lifetime (Stage 2). The PD for each instrument is constructed considering historical data and is estimated considering current market conditions through reasonable and supportable information on future economic conditions, and through the use of Internal Ratings already used for the purpose of assignment.
The EAD represents the credit exposure to the counterparty at the time the default event occurs.
This parameter includes an estimate of any value that is not expected to be recovered at the time of default (like collateral, guarantees, insurance policies, countervailable debts, etc.).
LGD represents the amount that is not expected to be recovered at the time the default event occurs and is calculated both on a historical basis and via supportable and reasonable information regarding future market conditions.
IFRS 9 also grants the possibility of using a further approach, defined as "simplified". This method can be used only for the categories of financial instruments:
1. Trade receivables;
2. Lease receivables according to IFRS 16;
3. Contract Assets according to IFRS 15.

This approach allows only the use of PD lifetime to calculate the expected losses, eliminating the need to determine the PD at 12 months and to monitor the credit risk at each valuation date.
A further expedient envisaged by IFRS 9 within the simplified approach is the use of the so-called Provision Matrix. This model provides for the utilisation of impairment percentages determined by maturity date based on the historical losses recorded by the Company. These percentages must be subsequently supplemented with forward looking information in order to incorporate market and historical information in the percentages. This model was applied in particular to retail customers without internal ratings.

**3. Hedge Accounting**
IFRS 9 introduces a new hedge management model that identifies a broader spectrum of hedged instruments and hedged risks in order to create an accounting impact of risk management practices. The new rules also eliminate the need for quantitative efficacy tests and the simultaneous elimination of efficacy thresholds.
IFRS 9 grants those applying International Accounting Standards the possibility of continuing to apply the Hedge Accounting rules established by IAS 39. This option is granted until IFRS 9 is updated with the rules relating to Macro Hedging. The decision to apply Hedge Accounting according to IFRS 9 is irrevocable, while the decision to continue applying IAS 39 will be carried out each year until the accounting rules for hedging transactions are finally issued.

## IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 was issued in May 2014 and amended in April 2016 and introduces a five-phase model that will apply to revenues from contracts with customers. The objective is to create a complete and uniform framework of reference for revenue recognition, applicable to all commercial contracts (with the exception of lease contracts, insurance contracts and financial instruments). The new standard will replace all current requirements in the IFRS regarding revenue recognition, in particular it will replace the following principles:
- IAS 18 - Revenues from sales and services;
- IAS 11 - Multi-year contracts and interpretations;
- IFRIC 13 - Customer loyalty programmes;
- IFRIC 15 - Agreements for the construction of buildings;
- IFRIC 18 - Transfer of customer activities;
- SIC 31 - Exchange transactions and advertising services.

IFRS 15 provides for the recognition of revenues for an amount that reflects the consideration that the entity deems to be entitled to in exchange for the transfer of goods or services to the customer.
The fundamental parts for accounting purposes are:
- identify the commercial contract, defined as a (written or verbal) agreement between two or more parties which results in rights and obligations with the customer having the right to legal protection;
- identify the separately identifiable obligations to do something (also "performance obligations") contained in the contract;
- determine the price of the transaction, as the fee the enterprise expects to receive for the transfer of assets or the performance of services to the customer, in accordance with the techniques in the Standard and depending on the possible presence of financial and variable components;
- allocate a price to each performance obligation;
- to recognize the revenue when the revenue obligation is fulfilled by the entity, allowing for the fact that the services may not be provided at a specific time, but over a period of time.

### "Amendments to IAS 40 - Transfers of investment property"
Issued in December 2016, the document clarifies that transfers to or from real estate investments must be justified by a change in use supported by evidence. The simple change of intention is not sufficient to support this transfer. The changes have expanded the examples of change of use to include the activities under construction and development and not just the transfer of completed properties.

### "Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions"
The document issued in June 2016:
- clarifies that the fair value of a transaction with share-based payment settled in cash on the date of valuation (i.e. the date of allocation, on closure of any reporting period and the settlement date) must be calculated in consideration of the market conditions (e.g.: a share price target) and conditions other than those of accrual, ignoring the conditions for remaining in service and the conditions for achieving results other than market ones;
- clarifies that share-based payments with liquidation net of a withholding at source must be classified entirely as operations settled by shares (if they would have been classified as such even without payment net of the withholding at source;
- provides provisions on the booking of changes to the terms and conditions determining the change in classification from share-based payments settled in cash to share-based payments settled by the issuing of shares.

Amendments will be applicable, subject to approval, from the financial years beginning on or after 1 January, 2018. Acea does not envisage any impact deriving from the future application of the new provisions.

## IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (2014-2016 CYCLE)

On 08 December 2016 the IASB published the document "Annual Improvements to IFRSs: *2014-2016 Cycle*".
The document introduces amendments to the following standards:
- IFRS 1 ***First – time Adoption of International Financial Reporting Standards***: the change removes the exemption envisaged for the transition of new users to IFRS 7, IAS 19 and IAS 10

standards. These transitory dispositions were available for past reporting periods and are therefore no longer applicable.
- IAS 28 ***Investments in Associates and Joint Ventures***: the change enables capital companies, joint investment funds, trust units and similar entities to choose whether to record their investments in associates or joint ventures classifying them as fair value through profit or loss (FVTPL). The Board has clarified that these valuations should be made separately for each partner of joint venture at the time of initial recording.

### "IFRIC 22 - Foreign currency transactions and advance consideration"

The interpretation issued by the IASB in December 2016 provides clarifications for the purpose of determining the exchange rate to be used at the time of initial recognition of an asset, costs or revenues (or part of them). The date of the transaction is when the company records any non-monetary assets (liabilities) due to advances paid (received).

# ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE AFTER THE END OF THE FINANCIAL YEAR AND NOT ADOPTED EARLIER

### IFRS 16 LEASES

Issued in January 2016, this standard replaces the previous standard on leases, IAS 17 and the related interpretations, identifies the criteria for the recognition, measurement, presentation and disclosures to be provided with reference to lease agreements for both the lessor and the lessee. IFRS 16 marks the end of the distinction in terms of classification and accounting treatment of operating leases (with off-balance sheet disclosures) and finance leases (recognised in the financial statements).
The right to use the leased asset ("Right of Use") and the commitment made will result from financial data in the financial statements (IFRS 16 will apply to all transactions involving a right of use, regardless of the contractual form, i.e. lease, rental or hire purchase). The main novelty is the introduction of the concept of control within the definition. More specifically, to determine whether a contract is a lease, IFRS 16 requires a lessee to verify whether it has the right to control the use of a given asset for a specified period of time.
There will be no accounting symmetry with the lessor, which will continue to apply a separate accounting treatment depending on whether the contract is an operating lease or a finance lease (on the basis of current guidelines). On the basis of this new model, the lessee shall recognise:

1. in the balance sheet, the assets and liabilities for all leases that have a term exceeding 12 months, unless the underlying asset has a modest value; and
2. in profit or loss, depreciation of the leased assets separately from interest on the related liabilities.

On the lessor's side, the new standard must have a minor impact on the financial statements (unless so-called "sub-leases" are implemented) as the current accounting will not change, except for the financial disclosure that must be quantitatively and qualitatively higher than the previous one. The standard, which ended its endorsement process in October 2017, applies from 1 January 2019, however early application is permitted if IFRS 15 - Revenue from contracts with customers is also adopted.
In the context of the first application of the standard the Group undertook an analysis starting from 1 January 2019, currently in the finalisation phase and which may be subject to changes. The transition approach that will be applied will be a modified retrospective and therefore the contracts whose leases – including renewals – will end within twelve months from the date of first application will not be included. The Group has also used the possibility envisaged by the principle of not accounting separately for the non-lease component of mixed contracts, therefore choosing to treat these contracts as a lease. The impacts estimated by the company in this phase presuppose the recording at 1 January 2019 of assets and liabilities for an amount of approximately € 11 million, while on the economic side there is an improvement in EBITDA of approximately € 3 million.

### "IFRIC 23 – UNCERTAINTY OVER INCOME TAX TREATMENTS"

The interpretation provides clarifications on the recognition and measurement of IAS 12 - Income Taxes regarding the accounting treatment of income tax in the event of regulatory uncertainty, also aimed at improving transparency. IFRIC 23 does not apply to taxes and duties that do not fall under the scope of IAS 12 and will be effective starting from the financial years with effect on 1 January 2019 but early application is permitted.

### "CONCEPTUAL FRAMEWORK"

The objective of the project on Conceptual Framework is to improve financial reporting by providing a more complete, clear and updated set of conceptual elements. The purpose of the Framework is to: a) assist the Board in the development of IFRS based on coherent concepts; b) assist the preparation of financial statements in the development of consistent accounting policies when no IFRS applies to a particular transaction or event or when a standard allows a choice of accounting policy; c) assist others in understanding and interpreting the standards.

### "AMENDMENTS TO IAS 19"

On 7 February 2018 the IASB published its interpretation of "Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)" which requires companies to use up-to-date actuarial assumptions in order to determine pension charges following changes to defined benefits for employees.

## IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (2015-2017 CYCLE)

On 12 December 2017 the IASB published the document "Annual Improvements to IFRSs: *2015-2017 Cycle*".
The document introduces amendments to the following standards:

- **IFRS 3 - Business Combinations**: The IASB added paragraph 42A to IFRS 3 to clarify that when an entity obtains control of an asset that is a joint operation, it must recalculate the value of that asset, since such transaction would be considered as a business combination achieved in stages and therefore to be counted on this basis;
- **IFRS 11 - Joint Arrangements**: In addition, paragraph B33CA was added to IFRS 11 to clarify that if a party participates in a joint operation but does not have joint control, and subsequently obtains joint control over the joint operation (which constitutes an asset as defined in IFRS 3), it is not required to restate the value of this asset.
- **IAS 12 - Income Taxes**: This amendment clarifies that the tax effects of income taxes arising from the distribution of profits (i.e. dividends), including payments on financial instruments classified as equity, must be recognised when a liability for payment of a dividend is recognised. The consequences of income taxes must be recognised in the income statement, in the comprehensive income statement or in the shareholders' equity in consideration of the nature of the transactions or the past events that generated the distributable profits or as they were initially recognised
- **IAS 23 - Borrowing Costs**: The amendment clarifies that in calculating the capitalisation rate for loans, an entity should exclude the financial charges applicable to loans made specifically to obtain an asset, only until the asset is ready and available for its intended use or sale. Financial charges related to specific loans that remain after the asset is ready for intended use or for sale must subsequently be considered as part of the entity's general debt burden.

These changes must be applied retrospectively for annual periods beginning on or after 1 January 2019. Earlier application is permitted.

## IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (2014-2016 CYCLE)

On 8 December 2016 the IASB published the document "Annual Improvements to IFRSs: 2014-2016 Cycle".
The document introduces amendments to the following standards:

- IFRS 1 ***First – time Adoption of International Financial Reporting Standards***: the change removes the exemption envisaged for the transition of new users to IFRS 7, IAS 19 and IAS 10 standards. These transitory dispositions were available for past reporting periods and are therefore no longer applicable.
- IAS 28 ***Investments in Associates and Joint Ventures***: the change enables capital companies, joint investment funds, trust units and similar entities to choose whether to record their investments in associates or joint ventures classifying them as fair value through profit or loss (FVTPL). The Board has clarified that these valuations should be made separately for each partner of joint venture at the time of initial recording.

These changes must be applied retrospectively for reporting periods starting on 1 January 2018 or later. Earlier application is permitted.

## IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (2015-2017 CYCLE)

On 12 December 2017 the IASB published the document "Annual Improvements to IFRSs: *2015-2017 Cycle*".
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- **IFRS 11 - Joint Arrangements:** Furthermore, paragraph B33CA was added to IFRS 11 to clarify that if a party participates in a joint operation but does not have joint control and subsequently obtains joint control over the joint operation (which constitutes an asset as defined in IFRS 3), it is not required to restate the value of this asset.
- **IAS 12 - Income Taxes:** This amendment clarifies that the tax effects of income taxes arising from the distribution of profits (i.e. dividends), including payments on financial instruments classified as equity, must be recognised when a liability for payment of a dividend is recognised. The consequences of income taxes must be recognised in the income statement, in the comprehensive income statement or in the shareholders' equity in consideration of the nature of the transactions or the past events that generated the distributable profits or as they were initially recognised
- **IAS 23 - Borrowing Costs:** The amendment clarifies that in calculating the capitalisation rate for loans, an entity should exclude the financial charges applicable to loans made specifically to obtain an asset, only until the asset is ready and available for its intended use or sale. Financial charges related to specific loans that remain after the asset is ready for intended use or for sale must subsequently be considered as part of the entity's general debt burden.

These changes must be applied retrospectively for annual periods beginning on or after 1 January 2019. Earlier application is permitted.

# INCOME STATEMENT

| Ref. Note | INCOME STATEMENT | 2018 | Related Parties | 2017 | Related Parties | Change |
|---|---|---|---|---|---|---|
| 1 | Revenue from sales and services | 156,160,530 | 156,017,216 | 164,402,779 | 164,163,693 | (8,242,249) |
| 2 | Other revenue and proceeds | 15,662,724 | 7,740,641 | 16,534,450 | 6,762,904 | (871,726) |
| | **Net revenues** | **171,823,253** | **163,757,856** | **180,937,229** | **170,926,597** | **(9,113,976)** |
| 3 | Personnel costs | 57,195,964 | | 49,676,289 | | 7,519,675 |
| 4 | Costs of materials and overheads | 154,363,700 | 51,889,140 | 149,275,568 | 82,773,463 | 5,088,132 |
| | **Operating costs** | **211,559,665** | **51,889,140** | **198,951,857** | **82,773,463** | **12,607,807** |
| | **Gross Operating Profit** | **(39,736,411)** | **111,868,717** | **(18,014,628)** | **88,153,133** | **(21,721,783)** |
| 5 | Amortisation, depreciation, provisions and impairment charges | 20,074,539 | 0 | 20,741,412 | 0 | (666,872) |
| | **Operating profit/loss** | **(59,810,951)** | **111,868,717** | **(38,756,040)** | **88,153,133** | **(21,054,911)** |
| 6 | Financial income | 130,272,501 | 128,985,136 | 114,362,960 | 113,204,564 | 15,909,541 |
| 7 | Financial expenses | 70,826,703 | 160,937 | 64,810,466 | 218,385 | 6,016,237 |
| 8 | Income from shares held | 177,966,381 | 177,966,381 | 219,012,875 | 219,012,875 | (41,046,494) |
| 9 | Expenses from shares held | 15,892,865 | 0 | 0 | 0 | 15,892,865 |
| | **Profit/(loss) before tax** | **161,708,364** | **418,659,297** | **229,809,330** | **420,152,187** | **(68,100,966)** |
| 10 | Income taxes | 13,932,153 | 86,113,154 | 3,230,018 | 75,508,785 | 10,702,135 |
| | **Net result of negotiating activities** | **147,776,211** | **332,546,143** | **226,579,312** | **344,643,402** | **(78,803,101)** |
| | **Net profit/(loss)** | **147,776,211** | **332,546,143** | **226,579,312** | **344,643,402** | **(78,803,101)** |

Amounts in €

# STATEMENT OF COMPREHENSIVE INCOME

| COMPREHENSIVE INCOME | 2018 | 2017 | Change |
|---|---|---|---|
| **Net result** | **147,776** | **226,579** | **(78,803)** |
| Reserve for exchange differences | (11,103) | 14,800 | (25,903) |
| Tax on exchange rate difference | 2,665 | (3,552) | 6,217 |
| **Profit/loss deriving from exchange rate differences** | **(8,438)** | **11,248** | **(19,686)** |
| Effective portion of profits/(losses) on hedging instruments ("cash flow hedges") | 17,930 | (11,734) | 29,665 |
| Tax effect of other gains/(losses) on hedging instruments (“cash flow hedges") | (4,303) | 2,816 | (7,120) |
| **Profit/Loss From the Effective Portion on Hedging Instruments net of tax effect** | **13,627** | **(8,918)** | **22,545** |
| Actuarial gains/(losses) on employee benefits recognised in equity | 1,059 | 815 | 245 |
| Tax effect of other actuarial gains/ (losses) on employee benefits | (313) | 273 | (587) |
| **Actuarial Profit/(Loss) on defined benefit pension plans net of tax effect** | **746** | **1,088** | **(342)** |
| **Total components of other comprehensive income, net of tax effect** | **5,935** | **3,418** | **2,517** |
| **Total comprehensive income/loss** | **153,711** | **229,997** | **(76,286)** |

Amounts in € thousand

# STATEMENT OF FINANCIAL POSITION

| Ref. Note | ASSETS | 31/12/2018 | Related Parties | 31/12/17 | Related Parties | Change |
|---|---|---|---|---|---|---|
| 11 | Tangible Fixed Assets | 97,469,362 | 0 | 95,852,276 | 0 | 1,617,087 |
| 12 | Real Estate Investments | 2,489,046 | 0 | 2,547,404 | 0 | (58,358) |
| 13 | Other intangible fixed assets | 11,762,938 | 0 | 11,623,698 | 0 | 139,240 |
| 14 | Investments in subsidiaries and affiliate companies | 1,792,037,627 | 0 | 1,784,245,718 | 0 | 7,791,908 |
| 15 | Other equity investments | 2,352,061 | 0 | 2,352,061 | 0 | 0 |
| 16 | Deferred tax assets | 20,069,011 | 0 | 23,623,020 | 0 | (3,554,008) |
| 17 | Financial assets | 227,385,241 | 227,259,741 | 237,975,029 | 237,849,529 | (10,589,788) |
| 18 | Other non-current assets | 560 | 0 | 560 | 0 | 0 |
| | **NON-CURRENT ASSETS** | **2,153,565,846** | **227,259,741** | **2,158,219,766** | **237,849,529** | **(4,653,920)** |
| 19.a | Contract work-in-progress | 0 | 0 | 0 | 0 | 0 |
| 19.b | Trade receivables | 731,449 | 541,305 | 953,897 | 526,640 | (222,448) |
| 19.c | Intragroup Trade Receivables | 88,212,898 | 88,212,898 | 98,771,878 | 98,771,878 | (10,558,980) |
| 19.d | Other current assets | 31,900,595 | 1,931,369 | 36,3954,068 | 1,942,792 | (5,053,474) |
| 19.e | Current Financial Assets | 5,791,425 | 0 | 105,647,961 | 0 | (99,856,537) |
| 19.f | Intragroup current financial assets | 2,074,601,428 | 2,074,601,428 | 1,918,406,576 | 1,918,406,576 | 156,194,852 |
| 19.g | Current tax assets | 13,396,660 | 12,185,412 | 23,140,874 | 4,288,048 | (9, 744,214) |
| 19.h | Cash and cash equivalents | 978,551,644 | 0 | 527,422,879 | 0 | 451,128,765 |
| **19** | **CURRENT ASSETS** | **3,193,186,099** | **2,177,472,413** | **2,711,298,133** | **2,023,935,935** | **481,887,966** |
| | Total Assets | 5,346,751,945 | 2,404,732,154 | 4,869,517,899 | 2,261,785,464 | 477,234,046 |

Amounts in €

| Ref. Note | LIABILITIES | 31/12/2018 | Related Parties | 31/12/17 | Related Parties | Change |
|---|---|---|---|---|---|---|
| | Shareholders' Equity | | | | | |
| 20.a | Share capital | 1,098,898,884 | 0 | 1,098,898,884 | 0 | 0 |
| 20.b | Legal reserve | 111,947,621 | 0 | 100,618,656 | 0 | 11,328,966 |
| 20.c | Treasury shares reserve | 0 | 0 | 0 | 0 | 0 |
| 20.d | Other reserves | 77,972,583 | 0 | 72,756,998 | 0 | 5,215,586 |
| | Retained earnings/(losses) | 137,452,369 | 0 | 56,107,204 | 0 | 81,345,165 |
| | Profit (loss) for the year | 147,776,211 | 0 | 226,579,312 | 0 | (78,803,101) |
| **20** | **SHAREHOLDERS' EQUITY** | **1,574,047,668** | **0** | **1,554,961,053** | **0** | **19,086,615** |
| 21 | Severance pay benefits and other defined benefit plans | 23,512,134 | 0 | 24,463,827 | 0 | (951,693) |
| 22 | Provisions for risks and charges | 15,407,726 | 0 | 14,984,287 | 0 | 423,439 |
| 23 | Financial debts and liabilities | 3,124,570,873 | 0 | 2,482,564,141 | 0 | 642,006,732 |
| 24 | Other liabilities | 0 | 0 | 0 | 0 | 0 |
| | **NON-CURRENT LIABILITIES** | **3,163,490,734** | **0** | **2,522,012,256** | **0** | **641,478,478** |
| 25.a | Financial payables | 377,675,158 | 61,581,587 | 542,975,181 | 28,428,777 | (165,300,024) |
| 25.b | Trade payables | 169,536,665 | 75,521,828 | 191,783,800 | 99,017,161 | (22,247,135) |
| 25.c | Tax Payables | 17,916,924 | 4,745,034 | 25,241,524 | 24,621,448 | (7,324,600) |
| 25.d | Other current liabilities | 44,084,796 | 2,325 | 32,544,085 | 23,902 | 11,540,711 |
| **25** | **CURRENT LIABILITIES** | **609,213,543** | **141,850,774** | **792,544,591** | **152,091,287** | **(183,331,048)** |
| | TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 5,346,751,945 | 141,850,774 | 4,869,517,899 | 152,091,287 | 477,234,046 |

Amounts in €

# STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2017

| | Share capital | Legal reserve | Demerged capital gains reserve | Reserve for exchange differences | Valuation reserve for financial instruments | Reserve for actuarial gains and losses | Other miscellaneous reserves | Profits (losses) accumulated | Profit (loss) for the year | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balances at 1 January 2017** | **1,098,899** | **95,188** | **102,567** | **1,909** | **(25,367)** | **(10,868)** | **860** | **84,707** | **108,610** | **1,456,505** |
| **Allocation of 2016 profits:** | | | | | | | | | | |
| Distribution of balance, dividends | | | | | | | | (28,694) | (103,086) | **(131,780)** |
| Legal reserve | | 5,431 | | | | | | | (5,431) | **0** |
| Profits carried forward / to cover losses | | | | | | | | 94 | (94) | **0** |
| Other changes | | | | | | | 239 | | | **239** |
| Net income / (loss) recorded during the year: | | | | | | | | | | |
| Profits and losses recognised directly in equity | | | | 11,248 | (8,918) | 1,088 | | | | **3,418** |
| Distribution of advances on dividends | | | | | | | | | | **0** |
| Profit for the year | | | | | | | | | 226,579 | **226,579** |
| **Total comprehensive profit/(loss)** | **0** | **0** | **0** | **11,248** | **(8,918)** | **1,088** | **0** | **0** | **226,579** | **229,997** |
| **Total at 31 December 2017** | **1,098,899** | **100,619** | **102,567** | **13,157** | **(34,285)** | **(9,780)** | **1,098** | **56,107** | **226,579** | **1,554,961** |

Amounts in € thousand

# STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2018

| | Share capital | Legal reserve | Demerged capital gains reserve | Reserve for exchange differences | Valuation reserve for financial instruments | Reserve for actuarial gains and losses | Other miscellaneous reserves | Profits (losses) accumulated | Profit (loss) for the year | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balances as at 31 December 2017** | **1,098,899** | **100,619** | **102,567** | **13,157** | **(34,285)** | **(9,780)** | **1,098** | **56,107** | **226,579** | **1,554,961** |
| FTA reserve | | | | | | | (719) | | | **(719)** |
| **Balances at 1 January 2018** | **1,098,899** | **100,619** | **102,567** | **13,157** | **(34,285)** | **(9,780)** | **1,098** | **56,107** | **226,579** | **1,554,961** |
| **Allocation of 2017 profits:** | | | | | | | | | | |
| Distribution of balance, dividends | | | | | | | | 81,345 | (215,250) | **(133,905)** |
| Legal reserve | | 11,329 | | | | | | | (11,329) | **0** |
| Profits carried forward / to cover losses | | | | | | | | | | **0** |
| Other changes | | | | | | | (719) | | | **(719)** |
| Net income / (loss) recorded during the year: | | | | | | | | | | **0** |
| Profits and losses recognised directly in equity | | | | (8,438) | 13,627 | 746 | | | | **5,935** |
| Distribution of advances on dividends | | | | | | | | | | **0** |
| Profit for the year | | | | | | | | | 147,776 | **147,776** |
| Total comprehensive profit/(loss) | 0 | 0 | 0 | (8,438) | 13,627 | 746 | 0 | 0 | 147,776 | **153,711** |
| **Total at 31 December 2018** | **1,098,899** | **111,948** | **102,567** | **4,718** | **(20,658)** | **(9,034)** | **379** | **137,452** | **147,776** | **1,574,048** |

Amounts in € thousand

# STATEMENT OF CASH FLOW

| Ref. Note | | 31/12/2018 | Related Parties | 31/12/17 | Related Parties | Changes |
|---|---|---|---|---|---|---|
| | *Cash flow from operating activities* | | | | | |
| | Profit before tax | 161,708 | | 229,809 | | (68,101) |
| 5 | Depreciation/amortisation | 13,125 | | 24,142 | | (11,017) |
| 5 | Revaluations/impairment charges | (162,466) | | (213,484) | | 51,018 |
| 22 | Change in provisions for risks | 423 | | (22,018) | | 22,442 |
| 21 | Change in Employee severance indemnity | (507) | | (1,226) | | 719 |
| 8 | Gains on disposals | 0 | | 268 | | (268) |
| 6-7 | Net financial interest | (59,446) | | (49,552) | | (9,893) |
| | Income taxes paid | (56,638) | | (104,874) | | 48,236 |
| | **Financial flows generated by operating activities before changes** | **(103,800)** | **0** | **(136,935)** | **0** | **33,135** |
| 19.b - 19.c | (Increase) / Decrease in receivables included in current assets | 11,174 | 10,544 | (43,241) | (40,976) | 54,415 |
| 26.b | Increase / (Decrease) of payables included in the current liabilities | (22,247) | (23,495) | (14,770) | 1,519 | (7,478) |
| 19.a | Increase/(decrease) in inventories | (0) | | 270 | | (270) |
| | **Change in working capital** | **(11,073)** | **(12,951)** | **(57,740)** | **(39,457)** | **46,667** |
| | **Change in other assets/liabilities during the period** | **44,027** | **(7,919)** | **148,682** | **31,789** | **(104,654)** |
| | **TOTAL CASH FLOW FROM OPERATING ACTIVITIES** | **(70,846)** | **(20,870)** | **(45,994)** | **(7,668)** | **(24,852)** |
| | *Cash flow from investment activities* | | | | | |
| 11-13 | Purchase/sale of tangible and intangible assets | (14,823) | | (25,120) | | 10,297 |
| 14-15 | Equity investments | (2,438) | | (2,782) | | 344 |
| 26.a | Collections/payments deriving from other financial investments | (26,395) | (145,605) | (427,874) | (418,786) | 401,479 |
| | Collected dividends | 160,105 | 160,105 | 231,810 | 231,810 | (71,705) |
| | Interest income collected | 118,380 | (22,636) | 25,145 | (103,892) | 93,235 |
| | **TOTAL** | **234,829** | **(8,136)** | **(198,820)** | **(290,868)** | **433,650** |
| | *Cash flow from financing activities* | | | | | |
| 23 | Repayment of borrowings and long-term loans | (382,891) | | (508,052) | | 125,161 |
| 26.a | Disbursement of borrowings/other medium/long-term loans | 1,000,000 | | 450,000 | | 550,000 |
| 26.a | Decrease / increase in other short-term financial debts | (165,325) | 33,153 | 437,726 | (53,079) | (603,051) |
| | Interest expense paid | (30,014) | (2,832) | (52,991) | (3,037) | 22,977 |
| | Dividends paid | (133,905) | (133,905) | (131,780) | (131,780) | (2,125) |
| | **TOTAL CASH FLOWS** | **287,865** | **(103,584)** | **194,903** | **(187,896)** | **92,962** |
| | Changes in shareholders' equity, net of profit | (719) | 0 | 0 | 0 | (719) |
| | ***Cash flows for the period*** | **451,848** | **(132,590)** | **(49,911)** | **(486,432)** | **501,759** |
| | ***Net opening balance of cash and cash equivalents*** | **527,423** | **0** | **577,334** | **0** | **(49,911)** |
| | ***Net closing balance of cash and cash equivalents*** | **978,552** | **(132,590)** | **527,423** | **(486,432)** | **451,129** |

Amounts in € thousand

# NOTES TO THE INCOME STATEMENT

## REVENUES

### 1. Revenue from sales and services – € 156,161 thousand

Revenues from sales and services are as follows:

| € thousand | 2018 | 2017 | Change |
|---|---|---|---|
| **Revenue from customer services** | **42,587** | **60,126** | **(17,539)** |
| of which Roma Capitale public lighting service | 42,444 | 59,887 | (17,443) |
| of which public lighting service of the Municipality of Naples | 0 | 48 | (48) |
| of which other revenues | 143 | 192 | (48) |
| **Revenues from intragroup services** | **113,573** | **104,276** | **9,297** |
| of which service contracts | 108,165 | 102,978 | 5,187 |
| of which other services | 5,408 | 1,298 | 4,110 |
| **Revenue from sales and services** | **156,161** | **164,403** | **(8,242)** |

The reduction in *revenues from customer services* of € 17,539 thousand is attributable to the reduction in the consideration for the public lighting service performed in the Municipality of Rome.
On 17 June 2016 the agreement modifying the service contract for the management of the public lighting service was entered into with Roma Capitale, under which the mass replacement plan for LED lighting was started, financed by Roma Capitale which is ending (13,511 transformations on a total completed of 170,556) and it is this slowdown that is attributable to the reduction in revenues as well as the drop in the consideration for the efficiency generated by the progressive completion of the installations. This reduction was partly offset by the increase in fees related to other items in the contract.
Revenues from intragroup services recorded a total increase of € 9,297 thousand. This change derives:

1. from the fees for service activities rendered in the interest of the Group companies relating to facility management and the adjustment of the service contract for the management of the IT platform, only partially offset by a reduction in other administrative, financial, legal and technical services (totalling € 5,187 thousand);
2. the overall increase in revenues deriving from other services provided to subsidiaries (€ 4,110 thousand) mainly due to revenues for out-of-service contracts relating to the Acea branch of facility management acquired in January 2018 from the subsidiary Acea Elabori.

### 2. Other revenue and proceeds – € 15,663 thousand

This item dropped by € 872 thousand compared to 31 December 2017, mainly due to the effect of lower non-existent liabilities offset in part by greater recoveries for personnel seconded to Group companies.
Below is the composition.

| € thousand | 2018 | 2017 | Change |
|---|---|---|---|
| Contingent assets and other revenues | 8,499 | 10,033 | (1,534) |
| Seconded personnel | 3,510 | 2,951 | 559 |
| Reimbursement of charges for corporate offices | 2,847 | 2,750 | 97 |
| Real estate income | 748 | 734 | 14 |
| Refunds for damages, penalties, collateral | 58 | 66 | (8) |
| **Revenue from sales and services** | **15,663** | **16,534** | **(872)** |

## COST

### 3. Personnel costs – € 57,196 thousand

| € thousand | 2018 | 2017 | Change |
|---|---|---|---|
| Staff costs including capitalised costs | 60,059 | 54,160 | 5,899 |
| Staff employed in projects | (2,588) | (3,929) | 1,341 |
| Costs capitalised | (274) | (554) | 280 |
| **Total** | **57,196** | **49,676** | **7,520** |

The change in the cost of labour, including capitalised costs of € 5,899 thousand derives from the average outstanding amounts, as also highlighted in the table below. This increase is mainly due to the acquisition of the Facility Management division, which involved the transfer of 55 resources from Acea Elabori to Acea S.p.A.
The cost of personnel is netted, as well as capitalised costs, also €2,588 thousand (- €1,341 thousand compared to 31 December 2017) representing the total amount of personnel costs used in the IT projects for all group companies participating in the "communion" of the IT platform.

The following table shows the average and final number of employees by category, compared to the previous year.

| | Average composition for the period | | | End-of-period composition | | |
|---|---|---|---|---|---|---|
| **Category** | 31/12/2018 | 31/12/17 | Change | 31/12/2018 | 31/12/17 | Change |
| Senior executives | 52 | 51 | 1 | 49 | 52 | (3) |
| Middle managers | 162 | 149 | 13 | 165 | 153 | 12 |
| Clerical staff | 421 | 372 | 50 | 419 | 374 | 45 |
| Blue-collar workers | 23 | 15 | 8 | 23 | 15 | 8 |
| **Total** | **658** | **587** | **71** | **656** | **594** | **62** |

## 4. Costs of materials and overheads – € 154,364 thousand

Compared to 31 December 2017, total external costs increased by €5,088 thousand (+ 3.41%). The following is the composition and changes in external costs by nature

| € thousand | 2018 | 2017 | Change |
|---|---|---|---|
| Cost of equipment | 1,187 | 552 | 635 |
| Costs for services and work | 123,373 | 132,819 | (9,446) |
| Costs for use of third party goods | 7,223 | 7,087 | 136 |
| Taxes and duties | 1,635 | 1,801 | (166) |
| General expenses | 20,945 | 7,016 | 13,929 |
| **Total** | **154,364** | **149,276** | **5,088** |

| € thousand | 2018 | 2017 | Change |
|---|---|---|---|
| **Cost of equipment** | **1,187** | **552** | **635** |
| **Costs for services and work** | **123,373** | **132,819** | **(9,446)** |
| Intragroup services | 30,093 | 47,413 | (17,320) |
| - *of which Public Lighting, Roma Capitale* | 29,829 | 43,790 | (13,962) |
| *Electric and Water Consumption* | 20,114 | 22,659 | (2,545) |
| - *of which Electricity Consumption Roma Capitale Public Lighting Service* | *16,991* | *20,298* | *(3,307)* |
| Consulting and professional services | 28,275 | 24,700 | 3,575 |
| Works | 5,085 | 1,380 | 3,706 |
| Maintenance fees | 10,882 | 9,074 | 1,808 |
| Staff services | 4,228 | 4,698 | (471) |
| Surveillance services | 3,987 | 2,965 | 1,023 |
| Advertising and Sponsorships | 3,776 | 3,652 | 124 |
| Cleaning, transport and porterage costs | 2,820 | 262 | 2,558 |
| Seconded personnel | 5,415 | 7,708 | (2,292) |
| Postal charges | 1,237 | 1,115 | 122 |
| Bank charges | 1,011 | 1,287 | (277) |
| Governing Bodies | 738 | 626 | 112 |
| Telephone expenses | 853 | 1,322 | (469) |
| Insurance expenses | 638 | 409 | 230 |
| Travel costs and subsistence | 373 | 418 | (45) |
| Coordinated and continuous collaborations | 306 | 185 | 120 |
| Technical and administrative services | 925 | 760 | 165 |
| Typographical expenses | 64 | 21 | 43 |

(follows)

| € thousand | 2018 | 2017 | Change |
|---|---|---|---|
| Other | 2,551 | 2,165 | 386 |
| **Costs for use of third party goods** | **7,223** | **7,087** | **136** |
| Rent charges | 4,147 | 4,564 | (417) |
| Other Rentals and Fees | 3,077 | 2,524 | 553 |
| **Taxes and duties** | **1,635** | **1,801** | **(166)** |
| **Overhead costs** | **20,945** | **7,016** | **13,929** |
| Total External Costs | 154,364 | 149,276 | 5,088 |

The increase in external costs of € 5,088 thousand goes through phenomena of the opposite sign including:

- the increase in external costs for professional services, including those of an IT nature (+ € 2,481 thousand) and maintenance fees (+ € 1,808 thousand), are due to the costs of managing the IT platform in common with the other companies in the group;
- the increase in administrative consulting costs (+ € 1,231 thousand);
- sustaining of costs for debt recovery + € 880 thousand;
- the increase in external costs relating to the management of the facility management service (e.g. cleaning, transport and porterage services for € 2,588 thousand and works for € 3,705 thousand) sold in January 2018 by the subsidiary Acea Elabori, partly offset by the reduced costs of the facility management service contract for the portion relating to Acea (€ 2,558 thousand);
- the registration of a pecuniary administrative fine amounting to € 16,200 thousand imposed by the Antitrust Authority; for further details see what is specified in the paragraph “Legal disputes”;
- the reduction in the overall cost of the public lighting management service in the Municipality of Rome of € 17,269 thousand is due to the electricity consumption related to the service (- € 3,307 thousand) resulting from the efficiencies generated by the installation of LEDs instead of traditional lighting fixtures and the reduction in the fees envisaged in the contract (- € 13,962 thousand), in particular for the share relating to the mass installation of lighting with LEDs financed by Roma Capitale partially offset by the increase in fees related to other items of the contract;
- savings on the warehouse rent fees of - € 648 thousand;
- decrease in ordinary contingent liabilities equal to - € 2,939 thousand.

Please note that other rentals and charges refer mainly to hardware and software for the company data centre.
Please note that, pursuant to Article 149-duodecies of the CONSOB Issuer Regulations, the fees accrued by the PwC Auditing Company are shown in the table below.

| € thousand | Audit Related Service | Audit Services | Non Audit Services | Total |
|---|---|---|---|---|
| Acea S.p.A. | 190 | 338 | 124 | 652 |

Please note that the above fees refer to assignments for the year 2018 entrusted up to 31 December 2018. It is also specified that pursuant to Art. 10 of Regulation (EU) 537/2014 non-audit services provided to the Parent Company during the 2018 financial year refer mainly to: 1) assistance in performing the 262/05 tests identified by Acea, and 2) benchmark analysis of some services provided between related parties.

## 5. Depreciation, provisions and write-downs - € 20,075 thousand

| € thousand | 2018 | 2017 | Change |
|---|---|---|---|
| Amortisation and depreciation | 13,125 | 14,603 | (1,478) |
| Impairment losses | 0 | 9,539 | (9,539) |
| Provision for doubtful accounts | (392) | 5,529 | (5,922) |
| Provision for risks | 7,342 | (8,930) | 16,271 |
| Total | 20,075 | 20,741 | (667) |

**Depreciation** totalled € 13,125 thousand and refers to € 6,170 thousand for intangible assets and € 6,956 thousand for property, plant and equipment. The reduction in depreciation relates essentially to intangible assets for software that ended depreciation in 2017.
The write-downs of receivables amount to a total of € (392) thousand and mainly refer to risks associated with the recoverability of receivables for interests registered with Roma Capitale.
The change compared to the previous year is due to allocations to other companies of the group, in particular Sienergia S.p.A. in liquidation.

**Allocations to the provision for risks** amount to € 7,342 thousand. The following are their composition by nature and their effects:

| € thousand | 2018 | 2017 | Change |
|---|---|---|---|
| Investees | 1,000 | 48 | 952 |
| Investee release | (432) | (22,127) | 21,695 |
| Early retirements and redundancies | 5,225 | 12,000 | (6,775) |
| Legal | 192 | 619 | (427) |
| Legal release | (346) | (809) | 464 |
| Contributive and in respect of Public Bodies | 0 | 25 | (25) |
| Release of Contributive and in respect of Public Bodies | 0 | 25 | (25) |
| Release of contributory risks | (155) | (30) | (125) |
| Procurement and supplies | 101 | 1,371 | (1,271) |
| Release of procurement and supplies | (904) | 0 | (904) |
| Tax dispute risk | 2,700 | 0 | 2,700 |
| Release of tax disputes | 0 | (12) | 12 |
| Release of insurance deductibles | 0 | (15) | 15 |
| Release of other risks and charges | (40) | 0 | (40) |
| **Total Provisions** | **7,342** | **(8,930)** | **16,271** |

Compared to the previous year, there was an increase in the overall level of provisions originated by the combined effect of lower allocations linked to the charges necessary to deal with voluntary redundancy and early retirement measures (- € 6,775 thousand) and by lesser redundancy funds (in 2017 there was a release of the investees provision relating to the subsidiary GORI for € 22,127 thousand) offset by the provision of € 2,700 thousand relating to the tax dispute.
For further details, see the paragraph in the update of the main legal disputes of this document.

## 6. Financial income - € 130,272 thousand

| € thousand | 2018 | 2017 | Change |
|---|---|---|---|
| Income from intragroup relations | 124,496 | 108,368 | 16,128 |
| Interest and income from relationships with banks | 647 | 190 | 457 |
| Recovery of discounting costs | 640 | 753 | (113) |
| Financial income from public lighting contracts | 256 | 276 | (20) |
| Interest due to Roma Capitale | 4,233 | 4,560 | (327) |
| Other financial income | 0 | 215 | (215) |
| **Total financial income** | **130,272** | **114,363** | **15,909** |

The increase in financial income for € 15,909 thousand is attributable for € 16,128 thousand to income from intragroup transactions. This change is mainly due to the increase in interest income on the revolving credit line for € 16,174 thousand.

## 7. Financial costs - € 70,827 thousand

| € thousand | 2018 | 2017 | Change |
|---|---|---|---|
| Interest on bonds | 66,296 | 59,194 | 7,102 |
| Charges on Interest Rate Swaps | 2,090 | 1,266 | 824 |
| Interest on short-term debt | 8 | 1 | 7 |
| Interest on medium-long term indebtedness | 853 | 1,630 | (777) |
| Financial Charges from Public Lighting Contract | 160 | 172 | (13) |
| Other Financial Charges | 416 | 450 | (33) |
| Losses / (Profit) on Foreign Exchange | 78 | 1,784 | (1,705) |
| Interest expense on Equitalia and INPS instalments | 6 | 12 | (6) |
| Valuation Charges at Fair Value Hedge | 919 | 302 | 617 |
| **Total financial charges** | **70,827** | **64,810** | **6,016** |

The increase in financial charges for € 6,016 thousand is the result of higher interest on bonds (€ 7,102 thousand) partially offset by lower interest on medium/long-term debt (- € 777 thousand). The change in interest on bonds includes the effect of interest accrued on the two new bond loans, partially offset by the repayment of the bond loan that took place on 12 September 2018. With regard to the reduction of interest on medium/long-term loans, the reduction was determined by the repayment at March 2018 of the two EIB loans. Charges net of income on interest rate swaps on bonds increased by € 824 thousand.

With reference to the average cost of Acea's debt, there was a decrease compared to the previous year, having risen from 2.25% in 2017 to 1.94% in 2018.

## 8. Income from investments - € 177,966 thousand

This item recorded a decrease of € 41,046 thousand (€ 219,013 thousand) and is summarised in the following table. The revaluation of the investment (cancellation of a previous write-down) in Sarnese Vesuviano is due to the full consolidation of its subsidiary GORI.

| € thousand | 2018 | 2017 | Change |
|---|---|---|---|
| **Dividends** | **156,720** | **218,745** | **(62,025)** |
| Acea Ato 2 | 45,500 | 59,150 | (13,650) |
| ALL | 0 | 3,582 | (3,582) |
| *areti* | 78,246 | 126,408 | (48,162) |
| Acea Elabori | 14,993 | 8,629 | 6,364 |
| Acea Ambiente | 7,992 | 11,622 | (3,629) |
| Acque Blu Fiorentine | 5,251 | 0 | 5,251 |
| ACIP | 0 | 4,035 | (4,035) |
| Aquaser | 3,310 | 3,433 | (123) |
| Acea800 | 808 | 215 | 593 |
| Consorcio Agua Azul | 0 | 1,205 | (1,205) |
| Acque Industriali | 176 | 0 | 176 |
| Intesa Aretina | 0 | 315 | (315) |
| GEAL | 230 | 121 | 109 |
| Acque Blu Arno Basso | 178 | 0 | 178 |
| Ingegnerie Toscane | 35 | 30 | 5 |
| Gains on the sale of shares in Acea Gori Servizi | 0 | 268 | (268) |
| Revaluation of the Sarnese Vesuviano S.r.l. shareholding | 21,247 | 0 | 21,247 |
| **Total** | **177,966** | **219,013** | **(41,046)** |

## 9. Expense from investments - € 15,893 thousand

The item, amounting to € 15,893 thousand as at 31 December 2018, was equal to zero in 2017. It includes the write-downs relating to the following equity investments:

- Acea Ato 5 for € 8,705 thousand;
- Acea Illuminazione Pubblica now in liquidation for € 3,628 thousand;
- Crea Gestione for € 3,253 thousand;
- Citelum Napoli Pubblica Illuminazione S.c.a.r.l. for € 306 thousand.

## 10. Taxes - € 13,932 thousand

Taxes totalled € 13,932 thousand. In particular, the tax calculation is affected by the tax law applicable to the tax treatment of the collected dividends, the provisions for the provision for risks, as well as the deductibility of the interest expense of Acea for the Group tax consolidation. Income taxes for the year have an impact on the pre-tax result of 8.6%.
The balance consists of the algebraic sum of the following items.

### CURRENT TAXES

Current taxes amounted to € 92,134 thousand (€ 71,318 thousand at 31 December 2017) and refer to consolidated Ires calculated on the sum of taxable income and tax losses of the companies consolidated on a tax basis and Irap.
It should be noted that this effect is cancelled by the recognition of income deriving from the attribution of the taxable income of the companies participating in the tax consolidation.
As part of the project to transfer the foreign subsidiaries from Acea to Acea International, in February Acea sold all the shares held in Consorcio Agua Azul to Acea International and paid taxes on the capital gain to the SUNAT (revenue agency) for € 2,214 thousand.

### DEFERRED TAXES

Net deferred tax assets increased by € 876 thousand and consisted of the algebraic sum of provisions (€ 5,646 thousand) mainly on the provision for risks, the allowance for doubtful receivables and provisions for defined benefit plans and utilisations (€ 6,522 thousand). Deferred tax liabilities increase taxes for € 1,067 thousand and consist of the algebraic sum of uses and provisions for the year which amount to € 1,057 thousand.

### CHARGES AND INCOME FROM TAX CONSOLIDATION

These amount to € 80,145 thousand and represent the positive balance between the tax charges that the Parent Company has towards tax consolidation companies against the transfer of tax losses (€ 2,984 thousand) and the tax income recorded as a counterpart of the taxable income transferred to the consolidated company (€ 83,129 thousand).

The compensation for the loss, as per the general consolidation regulation, is determined by applying the current IRES rate to the amount of the tax loss transferred.
The table below shows the reconciliation between the theoretical and actual tax rates.

| | 2018 | % | 2017 | % |
|---|---|---|---|---|
| Pre-tax result of operating activities | 161,708 | | 229,809 | |
| Expected tax charge at 27.5% on profit before tax | 38,810 | 24.0% | 55,154 | 24.0% |
| Permanent differences* | (30,775) | (19.0%) | (51,981) | (22.6%) |
| IRES for the period** | 12,621 | 7.8% | 3,173 | 1.4% |
| IRAP for the period** | 1,311 | 0.8% | 57 | 0.0% |
| **Taxes on the operating income of operating assets** | **13,932** | **8.6%** | **3,230** | **1.4%** |

** They mainly include the taxed portion of dividends*
*** Including deferred tax*

# NOTES TO THE BALANCE SHEET - ASSETS

### 11. Tangible fixed assets - € 97,469 thousand

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Land and buildings | 79,883 | 81,362 | (1,479) |
| Plants and machinery | 10,243 | 6,814 | 3,429 |
| Industrial and commercial equipment | 670 | 753 | (83) |
| Other assets | 6,642 | 6,892 | (250) |
| Assets under construction and advances | 31 | 31 | 0 |
| **Total property, plant and equipment** | **97,469** | **95,852** | **1,617** |

There is an increase of € 1,617 thousand compared to the value of 31 December 2017.
The change mainly refers to the net effect between investments, totalling € 8,550 thousand, and the amortisation charges that amounted to € 6,897 thousand.
Investments during the period include the Telecontrol devices of the public lighting network in the Municipality of Rome, created by Acea at the request of Roma Capitale in fulfilment of the service contract.

The other investments of the period mainly relate to extraordinary maintenance on the offices used for business activities, in addition to the investments relating to the hardware required for technological development projects for the improvement and evolution of the IT network.

The table below summarises the changes occurred in the period.

| € thousand | 31/12/17 | | | CHANGES | | | | 31/12/2018 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Tangible fixed assets | Historic cost | Accumulated depreciation | Net value | Increases | Reclassifications / Other changes | Divestments / Disposals | Depreciation | Cost | Accumulated depreciation | Net value |
| Land and buildings | 101,201 | (19,839) | 81,362 | 689 | 0 | 0 | (2,168) | 101,890 | (22,007) | 79,883 |
| Plants and machinery | 19,053 | (12,239) | 6,814 | 5,252 | 0 | 0 | (1,824) | 24,306 | (14,063) | 10,243 |
| Industrial and commercial equipment | 13,386 | (12,633) | 753 | 0 | 18 | 0 | (101) | 13,404 | (12,734) | 670 |
| Other assets | 52,255 | (45,363) | 6,892 | 2,591 | 0 | (36) | (2,805) | 54,911 | (48,269) | 6,642 |
| Assets under construction and advances | 31 | 0 | 31 | 18 | (18) | 0 | 0 | 31 | 0 | 31 |
| **Total tangible fixed assets** | **185,926** | **(90,074)** | **95,852** | **8,550** | **0** | **(36)** | **(6,897)** | **194,542** | **(97,072)** | **97,469** |

### 12. Investment property - € 2,489 thousand

These amount to € 2,489 thousand, a reduction of € 58 thousand due to the depreciation of the year and consist mainly of land and buildings not used for production and held for rental purposes.

### 13. Tangible fixed assets - € 11,763 thousand

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Industrial patents and intellectual property rights | 9,322 | 11,132 | (1,810) |
| Concessions and trademarks | 54 | 100 | (45) |
| Assets under construction and advances | 2,387 | 392 | 1,995 |
| **Total intangible fixed assets** | **11,763** | **11,624** | **139** |

Below is a summary of the changes occurred during the period:

| € thousand | 31/12/17 | Changes in the year | | | | 31/12/2018 |
|---|---|---|---|---|---|---|
| Intangible fixed assets | Net value | Increases | Reclassifications / Other changes | Divestments / Disposals | Depreciation | Net value |
| Industrial patents and intellectual property rights | 11,132 | 3,400 | 1,184 | (270) | (6,124) | 9,322 |
| Concessions and trademarks | 100 | 0 | 0 | 0 | (45) | 54 |
| Fixed assets under construction | 392 | 3,179 | (1,184) | 0 | 0 | 2,387 |
| Total tangible fixed assets | 11,624 | 6,579 | 0 | (270) | (6,170) | 11,763 |

Investments mainly concerned the purchase and development of software to support the development of systems for managing IT platforms, corporate security and administrative management.
The investment in Concessions and brands refers to the direct costs incurred for the new brand of Acea Group.

## 14. Investments in subsidiaries and associates - € 1,792,038 thousand

These recorded an increase of € 7,792 thousand and is as follows:

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Investments in subsidiaries | 1,770,567 | 1,757,919 | 12,649 |
| Investments in affiliates | 21,470 | 26,327 | (4,857) |
| Total shares held | 1,792,038 | 1,784,246 | 7,792 |

### Shares held in subsidiaries

Changes for 2018 are summarised below.

| Shares held in subsidiaries | Historical cost | Reclassifications and other changes | Write-ups / write-downs | Disposals | Net value |
|---|---|---|---|---|---|
| **Values at 31 December 2017** | **3,159,003** | **(376,507)** | **(64,097)** | **(960,479)** | **1,757,919** |
| **2018 changes:** | | | | | |
| - changes in share capital | 0 | 0 | 0 | 0 | 0 |
| - acquisitions / formations | 4,394 | 0 | 0 | 0 | 4,394 |
| - disposals / distributions | 0 | 0 | 0 | 0 | 0 |
| - reclassifications and other changes | 0 | 0 | 0 | 0 | 0 |
| - write-downs / write-ups | 0 | 0 | 8,255 | 0 | 8,255 |
| **Total changes in 2018** | **4,394** | **0** | **8,255** | **0** | **12,649** |
| **Values at 31 December 2018** | **3,163,397** | **(376,507)** | **(55,842)** | **(960,479)** | **1,770,568** |

The changes occurred mainly concern:

- € 4,394 thousand relates to the increase in the share capital of Acea International following the sale of the equity investment held in Consorcio Agua Azul;
- € 11,508 thousand are related to:
  1. the cancellation of the write-down of the investment in Sarnese Vesuviano (+ € 21,247 thousand) as the assumptions regarding the recoverability of the value in its subsidiary GORI no longer exist;
  2. the write-down of the investment in Acea Illuminazione Pubblica now in liquidation (€ 3,628 thousand) up to the value of the liquidated net equity,
  3. the write-down of the investment in Acea Ato 5 (€ 8,705 thousand);
  4. the write-down of the investment in Crea Gestioni (€ 3,253 thousand).

For purposes of verifying the recoverable value of investments, the impairment test was carried out substantially on all its direct and indirect subsidiaries – Acea Ato 2, Acea Ato 5, Acea Ambiente, Acea Produzione, Acea Energia, areti and Ecogena - and indirect subsidiaries – GORI, Publiacqua, Acque, Acquedotto del Fiora, Umbra Acque and Nuove Acque. The companies subject to impairment were selected based on qualitative and quantitative criteria as well as in consideration of the riskiness of their business sector.
The impairment procedure of investments compares the accounting value of the investment with its economic value.
The verification of the maintenance of the value of an equity investment can be conducted by determining the difference between the recoverable value, identified as the highest value between the value in use and the fair value, net of selling costs, and the carrying amount.
The value in use represents the present value of expected cash flows that are expected to derive from the continuous use of all assets relating to the investment. The fair value, net of sales costs, represents the amount obtainable from the sale in a free transaction between knowledgeable and willing parties.
The 2018 impairment process provides the estimate of an interval relative to the recoverable value of individual investments in terms of value in use in methodological continuity with respect to the previous year, or through the financial method that recognises the ability to generate cash flows the essential element for assessing the reference entity. For the purpose of discounting operating cash flows, the weighted average cost of post-tax capital is used.

The estimate of the recoverable value of investments - expressed in terms of value in use - was estimated by the combined use of the financial method and sensitivity analyses.
The application of the financial method for determining the recoverable value and the subsequent comparison with the respective accounting values, therefore, entailed the estimate of the post-tax wacc, of the value of operating flows (VO) for each investment subject to impairment test and the value of the terminal value (TV) and, in particular, the growth rate used to project flows beyond the timescale, the value of the net financial position (NFP) and the value of ancillary activities (ACC).

For purposes of determining operating flows and the Terminal Value, the estimates and projections of the 2018-2022 Business Plan approved by the Board of Directors were used. The recoverable value of the investments was determined as the sum of the present value of cash flows of the Plan and of the current value of the Terminal Value.
The following table shows the operating segments to which the investments recorded in the financial statements of the Parent Company refer. For each operating segment, the type of recoverable value considered, the discount rates used and the time scale of cash flows are specified.

| Industrial Area | Recoverable value | WACC | Terminal value | Cash flow period |
|---|---|---|---|---|
| **Energy Infrastructures Segment** | | | | |
| *areti* | value in use | **5.9%** | **Residual value** | **up to 2022** |
| Acea Produzione | value in use | 5.8% | two-stages | up to 2022 |
| Ecogena | value in use | 5.8% | two-stages | up to 2022 |
| **Water Segment** | **value in use** | **5.4%** | **Residual value** | **up to 2022** |
| **Commercial and Trading Segment:** | | | | |
| Acea Energia | value in use | 7.6% | Perpetuity without growth | up to 2022 |
| **Environment Segment** | **value in use** | **6.4%** | **two-stages** | **up to 2022** |

The Terminal Value was determined:

- for Acea Produzione: it was determined considering the contribution to the cash flows of the various plants until the end of the hydroelectric concessions and the useful life of the photovoltaic plants and Tor di Valle. The disposal value of the S. Angelo plant, assumed to be completed by 2023, takes into account the approval of the "Simplification Decree" which took place in February 2019. This value was determined on the basis of a valuation corresponding to the revalued carrying amount;
- for the Environment Segment: in two stages. The first stage concerns the 2023-2038 period while the second stage includes the residual value corresponding to the net invested capital of 2038;
- for *areti*: the current value of the RAB at the expiry of the concession calculated according to the regulations for the fifth regulatory period;
- for the Water Segment: the current value of the Residual Value in the event of a takeover at the end of the concession.

We also inform you that the WACC has been subjected to a sensitivity analysis. Note that:

- the 0.5% increase in the discount rate determined a deficit in the Acea Ato 2 investment. As for Acea Ato 2, the small surplus is substantiated by having identified the value of regulatory assets only as Terminal Value (so-called RAB) without considering the realisable value of the working capital,
- the 1.0% increase in the discount rate determined a deficit in the areti and Acea Produzione investment,
- The result of the impairment test confirmed the recoverability of the value of the investments recorded, except for Acea Ato 5.

## Shares held in affiliate companies

Amount to € 21,470 thousand and the sale of Consorcio Agua Azul's stake in Acea International was reduced.
We also report the write-down for adjustment to the exchange rate of foreign equity investments (€ 463 thousand).
The changes occurred during the year are shown below.

| Shares held in associate companies | Historical cost | Reclassifications | Write-ups / write-downs | Disposals | Net value |
|---|---|---|---|---|---|
| **Values at 31 December 2017** | **94,570** | **13,600** | **(80,376)** | **(1,467)** | **26,327** |
| **2018 changes:** | | | | | |
| - changes in share capital | 0 | 0 | 0 | 0 | 0 |
| - acquisitions / formations | 0 | 0 | 0 | 0 | 0 |
| - disposals / distributions | 0 | 0 | 0 | (4,394) | (4,394) |
| - reclassifications and other changes | 0 | 0 | 0 | 0 | 0 |
| - write-downs / write-ups | 0 | 0 | (463) | 0 | (463) |
| **Total changes in 2018** | **0** | **0** | **(463)** | **(4,394)** | **(4,857)** |
| Values at 31 December 2018 | 94,570 | 13,600 | (80,839) | (5,861) | 21,470 |

## 15. Other equity investments - € 2,352 thousand

"Other equity investments" refer to investments in equity securities that do not constitute control, association or joint control. There were no movements during the year.

## 16. Deferred tax assets - € 20,069 thousand

These decreased by € 3,554 thousand compared to 31 December 2017.

The following table shows the changes and the balance as at 31 December 2017, distinguishing the Assets for Prepaid Taxes from the Provision for Deferred Taxes.
With regard to the recoverability of deferred tax assets, it must be noted that the valuation of deferred tax assets was carried out on the basis of Acea's business plans and, with regard to the time scale, considering a reasonable estimate of the reversal period.

Changes in the period

| € thousand | 31/12/17 | IRES / IRAP uses | Changes in SE | IRES / IRAP advances | 31/12/18 |
|---|---|---|---|---|---|
| **Prepaid taxes** | | | | | |
| Tax losses | 0 | 0 | | 0 | 0 |
| Remuneration of members of the BoD | 5 | 0 | | 5 | 10 |
| Provision for risks and charges | 2,906 | (2,392) | | 3,343 | 3,856 |
| Write-down of investments | 0 | 0 | | 0 | 0 |
| **Provision for doubtful accounts** | **8,077** | **(2,498)** | **227** | **1,658** | **7,463** |
| Depreciation and amortisation of tangible and intangible assets | 1,619 | (480) | 0 | 406 | 1,658 |
| Goodwill amortisation | 0 | 0 | | 0 | 0 |
| Defined benefit plans / defined contribution | 7,778 | (412) | (258) | 234 | 7,342 |
| Others | 12,096 | (740) | (4,303) | 0 | 7,052 |
| **Total** | **32,479** | **(6,522)** | **(4,334)** | **5,646** | **27,383** |
| **Deferred taxes** | | | | | |
| Deferred taxes on dividends | 167 | (41) | | 2 | 128 |
| Depreciation and amortisation of tangible and intangible assets | (12) | 0 | 0 | 39 | 27 |
| Defined benefit plans / defined contribution | 210 | 50 | 56 | 0 | 316 |
| Others | 8,492 | 0 | (2,665) | 1,016 | 6,843 |
| **Total** | **8,856** | **9** | **(2,609)** | **1,057** | **7,314** |
| Net total | 23,623 | (6,531) | (1,725) | 4,588 | 20,069 |

## 17. Non-current financial assets - € 227,385 thousand

This item decreased by € 10,590 thousand compared to 31 December 2017, as it amounted to € 237,975 and is broken down as follows:

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Financial receivables due from Roma Capitale | 18,697 | 22,168 | (3,471) |
| Financial receivables due from subsidiaries | 185,428 | 187,958 | (2,530) |
| Receivables from others | 23,260 | 27,849 | (4,590) |
| TOTAL | 227,385 | 237,975 | (10,590) |

The item **Financial receivables due from Roma Capitale** shows a decrease of € 3,471 thousand and refers to investments in the public lighting service, such as plant redevelopment, energy saving, regulatory compliance and technological innovation, which will be paid to Acea, equal to the tax depreciation, beyond the year 2019, in accordance with what was agreed in the Supplementary Agreement to the service contract signed on 15 March 2011.

**Financial receivables from subsidiaries** decreased compared to 31 December 2017 by € (2,530) thousand due to the cancellation of the write-down of the interest-free loan to the subsidiary Acea Ambiente (€ 3,200 thousand) due to the absence of the reasons that had generated it and the reclassification to the short term of the underlying receivable (€ 6,410 thousand). With regard to financial receivables from Acea Ato 5, three new tranches of the medium and long-term interest-bearing loan (totalling € 5,801 thousand) were disbursed, partly offset by the reclassification of short-term financial receivables due in 2019 of the non-interest bearing loan to the same based on the repayment plan that will be completed in 2028 (€ 5,121 thousand).

These receivables are considered entirely recoverable.

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| **Receivables from financing** | | | |
| Acea Ato 5 | 181,525 | 180,845 | 680 |
| Crea Gestioni S.r.l. | 3,870 | 3,870 | 0 |
| Ecomed S.r.l. | 33 | 33 | 0 |
| **Total** | **185,428** | **184,748** | **680** |
| **Other Financial Receivables** | | | |
| Acea Ambiente S.r.l. | 0 | 3,210 | (3,210) |
| Total non-current Financial Receivables from Subsidiaries | 185,428 | 187,958 | (2,530) |

The item **Receivables due from others**, amounting to € 23,260 thousand, is composed of € 23,134 thousand from the application of the financial asset model envisaged by IFRIC 12 regarding services under concession. This receivable represents all the investments made up to 31 December 2010 related to the service itself.

## 18. Other non-current assets - € 1 thousand

This item does not record changes compared to the end of the previous year.

## 19. Current assets - € 3,193,186 thousand

These recorded an increase of € 481,878 thousand (€ 2,711,298 thousand as at 31 December 2017) and are broken down as follows.

### 19.a - Contract work in progress - € 0 thousand

The balance as at 31 December 2018 is zero.

### 19.b - Trade receivables - € 731 thousand

Trade receivables decreased by € 222 thousand compared to € 953 thousand at 31 December 2017.

**Trade receivables**

These amounted to € 731 thousand net of the allowance for doubtful receivables amounting to € 3,801 thousand and decreased by € 222 thousand.

Receivables included under this item refer to positions accrued in respect of private and public entities for services rendered, with particular reference to public lighting services for the Municipality of Naples. It should be noted that in April 2018, Acea collected receivables from CITELUM SA for € 220 thousand through a payment delegation. In August 2018, € 2,306 thousand of receivables were collected from ATER following the sentence handed down by the Supreme Court of Cassation in 2016 concerning our injunctions of 1992 and 1994, with which Acea had ordered IACP to make the payment of what was due.

**Provision for doubtful debts**

Equal to € 3,801 thousand and increased by € 1,963 thousand compared to the previous year.
The estimate of the amounts considered uncollectible is estimated based on the provisions of IFRS 9, or, through the application of the expected credit loss model for the evaluation of the recoverability of the financial assets based on a predictive approach, based on the prediction of the counterparty's default (so-called probability of default) and of the ability to recover if the default event occurs (so-called loss given default).

### 19.c - Intercompany trade receivables - € 88,213 thousand

Showed a decrease of € 10,962 thousand compared to 31 December 2017 (they were € 98,772 thousand) and consist of the following:

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Receivables due to the parent company - Roma Capitale | 28 | 93 | (65) |
| Receivables from subsidiaries | 79,360 | 77,105 | 2,255 |
| Receivables from associates | 8,825 | 21,574 | (12,749) |
| **Total intragroup trade receivables** | **88,213** | **98,772** | **(10,559)** |

**Receivables due to the parent company - Roma Capitale**

The following table shows together the amounts resulting from the relations with Roma Capitale from Acea, both with regard to the borrowing and lending due within and beyond the following year, including items of a financial nature.

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Receivables for services invoiced | 28 | 93 | (65) |
| Receivables for services to be invoiced | 0 | 0 | 0 |
| **Total trade receivables** | **28** | **93** | **(65)** |
| Financial receivables for invoices issued | 99,024 | 118,228 | (19,204) |
| Provision for write-downs | (30,152) | (12,460) | (17,692) |
| Financial receivables for invoices to be issued | 25,754 | 17,314 | 8,440 |
| Provision for write-downs | (9,843) | (5,610) | (4,233) |
| Medium/long-term financial receivables | 18,697 | 22,168 | (3,471) |
| **Total Financial Receivables for Public Lighting** | **103,480** | **139,640** | **(36,160)** |
| **Total receivables due within the next financial year (A)** | **103,508** | **139,733** | **(36,225)** |

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Trade payables | 0 | 0 | 0 |
| **Total payables due within the next financial year (B)** | **0** | **0** | **0** |

| | | | |
|---|---|---|---|
| **Total (A) - ( B)** | **103,508** | **139,733** | **(36,225)** |
| Other financial receivables/(payables) | (420) | (767) | 347 |
| Other trade receivables/(payables) | (2) | (24) | 22 |
| Total other receivables/(payables) (C) | (422) | (791) | 369 |
| **Net balance** | **103,086** | **138,942** | **(35,856)** |

The change in receivables and payables is due to the accrual of the period and the effects of compensations and receipts.
The stock of receivables as at 31 December 2018 recorded a decrease of € 10,829 compared to the previous year, to be entirely attributed to financial receivables from public lighting. The decrease refers to the combined effect of receipts and compensations occurred during the year offset by the accrual of the annual fee, the modernisation of the safety net, extraordinary maintenance and finally the receivables deriving from the agreement relating to the LED Plan concerning the replacement of old street lamps.
In 2018, a total of € 65,305 thousand was collected and offset. The types of receivables collected are listed below:

- € 36,327 thousand for receivables relating to payments of the public lighting contract, of which € 21,356 thousand relating to the period from April to December 2017 and already recorded in the previous year and € 14,971 thousand relating to the period from January to July 2018;
- € 19,894 thousand for receivables of the public lighting contract already recognised by the Capitolina Shareholders' Meeting of December 2016 (pro-rata 2009 and 2010, public lighting fees November/December 2012, fees for artistic lighting and adjustment in accordance with 2012);
- € 4,692 thousand for accrued receivables relating to the items of the LED Plan supplementary agreement;
- € 2,898 thousand for loans relating to network modernisation and security (1st, 2nd and 3rd quarter 2016);
- € 936 thousand for reimbursements related to cable theft (2014, 2015, 2016);
- € 444 thousand for receivables relating to public street lighting works.

Furthermore, as regards the 2018 debts, during the year Acea paid a portion of the dividends accruing in the year 2017 and entered in April by means of offsetting and the remainder through direct payment (total € 68,425 thousand).
Following some disputes raised by Roma Capitale for the period 2008-2018 with reference to the Public Lighting service, and given the uncertainty over the full recovery of receivables from the Municipality, the Company prudently drew up its best estimate of recovery, updating the assessments already carried out, in particular with reference to the receivables relating to the Public Lighting service for the periods prior to 31 December 2017 by proceeding with the entry of a Provision equal to € 15,386 thousand.

**Receivables from subsidiaries**

These totalled € 79,360 thousand and increased by € 2,255 thousand compared to the previous year. They mainly refer to services rendered under service contracts and receivables deriving from the allocation of costs incurred for the joint IT platform. The comparative values at 31.12.2017 were the subject of reclassifications in respect of published data for the purpose of better understanding the change. Below is their composition:

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Acea Ato 2 | 14,595 | 21,286 | (6,691) |
| Acea Ato 5 | 21,374 | 13,468 | 7,906 |
| *areti* | 16,035 | 14,940 | 1,095 |
| Acea Energia | 10,559 | 10,267 | 292 |
| Acea Produzione | 301 | 85 | 216 |
| Gesesa | 5,484 | 4,783 | 701 |
| GORI | 1,299 | 4,790 | (3,491) |
| Crea Gestioni | 3,997 | 2,959 | 1,038 |
| Acea8cento | 470 | 455 | 15 |
| Acea Elabori | 435 | 449 | (14) |
| Sarnese Vesuviano | 778 | 767 | 11 |
| Acea Ambiente | 771 | 725 | 47 |
| Acea Dominicana | 524 | 452 | 72 |
| Aquaser | 761 | 52 | 709 |
| Acque Industriali | 478 | 111 | 367 |
| Agua de San Pedro | 603 | 692 | (88) |
| Umbriadue Servizi Idrici | 598 | 328 | 270 |
| Ecogena | 87 | 41 | 45 |
| Acea International | 30 | 0 | 30 |
| Others | 178 | 452 | (274) |
| TOTAL | 79,360 | 77,105 | 2,255 |

**Receivables from associates**

These total € 8,825 thousand and show a reduction of € 12,749 thousand compared to 31 December 2017. The comparative values at 31.12.2017 were the subject of reclassifications in respect of published data for the purpose of better understanding the change.

For companies subject to joint control, they refer to services rendered in the context of IT service contracts and receivables deriving from the allocation of costs incurred for the joint IT platform.

Below is their composition:

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Publiacqua | 1,615 | 6,259 | (4,644) |
| Umbra Acque | 2,058 | 5,298 | (3,240) |
| Acque | 1,591 | 5,004 | (3,413) |
| Acquedotto del Fiora | 1,455 | 2,910 | (1,455) |
| Ingegnerie Toscane | 106 | 428 | (322) |
| Geal | 58 | 169 | (112) |
| Coema | 140 | 119 | 22 |
| Marco Polo | 1,236 | 1,236 | 0 |
| Sogea | 69 | 47 | 23 |
| Integrated Water Services | 33 | 0 | 33 |
| Azga Nord | 403 | 0 | 403 |
| Other | 59 | 105 | (46) |
| **TOTAL** | **8,825** | **21,574** | **(12,749)** |

The total of trade receivables, gross of the allowance for doubtful accounts, to customers and intragroup, including those to Roma Capitale, amounted to € 94,812 thousand. The age of these receivables is as follows:

- Trade receivables to expire: € 58,390 thousand;
- Outstanding trade receivables: € 36,422 thousand of which:
  - Within 180 days: € 6,803 thousand,
  - Between 180 and 360 days: € 5,895 thousand,
  - Beyond one year: € 23,723 thousand.

## 19.d - Other current receivables and assets - € 31,901 thousand

These recorded a decrease of € 5,053 thousand and are made up as follows. In this regard, the comparative values were the subject of reclassifications in respect of published data for the purpose of better understanding the changes.

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Receivables due to the transferee Autoparco | 0 | 500 | (500) |
| Receivables due to the transferee Area Laurentina | 6,000 | 6,000 | 0 |
| Accrued income and prepaid expenses | 4,884 | 3,294 | 1,591 |
| Other receivables | 471 | 1,164 | (693) |
| Receivables for the re-entry of the Marco Polo branch for payables to employees | 1,931 | 1,931 | (184) |
| Equitalia | 0 | 802 | (802) |
| Receivables from national insurance institutions | 363 | 375 | (11) |
| Receivables linked to the sale of the photovoltaic branch | 146 | 146 | 0 |
| Receivables due to severance pay for individual transfers | 0 | 11 | 173 |
| Advances to suppliers and deposits with third parties | 0 | 94 | (94) |
| VAT receivables | 17,740 | 22,145 | (4,406) |
| Other tax receivables | 365 | 491 | (126) |
| **TOTAL** | **31,901** | **36,954** | **(5,053)** |

The receivable from the Autoparco concession at 31.12.2017 for the amounts due for holding the property paid in 2011 was deducted from the amount of the deposit returned in January 2018.
Accrued income and prepaid expenses mainly include IT infrastructure maintenance, insurance contracts and insurance premiums.

VAT receivables derive from the Group VAT settlement procedure; the amount represents the receivable for the side paid at the end of December 2018.

## 19.e - Current financial assets - € 5,791 thousand

Saw a reduction of € 99,857 thousand due to the extinction of the expired short-term deposit. Information on the balance at 31 December 2018 is shown below.

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Receivables for managing the public lighting service | 5,283 | 5,320 | (38) |
| Receivables on short-term deposits | 0 | 100,000 | (100,000) |
| Accrued income on short-term deposits | 0 | 4 | (4) |
| Receivables from SEIN from Liquidation of Acea Ato 5 Servizi | 274 | 274 | 0 |
| Accrued income on bank account and post office | 235 | 50 | 185 |
| **TOTAL** | **5,791** | **105,648** | **(99,857)** |

### 19.f - Intragroup current financial assets - € 2,074,601 thousand

This item recorded a growth of € 156,195 thousand. Information is provided in the table below.

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Receivables from parent companies - Roma Capitale | 84,783 | 117,472 | (32,689) |
| Receivables from subsidiaries | 1,988,919 | 1,800,613 | 188,306 |
| Receivables from associates | 900 | 322 | 578 |
| Total | 2,074,601 | 1,918,407 | 156,195 |

**Receivables from parent companies - Roma Capitale**

These amount to a total of € 84,783 thousand and refer to receivables due from Roma Capitale relating to the public lighting service contract as anticipated in the section of this document "Trade receivables due from Roma Capitale".

**Receivables from subsidiaries**

These amount to € 1,988,919 thousand (€ 1,800,613 thousand at 31 December 2017) and are composed as follows:

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Receivables from cash pooling relationships | 1,830,202 | 1,667,751 | 162,451 |
| Accrued current financial assets on loans and cash pooling relationships | 126,118 | 103,579 | 22,539 |
| Receivables from subsidiaries for loans | 26,242 | 14,711 | 11,531 |
| Other receivables from subsidiaries | 1,486 | 4,871 | (3,385) |
| Receivables for commissions on guarantees given | 4,871 | 9,701 | (4,830) |
| Total | 1,988,919 | 1,800,613 | 188,306 |

The change with respect to the end of the previous year mainly derives from the increase in current account balances with the group companies that have joined a revolving loan line, to cover the needs for working capital and investments, which accrues interest at a fixed rate, defined on the basis of the rates applied on the capital market for the so-called issues. hybrid in the utilities sector updated on an annual basis, increased by a spread linked to the level of exposure and the reversal of the parent company's rating costs.
Receivables from subsidiaries increased for loans; this increase is mainly due to Acea Ato 5.

**Receivables from associates**

At 31 December 2018 these amounted to € 900 thousand and were reduced to zero due to the collection of receivables from Acea Napoli Pubblica Illuminazione.

### 19.g - Current tax assets - € 13,397 thousand

These decreased by € 9,744 thousand compared to the end of the previous year, and the composition is shown below: In this regard, the comparative values were the subject of reclassifications in respect of published data for the purpose of better understanding the changes.

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| IRAP and IRES receivables for payments on account | 1,211 | 18,853 | (17,642) |
| **Total receivables from the tax authorities** | **1,211** | **18,853** | **(17,642)** |
| Tax consolidation receivables due from subsidiaries | 12,185 | 4,288 | 7,897 |
| Total Tax Receivables | 13,397 | 23,141 | (9,744) |

The IRES receivable of € 1,211 thousand derives from excess payments made during the year compared to the tax calculated for the 2018 financial year.

### 19.h - Cash and cash equivalents - € 978,552 thousand

These recorded an increase of € 451,129 thousand (€ 527,423 as at 31 December 2017) and represent the balance of bank and postal current accounts opened at the various credit institutions as well as at Ente Poste.

# NOTES TO THE BALANCE SHEET - LIABILITIES

## 20. Shareholders' equity - € 1,574,048 thousand

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Share capital | 1,098,899 | 1,098,899 | 0 |
| Legal reserve | 111,948 | 100,619 | 11,329 |
| Reserve for own shares | 0 | 0 | 0 |
| Other reserves | 77,973 | 72,757 | 5,216 |
| Profits carried forward | 137,452 | 56,107 | 81,345 |
| Profit (loss) for the year | 147,776 | 226,579 | (78,803) |
| Total | 1,574,048 | 1,554,961 | 19,087 |

Shareholders' equity increased by € 19,087 thousand compared to 31 December 2017. This change is mainly due to the profit reported in the year and to the effects generated by the allocation of the result achieved in 2017, as well as the changes in other reserves. The composition and changes per item are shown below:

### 20.a - Share capital - € 1,098,899 thousand

This amounts to € 1,098,899 thousand and is represented by 212,964,900 ordinary shares with a par value of € 5.16 each, as shown in the Shareholders' Register. The share capital is subscribed and paid-up in the following manner:

- Roma Capitale: 108,611,150 for a total nominal value of € 560,434 thousand,
- AMA: 1,000 shares for a total nominal value of € 5 thousand,
- Market: 103,935,757 shares for a total par value of € 536,309 thousand.
- Treasury Shares: 416,993 ordinary shares with a total nominal value of € 2,151 thousand.

### 20.b - Legal reserve € 111,948 thousand

It includes 5% of the profits of the previous financial years as required by Article 2430 of the Italian Civil Code.
At 31 December 2018 there was an increase of € 11,329 thousand compared to the previous year, due to the allocation of profit achieved in 2017.

### 20.c - Reserve for treasury shares in portfolio - € 0 thousand

Pursuant to art. 2428 of the Italian Civil Code, there are 416,993 treasury shares in the portfolio, with a nominal value of € 5.16 each (€ 2,152 thousand in total) and correspond to 0.196% of the share capital. The reserve for treasury shares in portfolio amounted to € 3,853 thousand at 31 December 2018. The amount of the reserve coincides with the value of shares in the portfolio accounted for as a reduction of the Shareholders' Equity in accordance with IAS 32.

### 20.d - Other reserves - € 77,973 thousand

The composition of the Item and the changes for the period are provided below:

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Extraordinary reserve | 180 | 180 | 0 |
| Demerged capital gains reserve | 102,567 | 102,567 | 0 |
| Reserve for exchange differences | 4,718 | 13,157 | (8,438) |
| Valuation reserve for financial instruments | (20,658) | (34,285) | 13,627 |
| Reserve for actuarial gains and losses | (9,034) | (9,780) | 746 |
| Other miscellaneous reserves | 198 | 918 | (719) |
| Total | 77,973 | 72,757 | 5,216 |

The reserve for differences in exchange records a decrease of € 8,438 thousand and represents the effect of the valuation at the exchange rate on 31 December 2018 of the private placement in YEN stipulated in 2010.
The cash flow hedge reserve is negative and stands at € 20,658 thousand. This reserve includes € 3,333 thousand for the negative difference deriving from the delta of conversion rates between that provided for in the hedging contract and that recorded on the adjustment date of the bond (3 March 2010).
The registration of the FTA following the first application of the new IFRS 9 international standard should also be noted. This entry net of tax effects amounts to a total of - € 719 thousand.

The table below shows available and unavailable reserves.

| € thousand | | | 31 December 2018 | | |
|---|---|---|---|---|---|
| Nature/Description | Amount | Possibility of use | Available portion | Summary of use made in the previous three years | |
| | | | | Loss coverage | Other reasons |
| **Capital reserves:** | | | | | |
| Reserve deriving from the ARSE spin-off | 6,569 | A, B, C | 6,569 | | |
| **Profit reserves from the Income Statement** | | | | | |
| Legal reserve | 111,948 | A, B | 111,948 | | |
| Extraordinary reserve | 180 | A, B, C | 180 | | |
| Demerged capital gains reserve | 102,567 | A, B, C | 102,567 | | |
| Retained earnings | 137,452 | A, B, C | 137,452 | | |
| **Profit reserves from O.C.I.:** | | | | | |
| Cash flow hedge reserve | (20,658) | | (20,658) | | |
| Reserve for exchange differences | 4,718 | | 4,718 | | |
| Reserve for actuarial gains and losses | (9,034) | | (9,034) | | |
| **Other reserves** | | | | | |
| Increased acquisition cost Umbra Acque | (3,173) | | (3,173) | | |
| Increased acquisition cost SAMACE | (785) | | (785) | | |
| Increased acquisition cost Kyklos | (1,932) | | (1,932) | | |
| Reservation reserve Acea International | 239 | | 239 | | |
| FTA IFRS 9 reserve | (719) | | (719) | | |
| Reserve for available treasury shares | 0 | A, B, C | 0 | | |
| Reserve for own shares | 3,853 | Guarantee of treasury shares | 3,853 | | |
| **TOTAL** | **331,226** | | **331,226** | | |
| Non-distributable share | | | 84,456 | | |
| Residual distributable portion | | | 246,770 | | |

*Legend:
A= *for capital increase* - B= *to cover losses* - C = *for distribution to shareholders*

## 21. Employee severance indemnity and other defined benefit plans - € 23,512 thousand

It decreased by € 952 thousand and reflects severance indemnities and other benefits to be paid subsequently to the performance of the work activity to employees. Within the obligations that make up this item, we need to highlight the defined contribution plans and defined benefit plans. The following table shows the composition:

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| **Benefits due at the time of termination of employment** | | | |
| - Employee severance indemnity | 7,281 | 7,214 | 68 |
| - Extra months | 1,438 | 1,263 | 175 |
| - LTIP plans | 2,009 | 1,219 | 790 |
| **Total** | **10,729** | **9,696** | **1,033** |
| **Post-employment benefits** | | | |
| - Tariff subsidies | 12,783 | 14,768 | (1,985) |
| Total | 23,512 | 24,464 | (952) |

With regard to the calculation method, it must be noted that the benefits due at the time of termination of the employment relationship are determined according to actuarial criteria; with reference to post-employment benefits, the calculation is based on the " projected unit credit method " which is based on assessments that express corporate liability as the current average value of future benefits, pro rated based on the service provided by the employee at the time calculation with respect to that corresponding at the time of payment of the service.
The change is affected 1) by the provisions for the period, 2) by the outflows that occurred during the period and 3) by the increase in the rate used for the valuation of the liabilities.

In particular, with regard to the economic-financial scenario, the discounting rate used for the valuation was of 1.57% against a rate used last year of 1.30%.
As required by paragraph 78 of IAS 19, the interest rate used to determine the current value of the obligation was determined with reference to the yield on the valuation date of securities of primary companies in the financial market to which Acea belongs and to the return on outstanding government bonds on the same date with a duration comparable to the residual duration of the collective of workers analysed; it must be noted that, due to internal consistency of assessment and alignment with the requirements of IAS 19, the same technical bases have been maintained for the various types of plans.

Furthermore, the parameters used for the evaluation are shown below:

| | December 2018 | December 2017 |
|---|---|---|
| Discount Rate | 1.57 % | 1.30 % |
| Revenue growth rate (average) | 1.59 % | 1.59 % |
| Long-term inflation | 1.50 % | 1.50 % |

In reference to Group Employee Benefits (Severance Plan, Additional Salary Payment, Rates Rebates for active and pensioned employees) a sensitivity analysis was performed in order to value the variations in liability resulting from the flat variations, both positive and negative, of the rates' curve (shift + 0.5% - shift -0.5%). The results of this analysis are summarised below.

| Plan type | Discount Rate | |
|---|---|---|
| € thousand | 0.50% | -0.50% |
| Employee severance indemnity (TFR) | -380 | 409 |
| Tariff subsidies | -169 | 795 |
| Extra months | -150 | 2 |
| LTIP | 607 | 628 |

In addition, a sensitivity analysis was carried out in relation to the age of the workforce, assuming one year less than the actual age.

| Plan type | |
|---|---|
| € thousand | -1 year of age |
| Employee severance indemnity (TFR) | -58 |
| Tariff subsidies | -734 |
| Extra months | 0 |

Sensitivity analyses were not performed for other variables such as, for example, inflation rate.

## 22. Provision for risks and charges - € 15,408 thousand

The table below details the composition by nature and the changes compared to the end of the previous year:

| € thousand | 31/12/17 | Uses | Release due to surplus funds | Provisions | 31/12/18 |
|---|---|---|---|---|---|
| Investees | 5,158 | 0 | (432) | 1,000 | 5,727 |
| Legal | 1,606 | (280) | (346) | 192 | 1,173 |
| Risks contributing and relating to national insurance and welfare institutions | 931 | (42) | (155) | 0 | 734 |
| Procurement and supplies | 1,725 | (39) | (904) | 101 | 883 |
| Early retirements and redundancies | 5,523 | (6,558) | 0 | 5,225 | 4,191 |
| Tax Office | 0 | 0 | 0 | 2,700 | 2,700 |
| Other risks and charges | 40 | 0 | (40) | 0 | 0 |
| **Total** | **14,984** | **(6,918)** | **(1,876)** | **9,218** | **15,408** |

The main changes concerned:

- the provision for risks linked to legal disputes was used for € 280 thousand for unfavourable rulings, generating at the same time a redundant release of € 346 thousand and a provision for the year of € 192 thousand,
- the provision set aside for redundancy and mobility plans used for € 6,558 thousand as the relevant procedures have been completed. In addition, € 5,625 thousand was also set aside for the same plan,
- the provision for tax litigation risks was set aside for € 2,700 thousand.
- during the year € 904 thousand were issued for surplus procurement and supply provisions;
- the provision for investee risks was affected by a release of provisions of € 432 thousand and a provision of € 1,000 thousand to cover the risks of the Marco Polo company.

For further details, see the paragraph in the update of the main legal disputes of this document.

## 23. Non-current borrowings and financial liabilities - € 3,124,571 thousand

The breakdown is as follows:

| € thousand | 31/12/18 | 31/12/17 | Change |
|---|---|---|---|
| Medium and long-term bonds | 2,678,392 | 1,695,028 | 983,363 |
| Medium/long-term borrowings | 446,179 | 787,536 | (341,356) |
| **Total** | **3,124,571** | **2,482,564** | **642,007** |

### Medium and long-term bonds

On 1 February 2018, Acea S.p.A. completed the placement of bond issues for an amount of € 300,000 thousand for a period of 5 years at a variable rate (3-month Euribor +0.37%) and € 700,000 thousand with a maturity of 9.5 years at a fixed rate (1.5%) from the € 3 billion Euro Medium Term Notes (EMTN) programme, as last amended on 17 July 2017 and subsequently supplemented on 19 January 2018. The bonds are governed by English law. Starting from the settlement date, the bonds are listed on the regulated market of the Luxembourg Stock Exchange, where the prospectus was filed.

Bonds amounted to € 2,678,392 thousand (€ 1,695,028 thousand at 31 December 2017) and refer to the following:

- **€ 595,806 thousand** (including the long-term portion of the contract related costs) relating to the 10-year fixed rate bond issued by Acea in July 2014, as part of the Euro Medium Term Notes (EMTN) programme of € 1.5 billion. The bonds, which have a minimum denomination of € 100,000 and expire on 15 July 2024, pay an annual gross coupon of 2.625% and were placed at an issue price of 99.195%. The effective gross yield at maturity is equal to 2.718%, corresponding to a yield of 128 basis points above the 10-year midswap rate. The bonds are governed by English law. The settlement date was 15 July 2014. Interest accrued during the period amounted to € 15,750 thousand;
- **€ 492,768 thousand** (including the long-term portion of the costs attached to the contract) relating to the bond issued by Acea in October 2016 for the EMTN programme for a total amount of €500,000 thousand with a 10-year fixed-rate duration. The bonds, which have a minimum denomination of € 100,000.00 and expire on 24 October 2026, pay an annual gross coupon of 1% and were placed at an issue price of 98.377%. The bonds are governed by English law. The settlement date was 24 October 2016. Interest accrued during the period amounted to € 5,000 thousand;
- **€ 422,672 thousand** (including the long portion of the costs associated with the stipulation) relating to the bond loan issued by Acea in March 2010, with a maturity of 10 years due on 16 March 2020. Bonds issued have a minimum denomination of € 50 thousand and pay an annual gross coupon of 4.5% and have been placed at an issue price of € 99,779. The effective gross yield on maturity is therefore equal to 4.528% corresponding to a yield of 120 basis points above the reference rate (10-year mid-swap). The bonds are governed by English law. The settlement date was 16 March 2010. Interest accrued during the period amounted to € 19,025 thousand. This debt remains, after the purchase and cancellation of bonds for a nominal value of € 77,225 thousand on 24 October 2016;
- **€ 158,847 thousand** relating to the Private Placement which, net of the Fair Value of the hedge, a negative € 21,747 thousand, amounted to **€ 180,634 thousand**. This fair value is allocated to a specific equity reserve. A suitable exchange reserve includes the exchange rate difference, a negative € 6,208 thousand, of the hedged instrument calculated on 31 December 2018. The exchange rate at the end of 2017 stood at € 125.83 against € 135.28 as at 31 December 2017. Interest accrued during the period amounted to € 3,940 thousand. This is a private bond (Private Placement) for an amount of 20 billion Japanese Yen) and with a maturity of 15 years (2025). The Private Placement was underwritten entirely by a single investor (AFLAC). Coupons are paid on a semi-annual basis every 3 March and 3 September applying a fixed rate in Yen of 2.5%. At the same time, a cross currency transaction was carried out to transform the Yen currency into Euro and the Yen rate applied in a fixed rate in Euro. The cross currency transaction requires the bank to pay Acea, with a deferred semi-annual maturity, 2.5% out of 20 billion Japanese Yen, while Acea must pay the bank the coupons on a quarterly basis postponed to a fixed rate of 5.025%. The loan agreement and the hedging contract contain an option, respectively, for the investor and the agent bank, connected to the trigger rating: the debt and its derivative can be recalled in their entirety in the event that Acea's rating falls below the level of investment grade or in the event that the debt instrument loses its rating. At the end of the year the conditions for the possible exercise of the option did not occur;
- **€ 299,173 thousand** (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 1 February with a maturity of 5 years at a variable rate (Euribor 3 months + 0.37%) under the EMTN programme. Interest accrued during the period amounted to € 127 thousand;
- **€ 687,339 thousand** (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 1 February, with a fixed rate of 1.5% for the duration of 9.5 years under the EMTN programme. Interest accrued during the period amounted to € 9,406 thousand.

The following is a summary including the short-term portion:

| € thousand | Gross debt (*) | Hedging instrument | Accrued interest (**) | Total |
|---|---|---|---|---|
| Bonds: | | | | |
| Issued in 2010 | 422,261 | 0 | 15,168 | 437,429 |
| Issued in 2013 | 0 | 0 | 0 | 0 |
| Issued in 2014 | 594,972 | 0 | 7,336 | 602,307 |
| Private Placement issued in 2014 | 158,831 | 21,787 | 655 | 181,273 |
| Issued in 2016 | 491,766 | 0 | 945 | 492,711 |
| Issued in 2018 | 984,780 | 0 | 5,979 | 990,759 |
| **Total** | **2,652,610** | **21,787** | **30,083** | **2,704,480** |

(*) Including amortisation cost
(**) Including rates on hedging instruments

## Medium/long–term borrowings

These amount to € 446,179 thousand and show a total reduction of € 341,356 thousand and represent the payable for the portion of the instalments not yet repaid at 31 December 2018 and expiring beyond twelve months.

The main mortgages, whose values as at 31 December 2018 are shown below including the short-term portions amount to a total of € 736,193 thousand and are described below:

- loan stipulated on 25 August 2008 for an amount of € 200,000 thousand for the investment plan in the water sector (Acea Ato 2) with a duration of 15 years. This loan at 31 December 2017 amounted to € 67,483 thousand. The first tranche of € 150,000 thousand was disbursed in August 2008 and the interest rate is equal to the 6-month Euribor plus a spread of 7.8 basis points. In 2009, a second tranche was disbursed for an amount of € 50,000 thousand, which provides for an interest rate equal to the 6-month Euribor plus a spread of 0.646%, with a maturity of 15 June 2019. The latter was extinguished early in March 2018;
- loan agreement for an initial amount of € 100,000 thousand, entered on 31 March 2008 expiring on 21 December 2021. The rate applied by the bank is a variable rate and the instalments are six-monthly and repayment will be made in half-yearly instalments; the first was paid on 30 June 2010. The residual amount of the loan at 31 December 2018 amounts to € 27,054 thousand. The risk of fluctuations in interest rates associated with the loan was hedged through the subscription of an Interest Rate Swap with the aim of transforming the cost of the underlying loan from variable to fixed. The swap follows the performance of the underlying depreciation plan. Based on IAS 39, the company has assessed the effectiveness of the hedging instrument according to the hedge accounting method based on the cash flow hedge model. The test result is 99.29% effective, which means that no portion is recorded in the Income Statement that reflects the ineffectiveness of the instrument; in the appropriate equity reserve, the negative fair value of the hedging instrument equal to € 2,061 thousand was recorded;
- loan contracted by the EIB on 23 December 2014 of € 200,000 thousand, aimed at supporting the needs of the multi-year investment plan in the water area. The interest rate applied is equal to the 6-month Euribor with a spread of 0.45% with maturity in June 2030;
- financing contracted with the EIB on 2 May 2017 for € 200,000 thousand as part of the Network Efficiency III Project. The interest rate is variable. The loan repayment plan envisages a period of pre-amortisation up to 15 June 2021 and amortisation in constant semi-annual instalments up to 31 December 2030;
- €150,000 thousand loan line from Intesa San Paolo S.p.A. disbursed on 22 December 2017 with final maturity on 21 June 2019. The interest rate is fixed and the repayment is in a single payment;
- a € 100,000 thousand loan line disbursed on 28 December 2017 by UBI Banca S.p.A. with final maturity on 2 January 2019. The interest rate is fixed and the repayment is in a single payment.

Loan contracted from EIB in 2009 for an amount of €100,000 thousand aimed at supporting the needs of the multi-year investment plan in the field of upgrading and expanding the electricity distribution network in Roman territory for a four-year plan expiring in June 2018 was extinguished in March 2018.

The table below provides details of the loans by type of interest rate and by maturity. It must be noted that the table also shows the short-term portion by 31 December 2018 of € 290,013 thousand.

| € thousand | Total residual debt | By 31/12/2019 | from 31/12/2019 at 31/12/2023 | Beyond 31/12/2023 |
|---|---|---|---|---|
| fixed rate | 250,000 | 250,000 | 0 | 0 |
| floating rate | 459,138 | 31,680 | 189,143 | 238,315 |
| floating rate to fixed rate | 27,054 | 8,334 | 18,721 | 0 |
| **Total medium-long and short-term loans** | **736,193** | **290,013** | **207,864** | **238,315** |

For information on financial instruments, please refer to the paragraph "Supplementary information on Supplementary information on financial instruments and risk management policies".

## 24. Other non-current liabilities - € 0 thousand

These are zero at 31 December 2018.

## 25. Current liabilities - € 609,214 thousand

These amounted overall to € 609,214 thousand and dropped by € 183,331 thousand.
The comparative values were the subject of reclassifications in respect of published data for the purpose of better understanding the changes.

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Financial payables | 377,675 | 542,975 | (165,300) |
| Payables to suppliers | 169,537 | 191,784 | (22,247) |
| Tax payables | 17,917 | 25,242 | (7,325) |
| Other current liabilities | 44,085 | 32,544 | 11,541 |
| **Total** | **609,214** | **792,545** | **(183,331)** |

### 25.a - Financial payables - € 377,675 thousand

These are equal to € 377,675 thousand and are composed as follows:

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Payables to subsidiaries and associates | 59,393 | 25,892 | 33,500 |
| Short-term bonds | 26,088 | 352,846 | (326,758) |
| Payables for bank loans | 290,013 | 131,708 | 158,305 |
| Payables due to Roma Capitale | 420 | 767 | (347) |
| Payables to banks for short-term credit lines | 0 | 30,000 | (30,000) |
| Payables due to others | 1,761 | 1,761 | 0 |
| **Total** | **377,675** | **542,975** | **(165,300)** |

The decrease in short-term bonds is attributable for € 330,956 thousand to the extinction of the bond loan issued by Acea at the beginning of September 2013, for a duration of 5 years expiring on 12 September 2018.

The increase in amounts payable to banks for mortgages totalling € 158,305 thousand is due to the combined effect of the reclassification to the short-term portion of the two financing lines of Intesa SanPaolo and UBI Banca, respectively due on 21 June and 2 January 2019 totalling € 250,000 thousand, offset by the repayment at March 2018 of the EIB loan of € 100,000 thousand.
The changes concerning payables to subsidiaries and associates relate to centralised treasury transactions, which increased by € 33,426 thousand due to the greater financial exposure recorded during the year by Group companies.

The following is a breakdown by type of debt due to investee companies:

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Payables for cash pooling relationships | 59,317 | 25,892 | 33,426 |
| Other financial debts | 76 | 1 | 75 |
| **Total** | **59,393** | **25,892** | **33,500** |

Financial payables to Roma Capitale decreased by € 347 thousand due to the reduction from the down payment towards Roma Capitale for the Led Plan due to the progress of the installation plan.

### 25.b - Trade payables - € 169,537 thousand

Results are as follows.

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Payables to third-party suppliers | 95,381 | 93,392 | 1,989 |
| Payables from subsidiaries and associates | 74,156 | 98,392 | (24,236) |
| **Total** | **169,537** | **191,784** | **(22,247)** |

**Payables to third party suppliers** show an increase of € 1,989 thousand and the balance is shown below:

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Payables due to invoices received | 51,214 | 50,579 | 635 |
| Payables due to invoices to be received | 44,167 | 42,813 | 1,354 |
| **Total** | **95,381** | **93,392** | **1,989** |

With regard to payables to suppliers for invoices received for € 51,214 thousand, it must be noted that the expired component amounts to € 14,302 thousand, the remaining amount is due within the next twelve months.

With regard to relations with **subsidiaries and associates**, there was a decrease of € 24,236 thousand, which is analysed in the following table:

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Acea Illuminazione Pubblica in liquidation | 0 | 5,754 | (5,754) |
| Acea Ato 2 | 907 | 1,380 | (473) |
| Acea Ato 5 | 98 | 16 | 83 |
| Acea Energia | 4,979 | 10,808 | (5,830) |
| Acea Produzione | 296 | 245 | 52 |
| *areti* | 64,416 | 69,374 | (4,959) |
| Ingegnerie Toscane | 2,300 | 2,300 | 0 |
| Citelum Acea Napoli | 141 | 1,798 | (1,657) |
| Aquaser | 0 | 179 | (179) |
| Acea8cento | 56 | 65 | (9) |
| Acea Elaboratori | 10 | 5,490 | (5,479) |
| Publiacqua | 58 | 111 | (53) |
| Abab | 0 | 78 | (78) |
| GORI | 0 | 87 | (87) |
| Crea Gestione | 176 | 0 | 176 |
| Ecogena | 47 | 0 | 47 |
| Acque | 47 | 47 | 0 |
| ALL | 36 | 0 | 36 |
| Other | 589 | 661 | (72) |
| **Total** | **74,156** | **98,392** | **(24,236)** |

### 25.c - Tax payables - € 17,917 thousand

These are reduced by €7,325 thousand and are composed as shown in the following table. In this regard, the comparative values were the subject of reclassifications in respect of published data for the purpose of better understanding the changes.

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| IRES and IRAP payables | 13,172 | 620 | 12,552 |
| **Total payables to tax authorities** | **13,172** | **620** | **12,552** |
| Tax consolidation payables to subsidiaries | 4,745 | 24,621 | (19,876) |
| **Total tax payables** | **17,917** | **25,242** | **(7,325)** |

### 25.d - Other current liabilities - € 44,085 thousand

These are composed as follows: In this regard, the comparative values were the subject of reclassifications in respect of published data for the purpose of better understanding the changes.

| € thousand | 31/12/2018 | 31/12/17 | Change |
|---|---|---|---|
| Payables to social security institutions | 3,558 | 3,159 | 399 |
| Other payables | 40,527 | 29,385 | 11,141 |
| *Payables due to personnel* | *10,915* | *7,853* | *3,063* |
| *stock of receipts from customers to be redeemed / returned* | 5,379 | 5,386 | (7) |
| *Payables due to municipalities* | 901 | 901 | 0 |
| *Insurance payables* | 563 | 563 | 0 |
| *Payable in instalments to Equitalia* | 16 | 103 | (87) |
| *Deferred VAT* | 4,695 | 8,532 | (3,837) |
| *Staff withholdings* | 2,127 | 1,668 | 459 |
| *Other tax payables* | 1 | 6 | (5) |
| *Other payables* | 15,928 | 4,374 | 11,554 |
| **Total** | **44,085** | **32,544** | **11,541** |

For greater clarity, it must be noted that payables with a due maturity of more than five years are not recorded in the financial statements, other than those already indicated with respect to the item "Loans".

The registration of a pecuniary administrative fine amounting to € 16,200 thousand imposed by the Antitrust Authority; for further details see what is specified in the paragraph "Legal disputes".

# INFORMATION ON RELATED PARTIES

## ACEA AND ROMA CAPITALE

The controlling entity holds an absolute majority with 51% of Acea's shares.
There are commercial relations between Acea and Roma Capitale, as the company provides services to the Municipality with regard to maintenance and upgrading of public lighting systems.
With regard to the public lighting service, we inform you that it is provided exclusively in the Rome area. As part of the thirty-year free grant issued by the Municipality of Rome in 1998, the economic terms of the services subject to the concession are currently governed by a service contract between the parties in force since May 2005 and until the concession expires (31 December 2027), pursuant to the supplementary agreement signed between Acea and Roma Capitale on 15 March 2011 modified in June 2016 with a private deed aimed at regulating commitments and obligations deriving from the implementation of the LED Plan.
The additions of the supplementary agreement of 2011 concern the following aspects:

- alignment of the duration of the service contract to the expiry of the concession (2027), given the mere accession function of the contract to the agreement;
- periodic updating of the fee components related to electricity consumption and maintenance;
- annual increase in the lump-sum payment for the new lighting points installed.

Furthermore, the investments required for the service may be 1) applied for and funded by the Municipality or 2) financed by Acea. In the former case, such works will be paid based on a price list agreed by the parties (and subject to review every two years) and will result in a percentage decrease in the ordinary fee. In the latter case, the Municipality is not bound to pay a surcharge; however, Acea will be awarded all or part of the savings expected in both energy and economic terms according to pre-established methods.
On the due or early termination date Acea is entitled to an indemnity corresponding to the residual book value of the assets that will be paid by the Municipality or the incoming operator upon express provision of this obligation in the call for tenders for the selection of the new operator.
Finally, the contract establishes a list of events that represent a cause for the early cancellation of the concession and/or the termination of the contract by the will of the parties. Among these events, the one relating to supervening needs related to the public interest appears relevant, expressly included as foreseen by article 23 bis of Italian Legislative Decree no. 112/2008, repealed following the referendum of 12 and 13 June 2011, which gave Acea the right to an indemnity commensurate with the product discounted by a value between a defined percentage of the annual contractual amount and the number of years left until the expiry of the concession.
The supplementary agreement, exceeding the materiality thresholds defined by the Company in relation to Transactions with Related Parties, was submitted to the analysis of the Board of Directors and obtained approval at the meeting on 1 February 2011, after obtaining the favourable opinion by the Committee for Transactions with Related Parties.
Reciprocal claims and liabilities – with reference to payment methods and terms – are governed by individual contracts:

a. for the public lighting service contract the payment is expected within sixty days from the submission of the invoice and, in the event of delayed payment, the legal rate is applied for the first sixty days and then the default rate as established from year to year by a special decree of the Minister of Public Works in agreement with that of the Minister of Economy and Finance,
b. for all other service contracts the payment deadline for Roma Capitale with reference to service contracts is sixty days from receipt of the invoice and in the event of late payment, the parties have agreed to apply the official discount rate in force over time.

The private agreement signed in June 2016 between Acea and Roma Capitale regulated commitments and obligations deriving from the implementation of the LED Plan modifying Art. 2.1 of the Supplementary Agreement signed in 2011.
More specifically, the agreement provides for the installation of 186,879 fittings (which became 182,556 at the request of Roma Capitale), in the number of 10,000 per month starting thirty days after the signing of the agreement; the price was set at € 48 million for the entire LED Plan. 10% of the price will be paid in advance and the remaining part on the basis of specific bimonthly progress certificates, to be paid by Roma Capitale within thirty days following the closing of the progress certificate for 80%, and within fifteen days after verification of the same progress certificate for the remaining 15%. The agreement also provides for incentive/penalty mechanisms based on higher/lower than planned installations every two months and for a reduction of the fee paid by Roma Capitale to the extent of 50% of the economic value of Energy Efficiency bonds due to Acea for the LED Project.
As a result of the implementation of the LED Plan, the parties partially modified the price list and the composition of the fee for the management of the service.
New constructions and investments contribute to the increase in the lump-sum payment due to the annual rate calculated according to the mechanism of tax depreciation envisaged for the plants underlying the specific intervention and to the percentage reduction of the ordinary rent due from Roma Capitale whose amount is defined in the technical-economic project document.
A variable interest rate is envisaged to remunerate the invested capital.
With regards the extent of the relationship between Acea and Roma Capitale, reference must be made to what has been explained and commented on receivables and payables to the parent company in note no. 19.c of this document.
From the point of view of economic relations, instead, the costs and revenues at 31 December 2018 are summarised below with reference to the most significant transactions

| | REVENUES | | COSTS | |
|---|---|---|---|---|
| € thousand | 31/12/18 | 31/12/17 | 31/12/18 | 31/12/17 |
| Public lighting service contract | 39,283 | 58,732 | 78 | 64 |
| Revenue from real. plants on Request | 3,161 | 1,155 | 0 | 0 |
| **TOTAL** | **42,444** | **59,887** | **78** | **64** |

## ACEA AND THE ROMA CAPITALE GROUP

Even with companies, special companies or institutions controlled by Roma Capitale, Acea has commercial relations.
The following table shows information on entries with the companies of the Roma Capitale Group.

| ROMA CAPITALE GROUP | Payables | Costs | Receivables | Revenues |
|---|---|---|---|---|
| € thousand | 31/12/18 | 31/12/18 | 31/12/18 | 31/12/18 |
| AMA S.P.A. | 613 | 617 | 28 | 0 |
| ATAC S.P.A. | 21 | 3 | 89 | 0 |
| ROMA METROPOLITANE S.R.L. | 0 | 0 | 56 | 0 |
| FONDAZIONE CINEMA PER ROMA | 100 | 100 | 0 | 0 |
| FONDAZIONE MUSICA PER ROMA | 100 | 100 | 0 | 0 |
| ROMA MULTISERVIZI S.P.A. | 83 | 70 | 0 | 0 |
| BIOPARCO | 1 | 0 | 0 | 0 |
| **Total** | **918** | **889** | **173** | **0** |

## ACEA AND ITS SUBSIDIARIES

### Financial reports

Acea S.p.A., in its function as an industrial holding company, defines the strategic objectives at the Group and subsidiary level and coordinates its activities.
As part of the centralised management of financial services, the parent company Acea has long since adopted a Group intercompany treasury system, including an inter-company finance relationship, making it available to many Group companies with which a special multi-year inter-company finance contract was signed.
On 1 April 2016 a new inter-company finance contract was approved for three years, considering the previous one obsolete under the renewal adopted according to the Acea2.0 project.
On the basis of this contract, Acea makes available a medium-term revolving loan, so-called "Intercompany Finance Line", up to a predetermined credit limit for financing the financial needs for 1) working capital requirements and 2) the execution of investments.
In addition, Acea makes credit lines available to its own companies for signature, for an amount equal to the Plafond for bank guarantees or through the direct issuing of corporate guarantees for an amount equal to the Plafond for Corporate Guarantees.
The operation of this contract provides that in a permanent and daily manner each company, holder of specific peripheral bank current accounts, daily credit or debit the Parent Bank's current account to zero the balance on its current accounts.
In the case of daily intercompany balance due by currency, companies recognise the interest expense calculated, for each year, on the basis of a market interest rate, defined as the weighted average of the rates applied on the capital market for the so-called issues, hybrid or similar, in the utilities sector (revisable annually, possibly increased by an additional margin linked, substantially, to the level of exposure of the beneficiary company with respect to the total limits granted to companies with cash pooling). For 2018, the interest rate applied is between a minimum of 4.62% and a maximum of 5.78%.
In the case of a daily intercompany credit balance by currency, Acea recognises calculated interest rates for each quarter by applying the interest rate resulting from the arithmetic average of the "3 month EURIBOR" rates (source Bloomberg) in the previous quarter.
Contractual terms applied are, with the same credit standing and type of financial instrument, in line with those resulting from the reference market, also supported by the evidence of a benchmark developed by a leading consulting firm.

### Reports of a commercial nature

Acea also provides subsidiaries and associated companies with administrative, financial, legal, logistics, management and technical services in order to optimise the resources available within the Company and to optimally use existing know-how in a logic of affordability.
These services are governed by specific service contracts.
With regard to service contracts, starting from 1 January 2017 and with a three-year duration. These prices are aligned with market fees as resulting from the benchmarking activity carried out by a leading company in the sector specifically appointed. These contracts, such as those expired, are compliant for regulatory purposes and of the Organisation, management and control model and envisage SLAs (Service Level Agreements) with a view to improving the level of service offered, to relate to relevant KPIs (Key Performance Indicators).
As part of the Template project, Acea and the companies in the area approved a contract that allows the implementation of the main technological development initiatives (cross-cutting and business) through the communion institute. The aforementioned contract contains rules of an economic - financial nature and of participation in the communion.
Acea also provides operating services, application management and maintenance related to accessing the Template project regulated by a specific contract.
The contractual terms applied are, for the same type of service rendered, in line with those resulting from the market.

## ACEA AND THE MAIN COMPANIES OF THE CALTAGIRONE GROUP

As of the end of the 2018 financial year, there are no financial transactions with the companies of the Caltagirone Group and Acea S.p.A.

## ACEA AND THE MAIN COMPANIES OF THE SUEZ ITALIA GROUP

The following table shows the details of the items with Suez Italia S.p.A. and Acea S.p.A.

| SUEZ ITALIA | Payables | Costs | Receivables | Revenues |
|---|---|---|---|---|
| € thousand | 31/12/18 | 31/12/18 | 31/12/18 | 31/12/18 |
| SUEZ ITALIA S.P.A. | 18 | 0 | 0 | 0 |
| **Total** | **18** | **0** | **0** | **0** |

The table below shows the impact of transactions with related parties on the statement of financial position, the income statement and the cash flow statement.

### IMPACT ON THE STATEMENT OF FINANCIAL POSITION

| Balance Sheet | 31/12/18 | Related Parties | % impact | 31/12/17 | Related Parties | % impact | Change |
|---|---|---|---|---|---|---|---|
| Financial assets | 227,385 | 227,260 | 99.9% | 237,975 | 237,850 | 99.9% | (10,590) |
| Trade receivables | 731 | 541 | 74.0% | 954 | 527 | 55.2% | (222) |
| Intragroup trade receivables | 88,213 | 88,213 | 100.0% | 98,772 | 98,772 | 100.0% | (10,559) |
| Other current assets | 31,901 | 1,931 | 6.1% | 36,954 | 1,943 | 5.3% | (5,053) |
| Intragroup current financial assets | 2,074,601 | 2,074,601 | 100.0% | 1,918,407 | 1,918,407 | 100.0% | 156,195 |
| Current tax assets | 13,397 | 12,185 | 91.0% | 23,141 | 4,288 | 18.5% | (9,744) |
| Financial payables | 377,675 | 61,582 | 16.3% | 542,975 | 28,429 | 5.2% | (165,300) |
| Trade payables | 169,537 | 75,522 | 44.5% | 191,784 | 99,017 | 51.6% | (22,247) |
| Tax Payables | 17,917 | 4,745 | 26.5% | 25,242 | 24,621 | 97.5% | (7,325) |
| Other current liabilities | 44,085 | 2 | 0.0% | 32,544 | 24 | 0.1% | 11,541 |

### IMPACT ON THE ECONOMIC RESULTS

| Income Statement | 31/12/18 | Related Parties | % impact | 31/12/17 | Related Parties | % impact | Change |
|---|---|---|---|---|---|---|---|
| Revenue from sales and services | 156,161 | 156,017 | 99.9% | 164,403 | 164,164 | 99.9% | (8,242) |
| Other revenue and proceeds | 15,663 | 7,741 | 49.4% | 16,534 | 6,763 | 40.9% | (872) |
| Costs of materials and overheads | 154,364 | 51,889 | 33.6% | 149,276 | 82,773 | 55.5% | 5,088 |
| Financial income | 130,273 | 128,985 | 99.0% | 114,363 | 113,205 | 99.0% | 15,910 |
| Financial expenses | 70,827 | 161 | 0.2% | 64,810 | 218 | 0.3% | 6,016 |
| Income from shares held | 177,966 | 177,966 | 100.0% | 219,013 | 219,013 | 100.0% | (41,046) |
| Expenses from shares held | 15,893 | 0 | 0.0% | 0 | 0 | 0.0% | 15,893 |

### IMPACT ON THE CASH FLOW STATEMENT

| Cash Flow Statement | 31/12/2018 | Related Parties | % impact | 31/12/17 | Related Parties | % impact | Change |
|---|---|---|---|---|---|---|---|
| Cash flow from operating activities | (81,385) | (20,870) | 25.6% | (45,994) | (7,668) | 16.7% | (35,391) |
| Cash flow of asset investment / disinvestment | 244,649 | (112,144) | -45.8% | (198,820) | (290,868) | 146.3% | 443,469 |
| Cash flow from financing activities | 287,865 | (103,584) | -36.0% | 194,903 | (187,896) | -96.4% | 92,962 |

## LIST OF TRANSACTIONS WITH RELATED PARTIES

During 2018, there were no significant transactions with related parties.

# UPDATE ON MAJOR DISPUTES AND LITIGATION

## TAX ISSUES

On 17 April 2018 the Regional Directorate of Lazio - Large Taxpayers Office initiated a general tax audit of the Company. The audit was concluded on 31 October 2018 with the drafting of the PVC (Audit Report) that alleged substantial VAT violations by the Company for the 2014 tax period.
It is also noted that as part of the controls carried out, on 12 October 2018 the Inland Revenue sent Company questionnaire no. Q00044/2018 relating to the determination of non-deductible costs, with the aim of extending the audit to the 2013 tax period. The Company's response was sent to the relevant bodies on 7 December 2018.
Finally, it is acknowledged that following a joint consultation report (protocol no. 115820), with an assessment with acceptance on 18 December 2018 the Company accepted pursuant to and for the purposes of art. 6, para. 1 of Italian Legislative Decree no. 218/97 the proposal made by the Revenue Agency, which, pursuant to art. 54, paragraph 4, of Italian Presidential Decree 633/1972, defined without prejudice to further possible audits under the terms established by art. 57 of the same decree, VAT due for € 433,509 for undue deduction of VAT in violation of art. 19, paragraphs 2 and 4 of Italian Presidential Decree no. 633/1972. Penalties were calculated on the taxes due for a total amount of € 166,315.88 along with interest equal to € 73,871.59. Subsequently, on 19 December 2018 the Company fully paid the sums due for the 2013 tax period.
Finally, with regard to the 2014 tax period, a discussion with the Office was scheduled for 24 January 2019 in order to reach an assessment with acceptance for this tax period as well.

## OTHER ISSUES

### Acea S.p.A., Acea Ato 2 S.p.A. and AceaElectrabel Produzione S.p.A. (today Acea Produzione S.p.A.) – ERG HYDRO S.r.l. (formerly E.ON. Produzione S.p.A.)

E.ON. Produzione S.p.A., Enel's successor of some concessions for the derivation of public waters of the springs of Peschiera for the production of energy, filed a case against the joint defendants (Acea, Acea Ato 2 and AceaElectrabel Produzione) requesting payment of the subtension indemnity (i.e. compensation for damages due to illegitimate subtension), which remained frozen in the state of the 1980s to the extent of € 48.8 million (in addition to the amounts due for the years from 2008 onwards) or alternatively to the payment of the sum of € 36.2 million.
On 3 May 2014 with sentence no. 14/14 the Administrative Court of Public Waters (TSAP) fully rejected E.ON's petition, considering the agreements of 1985 still to be in force and only considering the request for the "price of subtension", as it deemed the question of adjustments to be unrelated.
E.ON was also ordered to pay CTU's litigation costs.
On 23 June 2014 E.ON. appealed to the TSAP with the first hearing set for 1 October 2014. After subsequent postponement of the procedure, at the hearing of 14 January 2015 the judgement was deferred to a hearing of 10 May 2015. With sentence no. 243/2016 the appeal was rejected, ordering E.ON to reimburse litigation costs.
With appeal lodged before the United Sections of the Supreme Court of Cassation on 20 December 2016, the counterpart challenged the sentence of the TSAP; the counterclaim of Acea was served on 27 January 2017 and the hearing was scheduled for 9 October 2018. As a result of this hearing, in a sentence published on 10 January 2019 the Supreme Court of Cassation declared the appeal brought by ERG HYDRO S.r.l. to be inadmissible, ordering it to pay legal costs.

### Acea S.p.A. – SASI

On 5 July 2018 the Parties reached a settlement agreement during which S.A.S.I. agreed to renounce the appeal against Acea pending before the Supreme Court of Cassation and any claim made therein, and Acea agreed to accept said renunciation.

### Acea S.p.A. - SMECO

With a writ served in the autumn of 2011, Acea was summoned to court to answer for alleged damages that its alleged non-compliance with unproven and non-existent obligations that are assumed to have been part of the shareholders' agreement regarding the subsidiary A.S.A. - Acea Servizi Acqua - is alleged to have produced on minority shareholders and their respective stakeholders. The petition is for more than € 10 million.
The court, accepting SMECO's request, deemed necessary expert accounting consulting aimed at quantifying the costs incurred, the loss of earnings and any payment due as a result of sale option envisaged in the shareholders' agreements.
With sentence no. 17154/15 of 17 August 2015, the Court rejected the application in its entirety and sentenced the parties jointly and severally to the reimbursement of Acea for expenses of 50,000.00 plus accessory costs. On 1 October 2015, SMECO lodged an appeal to the 2nd Section of the Court of Appeals of Rome. At the hearing of 3 February 2016 the case was postponed for the clarification of the pleadings to 11 April 2018. On this occasion, the matter was further postponed until 29 January 2020.

### Acea S.p.A. - Milano '90

This issue concerns Milano '90's failure to pay € 5 million due for the balance of the sale price of the area in the municipality of Rome with access from via Laurentina No. 555, formalised on 28 February 2007 and with a subsequent supplementary deed of 5 November 2008. With the supplementary deed, the parties agreed to change the fee from € 18 to23 million, while eliminating the earn out, setting 31 March 2009 as the payment deadline.
Given the purchaser's failure to act, the procedure to collect the amounts due was initiated by preparing a notice pay addressed to Milano '90 and through application for an injunction order which, on 28 June 2012, was granted in a temporarily enforceable form.
Therefore, in November 2012, Acea S.p.A. served a garnishment order to the company Milano '90 for the forced recovery of the amounts claimed.
Milano '90 opposed the aforementioned injunction - also requesting the condemnation of Acea for the restitution of sums paid as a price and compensation for damages - obtaining the suspension of its provisional execution. Consequently, the enforcement procedure was in turn suspended.
By judgement no. 3258, published on 13 February 2018, the Court of Rome rejected the opposition and confirmed the court order in full, sentencing Milano '90 to pay for the costs of the dispute.

#### Judgement of Appeal

On 26 April 2018, Milano '90 filed an appeal and the hearing was set for 13 September 2018.
As a result of this hearing, with an order dated 25 October 2018

the Court of Appeals rejected the request for suspension, postponing the specification of the conclusions to 16 July 2020.

**Executive procedure**
Following the favourable first instance ruling, on 27 March 2018 Acea filed the appeal for the resumption of the enforcement procedure against Milano '90 and the garnishment order and the hearing was postponed to 9 October 2018 for the appearance of the parties and the prosecution. As a result of this hearing, the Judge ordered a postponement for the possible assignment of the foreclosed sums to 12 March 2019, pending the decision of the Court of Appeals on the injunction of the contested judgement.

## Acea S.p.A. - Trifoglio S.r.l.

The complex dispute consists of a case filed as a plaintiff and also a case appearing as a defendant, joined in 2015 before the Judge with whom the case filed as a plaintiff was pending.

**Case filed as a plaintiff:** this issue concerns the breach by Trifoglio of its obligation to pay the balance of the amount due (€ 10.3 million), pursuant to the sale contract regarding the so-called Autoparco property, which should have been paid on 22 December 2011.
In consideration of Trifoglio's breach, a notice was served aimed at signing a deed to voluntarily terminate the sale agreement of 22 December 2010, and then to file a claim before the Court of Rome, pursuant to art. 702-bis of the Italian Code of Civil Procedure. In the meantime, ATAC Patrimonio filed a claim for the termination of the sale agreement of 22 December 2010 for the portion for which it is responsible.

**Cases as a defendant:** Trifoglio notified to Acea and ATAC Patrimonio a deed of summons aimed at ascertaining the invalidity of the sale deed and recognition of damage compensation of about € 20 million.

In sentence no. 11436/2017 dated 6 June 2017, the Court of Rome declared the nullity of the sale contract, substantially accepting the demand by Acea aimed at terminating the contractual relations with Trifoglio and recovering ownership of the area, ordering the restitution to Trifoglio of the deposit received (amounting to € 4 million), and rejecting the demand for damages compensation made by Trifoglio and excluded any liability of Acea with regard to the truthfulness of the contractual guarantees offered by Trifoglio.
On 8 August 2017, Trifoglio filed an appeal and the first hearing was scheduled for 8 February 2018. At the hearing, it was decided to postpone the proceedings for a hearing on 13 September 2018, which was then postponed to 13 June 2019.

## Acea S.p.A. - Kuadra S.r.l.

Within the scope of the Kuadra S.r.l. dispute against the subsidiary Marco Polo S.r.l. in liquidation for alleged breach of contract related to participation in the Temporary Grouping of Companies for the CONSIP order, lawsuits were also filed against the same Kuadra S.r.l. and the shareholders of Marco Polo (and therefore: Acea, AMA and EUR) as well as Roma Capitale.
This summons was filed by the counterparty on the basis that Marco Polo was under the management and coordination of all direct and indirect Shareholders.
Acea holds that, also in consideration of the generic nature of Kuadra S.r.l.'s reasoning attributing responsibility to the shareholders of Marco Polo, the risk of an unfavourable ruling is considered remote, while the indirect risk as a Marco Polo shareholder has already been considered in the assessment of risks with the subsidiary.
The case was adjourned to 19 January 2016 for the decision on the admission of evidence. The judge reserved the decision on the matter. Overcoming the aforementioned reservation, the Court rejected the motions for admission of evidence submitted by the plaintiffs, and adjourned the case to 4 October 2016 for the final pleadings. As a consequence of the start of negotiations for the amicable settlement of the dispute, the hearing has been adjourned several times.
In view of the agreement reached by the parties for the abandonment of the case pursuant to art. 309 of the Italian Code of Civil Procedure, on 15 December 2017 Kuadra S.r.l. filed a petition to adjourn the proceedings.
By order issued on 25 January 2018, the Court therefore dismissed the case setting the hearing of 27 February 2018. Pursuant to art. 309 of the Italian Code of Civil Procedure it was further postponed to 13 September 2018. As a result of this hearing, a termination decree was issued on 25 September 2018.

## Acea S.p.A. and Acea Ato 2 S.p.A. - Province of Rieti

With Resolution no. 30 of 25 January 2018, the Regional Council of Lazio approved the updated schedule of the compulsory convention for the management of hydraulic interference, which incorporates the recent agreements reached by the entities of AATO2 and AATO3, and that the conferences of the unions of both area entities have approved this scheduled and, on 02 February 2018, signed the agreement for the management of hydraulic interference of the aqueduct system of Peschiera - Le Capore. This Agreement envisages, under Art. 16, waiver of pending proceedings, including this one. Therefore, the main opposing parties presented the amicable settlement of the dispute and at the hearing of 8 May 2018, it being clear that the parties had an interest in reaching a conclusion, the court once again reserved its decision.
With sentence no. 9455/2018 of 10 May 2018 the matter of the dispute was therefore declared terminated.

## Acea S.p.A. – Antonella Illuminati

With similar actions brought before the Court Employment Division, former Director Antonella Illuminati summoned Acea itself to request that the Company be ordered to pay the remuneration unpaid and due to her, amounting to about € 190 thousand a following the early termination of her employment, and compensation for financial and other damages, under various titles, to be paid equitably. The case was settled with the stipulation of a settlement agreement in February 2018. The proceeding is therefore terminated.

## Acea S.p.A. – Former COS rulings

Currently the following rulings are connected to the COS dispute, concerning the ascertainment of the illegality of the contract between ALMAVIVA Contact (formerly COS) and Acea and the consequent right of its workers to be recognised as having a subordinate employment relationship with Acea S.p.A. It is important to note that the majority of the judgements in which Acea has been unsuccessful are complete and that judgements regarding claims are still pending in the Supreme Court of Cassation for only six employees (i.e. the ascertainment of non-authenticity of the contract and the establishment of a relationship) introduced by Acea.
Specifically, two appeals are pending before the Supreme Court of Cassation, both of which were postponed for a hearing on 4 April 2019 for discussion in the Council Chamber.
On the basis of the judgements relating to the an debeatur, victorious workers (who were recognised as having a subordinate employment relationship with Acea) then petitioned for quantification of the claim, with which Acea was ordered to pay the salaries due as a result of the relationship established. Given

that there are multiple cases, and that they were undertaken by the same six workers, but referring to different periods in which the presumed receivables matured and have led to differing sentences pending at various levels of jurisdiction. In detail, with regard to the number of cases currently pending at the Supreme Court of Cassation, a first judgement was settled with a sentence in favour of Acea on 31 October 2018, and two further cases are still pending.
Finally, another judgement filed by the same six workers is pending before the Court of Appeals of Rome, and during the last hearing, held on 25 June 2018, the Court of Appeals considered it appropriate to suspend its judgement while awaiting the rulings of the Cassation on the validity of the claim following the hearing now scheduled for 4 April 2019.

### Acea S.p.A. and areti S.p.A. – MP 31 S.r.l. (formerly ARMOSIA MP S.r.l.)

This is a challenge to the injunction issued by the Court of Rome - General Docket 58515/14 against *a*reti for the amount of € 226,621.34, requested by Armosia MP by way of lease payments for the months of April-May-June of 2014 in relation to the property in Rome - Via Marco Polo 31. The injunction was declared provisionally enforceable by order of 8 July 2015.
At the hearing on 17 February 2016, the Court joined these proceedings with the other proceedings General Docket 30056/2014 pending before the Court of Rome - brought by Acea and by *a*reti (the assignee of the lease) seeking a declaration of termination of the lease agreement.
In the latter proceedings, MP 31 also filed a counter-claim for damages in consideration of the state of degradation of the property at the time it was released by *a*reti. At the hearing of 17 February 2016 both Acea and *a*reti opposed that request. The judge ordered an expert witness. With sentence no. 22248/2017 of 27 November 2017 the Court upheld the application of MP 31 against *a*reti, condemning it to the payment of the previous rent in the amount of € 2,759,818.76 plus interest from the individual deadlines, as well as the payment of the rent up to contract expiry (29 December 2022).
Acea filed an appeal, served on 2 January 2018.
With the decree issued inaudita altera parte on 15 January 2018 the provisional enforceability of the sentence of first degree was suspended; the relevant hearing was held on 8 February 2018 and as a result, the Court of Appeals rejected the petition. The hearing to discuss the appeal initially set for March 15th was postponed to 19 April 2018. As a result of this hearing, considering the case ready for a decision, the Court of Appeals postponed discussion until 16 April 2020.
It should be noted that MP31 has served *a*reti with a garnishment order for the recovery of the sums referred to in sentence no. 22248/2017 and that on 21 June 2018 an assignment order was issued, performed by the attached party.

### Acea S.p.A. and Acea Ato 2 S.p.A. - CO.LA.RI

With a writ of summons served on 23 June 2017, Co.La.Ri. Consortium and E. Giovi S.r.l. - manager of the landfill at Malagrotta (RM) and executor respectively - summoned Acea and Acea Ato 2 in order to obtain from the defendants the payment of the portion of the tariff for accessing the landfill to be allocated to hedge the thirty-year management costs for same - established by Legislative Decree 36/2003 - assertively due for the conferment of waste during the period of contractual validity 1985-2009. 36/2003 - allegedly due for the conferment of waste occurred during the period of contractual validity in1985 - 2009.
The main request stands at over € 36 million for the entire period of contract validity. Subordinately, in the event that the law disposing the tariff is considered by the judge to be applicable retroactively, the plaintiffs request the recognition of the right to receivables of approximately € 8 million for the period March 2003 - 2009, and the ascertainment, by expert appraisal, of the receivables for the previous period 1985-2003.
The first hearing, initially set for 23 February 2018, was postponed to 8 October 2018 to add the dispute against the Optimal Territorial Area Authority 2 Central Lazio - Rome. As a result of this hearing, the judge granted the terms under 183 of the Italian Code of Civil Procedure and scheduled the subsequent preliminary hearing for 28 March 2019.

### Proceeding AGCM A/513

On 8 January 2019, the Antitrust Authority notified Acea S.p.A., Acea Energia S.p.A. and Areti S.p.A. of the final order for Proceeding A/513.
With this order, the Authority ruled that the aforementioned Group companies had committed an abuse of a dominant position – qualified as very serious and of duration quantified in 3 years and 9 months – consisting in the adoption of a broad exclusionary strategy realised through the illegitimate use of a series of prerogatives possessed solely by virtue of its position as an integrated operator in distribution, in order to compete with its competitors in the acquisition of electricity sales contracts in free market conditions.
In view of the gravity and duration of the infringement, the Authority ordered Acea S.p.A., Acea Energia S.p.A. and areti S.p.A. to pay an overall pecuniary administrative fine of € 16,199,879.09.
In consideration of the fact that the preliminary investigations made it possible to ascertain that the disputed conduct fell within the more general context of the strategic plan defined and controlled at the Parent Company level, and, nevertheless, the two commercial companies involved carry out their activities under the direction and coordination of Acea S.p.A., and, finally, since the Authority did not define the amount of the fine for each individual entity, the entire amount was recorded in the financial statements of the Parent Company.
It should be noted that the companies involved consider the assessment to be groundless and illegitimate and that they intend to challenge it before the administrative judge pursuant to the law.

# ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

## CLASSES OF FINANCIAL INSTRUMENTS

The following table shows the breakdown of financial assets and liabilities required by IFRS 7 based on the categories defined by IFRS 9.

| € thousand | FVTPL | FVTOCI | Amortised cost | Balance sheet value | Explanatory Notes |
|---|---|---|---|---|---|
| **Non-current fixed assets** | **2,352** | | | **2,352** | |
| Other equity investments | 2,352 | | | 2,352 | 15 |
| Financial assets | | | 204,251 | 204,251 | 17 |
| **Current assets** | **0** | **0** | **2,169,337** | **2,169,337** | |
| Trade receivables | | | 88,944 | 88,944 | 19 |
| Current financial assets | | | 2,080,393 | 2,080,393 | 19 |
| **Non-current liabilities** | | | | | |
| Bonds | | 21,787 | 2,656,605 | 2,678,392 | 23 |
| Payables to banks | | 2,061 | 444,118 | 446,179 | 23 |
| **Current liabilities** | | | | | |
| Bonds (current portion) | | | 26,088 | 26,088 | 25 |
| Payables to banks | | | 290,013 | 290,013 | 25 |
| Financial debt | | | 61,574 | 61,574 | 25 |
| Trade payables | | | 169,539 | 169,539 | 25 |

## FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of securities not listed on an active market is determined using the valuation models and techniques prevailing on the market or using the price provided by several independent counterparties.
The fair value of medium / long-term financial receivables and payables is calculated on the basis of the risk-less and risk-less adjusted rates. It must be noted that for trade receivables and payables with contractual expiry within the financial year, the fair value has not been calculated as their book value approximates the same.
In addition, fair value is not calculated when the fair value of financial assets and liabilities cannot be objectively determined.

## TYPES OF FINANCIAL RISKS AND RELATED HEDGING ACTIVITIES

### Foreign exchange risk

Acea is not particularly exposed to this type of risk which is concentrated on the conversion of the financial statements of foreign subsidiaries.
As regards the 20 billion yen Private Placement, the exchange rate risk is hedged through a cross currency swap described in the section on interest rate risk.

### Liquidity risk

As part of the Group's policy, the objective of managing liquidity risk for Acea is to have a financial structure that, in line with the business objectives and with the limits defined by the Board of Directors, ensures a level of liquidity appropriate to the financial needs, maintaining a correct balance between duration and composition of the debt.
The liquidity risk management process, which uses financial planning tools for outflows and receipts suitable to manage treasury hedges and to monitor the trend of consolidated financial debt, is carried out both through cash pooling management both through the support and assistance provided to the subsidiaries and associated companies with which there is no centralised finance contract.
At 31 December 2018, the Parent Company had uncommitted credit lines for € 679 million, of which € 529 million not used. No guarantees were granted in obtaining these lines.
Furthermore, at 31 December 2018 there were outstanding lines of credit of a committed type for a total of € 250 million.
At the end of the financial year, Acea has no outstanding investments in deposits with maturity and the like.

Note that the EMTN Programme, approved in 2014 for an amount of € 1.5 billion, was updated and adjusted to a total amount of € 3 billion during 2018. Following the two bond issues of € 700 million and € 300 million in February 2018, Acea can place additional bond issues up to the total residual amount of € 0.9 billion.

### Interest rate risk

The Acea Group's approach to managing interest rate risk, which takes the structure of assets and the stability of the Group's cash flows into account, has essentially been targeted, up to now, at hedging funding costs and stabilising cash flows, in such a way as to safeguard margins and ensure the certainty of cash flows deriving from ordinary activities.
The Group's approach to managing interest rate risk is, therefore, prudent and the methods used tend to be static in nature.
In particular, for static management (to be opposed to the dynamic one) we mean a type of management of interest rate risk that does not provide for daily operations on the markets but an analysis and control of the position carried out periodically on the basis of specific needs. This type of management therefore involves daily activity in the markets, not for trading purposes but in order to hedge the identified exposure in the medium/long term.
Acea has, up to now, opted to minimise interest rate risk by choosing a mixed range of fixed and floating rate funding instruments.
As it is known, fixed rate funding protects a borrower from cash flow risk in that it stabilises the financial outflows in the income statement, whilst heightening exposure to fair value risk in terms of changes in the market value of the debt.

An analysis of the consolidated debt position shows that the risk Acea is exposed to is mainly in the form of fair value risk, being composed of hedged fixed rate borrowings (79.0%) as at 31 December 2018, and to a lesser extent to the risk of fluctuations in future cash flows.
Acea is consistent with its decisions regarding interest rate risk management that essentially aims to both control and manage this risk and optimise borrowing costs, taking account of Stakeholders' interests and the nature of the Group's activities, and based on the prudence principle and best market practices. The main objectives of these guidelines are as follows:

- identifying, from time to time, the optimal combination of fixed and variable rates,
- to pursue a potential optimisation of borrowing costs within the risk limits established by governance bodies and in accordance with the specific nature of the business,
- to manage derivatives transactions solely for hedging purposes, should Acea decide to use them, in respect of the decisions of the Board of Directors and, therefore, the approved strategies and taking into account (in advance) the impact on the income statement and Statement of Financial Position of said transactions, giving preference to instruments that qualify for hedge accounting (typically cash flow hedges and, under given conditions, fair value hedges).

Please note that Acea has:

- returned the € 100 million loan obtained on 27 December 2007 to a fixed rate with a swap. The IRS plain vanilla swap was signed on 24 April 2008 with effect from 31 March 2008 (date of the draw of the underlying) and expires on 21 December 2021,
- a cross currency transaction to transform to Euro – through a plain vanilla DCS swap – the currency of the private placement (yen) and the yen rate applied to a fixed Euro rate through a plain vanilla IRS swap.
- returned the € 300 million on € 330 million of the fixed-rate bond loan placed on the market in September 2013 with a duration of 5 years to a floating rate with a swap.

All the derivative instruments taken out by Acea and listed above are non-speculative and the fair values of the same are respectively:

- negative for € 3.4 million (negative for € 5.3 million at 31 December 2016),
- negative for € 38.3 million (negative for € 24.8 million at 31 December 2016) and
- positive for € 0.9 million (positive for € 1.2 million in 2016).

The fair value of medium/long-term debt is calculated on the basis of the risk-free and the risk-adjusted interest rate curves.

| € thousand | Amortised cost | RISK-FREE FV | Delta | RISK ADJUSTED FV | Change |
|---|---|---|---|---|---|
| **Bank Borrowings:** | **(A)** | **(B)** | **(A) - (B)** | **(C)** | **(A) - (C)** |
| Bonds | 2,704,480 | 2,902,670 | (198,191) | 2,801,487 | (97,007) |
| fixed rate | 250,000 | 250,177 | (177) | 249,821 | 179 |
| floating rate | 459,138 | 469,345 | (10,207) | 467,999 | (8,861) |
| floating rate to fixed rate | 27,054 | 27,378 | (324) | 27,103 | (49) |
| **Total** | **3,440,672** | **3,649,570** | **(208,898)** | **3,546,410** | **(105,738)** |

This analysis was also carried out with the "risk-adjusted" curve, i.e. a curve adjusted for the level of risk and the business sector of Acea. A curve populated with fixed rate bonds denominated in EUR, issued by domestic companies in the public utilities sector with a composite rating ranging from BBB+ and BBB- was used.
A sensitivity analysis has been carried out on medium/long-term financial liabilities using stress testing, thus applying a constant spread over the term structure of the risk-free interest rate curve. This makes it possible to evaluate the impact on fair value and on future Cash Flows for both the individual instruments in the portfolio and the overall portfolio.

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

| Constant spread applied | Changes in Present Value (€ million) |
|---|---|
| -1.50% | (269.2) |
| -1.00% | (175.9) |
| -0.50% | (86.3) |
| -0.25% | (42.7) |
| 0.00% | 0.0 |
| 0.25% | 41.9 |
| 0.50% | 83.0 |
| 1.00% | 162.8 |
| 1.50% | 239.7 |

With regard to the type of hedging of which the fair value is determined and with reference to the hierarchies required by the IASB, it should be noted that, since these are composite instruments, the level is type 2 and that during the period there were no reclassifications from or to other levels of fair value as defined by IFRS 13.

# COMMITMENTS AND CONTINGENCIES

These amounted to € 761,717 thousand and decreased by € 9,241 thousand compared to 31 December 2017 (€ 770,957 thousand).

## ENDORSEMENTS AND SURETIES ISSUED AND RECEIVED

These have a negative net balance of € 46,478 thousand, as the endorsements and sureties issued amounted to € 4,992 thousand while those received amounted to € 50,969 thousand.
These recorded an increase of € 512 thousand compared to the end of the previous year. The change is mainly attributable to the issue of bank guarantees by BBVA for SEDAPAL for the tender of Lima Sud maintenance for a total value of € 900 thousand, partially offset by the release of the guarantees issued mainly by UBI BANCA to the Revenue Agency.

## LETTERS OF PATRONAGE ISSUED AND RECEIVED

The balance is positive for € 559,386 thousand, consisting of letters of patronage issued for € 559,589 thousand and letters of patronage received for € 203 thousand.
During the year they underwent a total reduction of € 9,919 thousand.
The main changes concerned:

- the reduction of the counter-guarantee benefiting Cassa Depositi e Prestiti for the loan granted to areti for € 21,284 thousand,
- the increase in guarantees benefiting various companies on behalf of Acea Energia, including ERG Power Generation S.p.A. and SNAM Rete GAS for a total of € 11,364 thousand.

## THIRD-PARTY ASSETS UNDER CONCESSION

These amount to € 86,077 thousand and have not changed since 31 December 2017 and refer to assets related to Public Lighting.

# RESOLUTIONS REGARDING THE RESULT FOR THE YEAR AND THE DISTRIBUTION TO SHAREHOLDERS

Dear Shareholders,
In inviting you to approve the financial statements we are submitting to you, we propose to allocate the profit for the year ended 31 December 2018, equal to € 147,776,210.95, as follows:

- € 7,388,810.55, equal to 5% of profit, to the legal reserve,
- € 140,281,618.62 to shareholders, corresponding to a unit dividend of € 0.66,
- € 105,781.78 for retained earnings.

The Board also resolved to distribute part of the retained earnings reserve for € 10,627,395.35 to the shareholders, corresponding to a unit dividend of € 0.050.
The total dividend (coupon no. 20) of € 150,909,013.97, equal to € 0.71 per share, will be paid starting from 26 June 2019 with coupon detachment on 24 June and record date 25 June.

On the date of approval of the financial statements, treasury shares amounted to no. 416,993.

Acea S.p.A.

The Board of Directors

# ANNEXES TO THE EXPLANATORY NOTES OF WHICH THEY FORM AN INTEGRAL PART

## ANNEX 1 - NET FINANCIAL POSITION AT 31 DECEMBER 2018

| € thousand | 31/12/2018 | Related parties | 31/12/17 | Related parties | Change |
|---|---|---|---|---|---|
| Non-current financial assets | 126 | 0 | 126 | 0 | 0 |
| Non-current intragroup financial assets | 204,125 | 204,125 | 210,126 | 210,126 | (6,000) |
| Non-current borrowings and financial liabilities | (3,100,723) | 0 | (2,440,786) | 0 | (659,937) |
| Financial assets (liabilities) from the valuation of derivative instruments | (23,848) | 0 | (41,778) | 0 | 17,930 |
| **Medium-long term financial position** | **(2,920,320)** | **204,125** | **(2,272,313)** | **210,126** | **(648,007)** |
| Cash and securities | 978,552 | 0 | 527,423 | 0 | 451,129 |
| Current financial assets (liabilities) | (312,071) | (1,769) | (410,668) | (1,769) | 98,596 |
| Current intragroup financial assets (liabilities) | 2,014,789 | 2,014,789 | 1,891,747 | 1,891,747 | 123,042 |
| **Short-term financial position** | **2,681,269** | **2,013,020** | **2,008,502** | **1,889,978** | **672,767** |
| Total Net financial position | (239,051) | 2,217,145 | (263,811) | 2,100,103 | 24,760 |

# ANNEX 2 - CHANGES IN HOLDINGS AS AT 31 DECEMBER 2018

| € thousand | 31/12/17 | Acquisitions | Disposals | Reclassifications | Increases / Decreases | Write-downs/ Losses/ Revaluations | 31/12/2018 |
|---|---|---|---|---|---|---|---|
| | | CHANGES IN THE PERIOD | | | | | |
| **Subsidiaries** | | | | | | | |
| *areti S.p.A.* | 683,861 | 0 | 0 | 0 | 0 | 0 | 683,861 |
| Acea Ato 2 S.p.A. | 585,442 | 0 | 0 | 0 | 0 | 0 | 585,442 |
| Acea8cento S.p.A. | 120 | 0 | 0 | 0 | 0 | 0 | 120 |
| Acea Elabori S.p.A. | 4,814 | 0 | 0 | 0 | 2,395 | 0 | 7,209 |
| Acea Energia S.p.A. | 277,044 | 0 | 0 | 0 | 0 | 0 | 277,044 |
| Acea Ato 5 S.p.A. | 13,934 | 0 | 0 | 0 | 0 | (8,705) | 5,229 |
| Consorcio Acea-Acea Domenicana | 43 | 0 | 0 | 0 | 0 | 0 | 43 |
| Acque Blu Arno Basso S.p.A. | 14,663 | 0 | 0 | 0 | 0 | 0 | 14,663 |
| Ombrone S.p.A. | 19,383 | 0 | 0 | 0 | 0 | 0 | 19,383 |
| Acque Blu Fiorentine S.p.A. | 43,911 | 0 | 0 | 0 | 0 | 0 | 43,911 |
| Acea Ambiente S.r.l. | 32,573 | 0 | 0 | 0 | 0 | 0 | 32,573 |
| Aquaser S.r.l. | 5,417 | 0 | 0 | 0 | 0 | 0 | 5,417 |
| Crea Gestioni S.r.l. | 6,127 | 0 | 0 | 0 | 0 | (3,253) | 2,874 |
| Parco della Mistica | 60 | 0 | 0 | 0 | 0 | 0 | 60 |
| Sarnese Vesuviano S.r.l. | 163 | 0 | 0 | 0 | 0 | 21,247 | 21,410 |
| Acea Illuminazione Pubblica S.p.A. in liquidation | 4,590 | 0 | 0 | 0 | 0 | (3,628) | 962 |
| Acea Liquidation and Litigation S.r.l. | 9,821 | 0 | 0 | 0 | 0 | 0 | 9,821 |
| Acea Produzione S.p.A. | 43,441 | 0 | 0 | 0 | 0 | 0 | 43,441 |
| Acea Energy Management S.r.l. | 50 | 0 | 0 | 0 | 0 | 0 | 50 |
| Acea International SA | 8,297 | 4,394 | 0 | 0 | 200 | 0 | 12,891 |
| Crea S.p.A. S.p.A. in liquidation | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Hydreco Scarl in Liquidation | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| UmbriaDue Servizi Idrici scarl | 2,877 | 0 | 0 | 0 | 0 | 0 | 2,877 |
| Acque Industriali S.r.l. | 1,222 | 0 | 0 | 0 | 0 | 0 | 1,222 |
| TWS S.p.A. | 64 | 0 | 0 | 0 | 0 | 0 | 64 |
| Total - subsidiaries | 1,757,919 | 4,394 | 0 | 0 | 2,594 | 5,660 | 1,770,567 |

| € thousand | 31/12/17 | CHANGES IN THE PERIOD<br>Acquisitions | Disposals | Reclassifications | Increases / Decreases | Write-downs/ Losses | 31/12/2018 |
|---|---|---|---|---|---|---|---|
| **Associates** | | | | | | | |
| Consorcio Agua Azul | 4,529 | 0 | (4,394) | 0 | (135) | 0 | 0 |
| Aguazul Bogotà SA | 570 | 0 | 0 | 0 | (22) | 0 | 548 |
| Ecomed S.r.l. | 118 | 0 | 0 | 0 | 0 | 0 | 118 |
| Umbra Acque S.p.A. | 6,851 | 0 | 0 | 0 | 0 | 0 | 6,851 |
| Ingegnerie Toscane S.r.l. | 58 | 0 | 0 | 0 | 0 | 0 | 58 |
| Intesa Aretina Scarl | 11,505 | 0 | 0 | 0 | 0 | 0 | 11,505 |
| GEAL S.p.A. | 2,059 | 0 | 0 | 0 | 0 | 0 | 2,059 |
| Umbria Distribuzione Gas S.p.A. | 318 | 0 | 0 | 0 | 0 | 0 | 318 |
| Marco Polo S.p.A. in Liquidation | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Citelum Napoli Pubblica Illuminazione S.c.a.r.l. | 306 | 0 | 0 | 0 | 0 | (306) | 0 |
| Sienergia S.p.A. in Liquidation | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| DI.T.N.E. S.c.a.r.l. | 12 | 0 | 0 | 0 | 0 | 0 | 12 |
| **Total - associates** | **26,327** | **0** | **(4,394)** | **0** | **(156)** | **(306)** | **21,470** |

| € thousand | 31/12/17 | CHANGES IN THE PERIOD<br>Acquisitions | Disposals | Reclassifications | Increases / Decreases | Write-downs/ Losses | 31/12/2018 |
|---|---|---|---|---|---|---|---|
| **Other companies** | | | | | | | |
| Polo Tecnologico Industriale Romano S.p.A. | 2,350 | 0 | 0 | 0 | 0 | 0 | 2,350 |
| WRC PLC | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Green Capital Alliance Società Benefit S.r.l. | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| **Total - Other companies** | **2,352** | **0** | **0** | **0** | **0** | **0** | **2,352** |

## ANNEX 3 - SIGNIFICANT NON-RECURRING TRANSACTIONS PURSUANT TO CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

It must be noted that no non-recurring significant transactions were carried out during the period.

## ANNEX 4 - POSITIONS OR TRANSACTIONS DERIVING FROM UNUSUAL AND/OR ATYPICAL OPERATIONS

Pursuant to the Consob Communication of 28 July 2006, it should be noted that during 2018 Acea S.p.A. has not performed atypical and/or unusual transactions, as defined by the Communication itself.

## ANNEX 5 - SEGMENT INFORMATION (IFRS 8)

| € thousand | Public Lighting | Corporate | TOTAL OPERATING ASSETS | DISCONTINUING OPERATIONS | TOTAL |
|---|---|---|---|---|---|
| **Capex** | **4,419** | **10,710** | **15,129** | **0** | **15,129** |
| **Sector assets** | | | | | |
| Tangible Fixed Assets | 5,200 | 94,759 | 99,958 | 0 | **99,958** |
| Intangible Fixed Assets | 0 | 11,763 | 11,763 | 0 | **11,763** |
| Financial assets | 0 | 1,794,390 | 1,794,390 | 0 | **1,794,390** |
| Other non-current commercial assets | | | | | **20,070** |
| Other non-current financial assets | 41,832 | 185,554 | 227,385 | | **227,385** |
| Raw materials | 0 | 0 | 0 | 0 | **0** |
| Trade receivables | 212 | 520 | 731 | 0 | **731** |
| Trade receivables from the parent company | 0 | 28 | 28 | 0 | **28** |
| Receivables due from subsidiaries / associates | 420 | 87,765 | 88,185 | 0 | **88,185** |
| Other Current Commercial Assets | 0 | 45,297 | 45,297 | | **45,297** |
| Other Current Financial Assets | 90,065 | 1,990,328 | 2,080,393 | 0 | **2,080,393** |
| Bank deposits | | | | | **978,552** |
| Total Assets | | | | | 5,346,752 |

| € thousand | Public Lighting | Corporate | TOTAL OPERATING ASSETS | DISCONTINUING OPERATIONS | TOTAL |
|---|---|---|---|---|---|
| **Sector payables** | | | | | |
| Trade payables | 40 | 95,341 | 95,381 | 0 | **95,381** |
| Payables to the parent company | 0 | 0 | 0 | 0 | **0** |
| Payables to the parent company / associates | 67,385 | 6,770 | 74,156 | 0 | **74,156** |
| Other Current Trade Liabilities | | | | | **62,002** |
| Other Current Financial Liabilities | 420 | 377,255 | 377,675 | | **377,675** |
| Defined benefit plans | 0 | 23,512 | 23,512 | 0 | **23,512** |
| Other provisions | 0 | 15,408 | 15,408 | 0 | **15,408** |
| Deferred tax provision | | | | | **0** |
| Other Non-current Trade Liabilities | | | | | **0** |
| Other Non-current Financial Liabilities | | | | | **3,124,571** |
| **Shareholders' Equity** | | | | | **1,574,048** |
| Total Liabilities | | | | | 5,346,752 |

| € thousand | Public Lighting | Corporate | TOTAL OPERATING ASSETS | DISCONTINUING OPERATIONS | TOTAL |
|---|---|---|---|---|---|
| Revenue from third parties | 42,566 | 15,684 | 58,250 | 0 | **58,250** |
| Intersectorial sales | 0 | 113,573 | 113,573 | 0 | **113,573** |
| Work costs | 0 | (57,196) | (57,196) | 0 | **(57,196)** |
| External costs | (47,131) | (107,233) | (154,364) | 0 | **(154,364)** |
| Gross Operating Profit | (4,564) | (35,172) | (39,736) | 0 | **(39,736)** |
| Depreciation and write-downs of receivables | (7,549) | (12,525) | (20,075) | 0 | **(20,075)** |
| Write-downs / recovery of fixed assets | 0 | 0 | 0 | 0 | **0** |
| Operating profit/(loss) | (12,114) | (47,697) | (59,811) | 0 | **(59,811)** |
| Financial (costs) / income | | | | | **59,446** |
| (Charges) / Income from investments | | | | | **162,074** |
| Net profit/(loss) from discontinued operations | | | | | **0** |
| Profit/(loss) before tax | | | | | **161,708** |
| Taxes | | | | | **(13,932)** |
| **Net profit/(loss)** | | | | | **147,776** |

# Report of the Board of Statutory Auditors to the Shareholders Meeting

(Pursuant to art. 153 of Italian Legislative Decree no. 58/1998)

Dear Shareholders,
Pursuant to art. 153 of Italian Legislative Decree no. 58/1998 (hereinafter also “TUF”), the Board of Auditors of Acea S.p.A. (hereinafter also “Acea” or “Company”) is called to report to the Shareholders’ Meeting called to approve the financial statements, on the activity of supervision carried out during the period and on possibly relevant omissions or criticisable facts. The Board of Auditors is also called to put forward its proposal concerning the financial statements and approval thereof, as well as on the matters of its competence.
This report concerns the activity carried out by the Board of Auditors of Acea S.p.A. in the financial year closing on 31 December 2018.

## Introduction

During the financial year which closed on 31 December 2018, the Board of Auditors carried out the activity of supervision provided by the law, considering the principles of conduct recommended by the National Council of Chartered Accountants and Accounting Experts, Consob provisions regarding corporate controls and the indications contained in the Self-Governance Code for listed companies issued by Borsa Italiana S.p.A.
The activities described hereunder, which were also performed jointly with the Control and Risks Committee, have been acknowledged in the minutes of the 23 meetings of the Board of Auditors which were held over 2018.
The Board of Auditors has always attended the meetings of the Board of Directors and the Control and Risks Committee. It also attended the meetings of the Appointments and Remuneration Committee.
By resolution of the Shareholders’ Meeting of 27 April 2017, the assignment to audit the separate and consolidated financial statements was given to PricewaterhouseCoopers S.p.A. (hereinafter also “PwC” or “Auditing Firm”) for the period 2017-2025.

## Appointment of the Board of Auditors

The Board of Auditors in office as at the date of this report was appointed by the Shareholders’ Meeting of 28 April 2016 and is formed of Enrico Laghi (Chairman), Rosina Cichello (statutory member) and Corrado Gatti (statutory member).
Carlo Schiavone and Lucia Di Giuseppe are alternate auditors.

## Supervisory activity in accordance with Art. 149 of the TUF

Pursuant to art. 149 of the TUF, the Board of Statutory Auditors supervises:

- the observance of law and the articles of association;

- compliance with the principles of correct administration;
- the adequacy of the company's organisational structure as regards the aspects of competence, the internal control system and the administrative-accounting system, as well as the reliability of the latter to correctly represent facts of management;
- the procedures for correctly implementing the rules of corporate governance provided under the codes of conduct drawn up by management companies of regulated markets or category associations with which the company declares its compliance through public disclosure;
- the adequacy of the provisions required by the company of the subsidiaries pursuant to article 114, paragraph 2 of the TUF.

<u>Supervision of the observance of law and the articles of association</u>
The Board of Auditors acquired information instrumental to performing the supervisory duties attributed to it by means of attending meetings of the Board of Directors and the Committees internal to the board, listening to the Management of the Company and the Group, meetings with the Audit Company, as well as other control activities.
Specifically, the Board of Auditors:
- at least on a quarterly basis, received updates from the Directors on the activities carried out and on the most important economic, financial and equity transactions carried out by the Company, as well as on the Group's strategic guidelines. The Board of Statutory Auditors can reasonably ensure that the transactions approved and carried out comply with the law and the Articles of Association and are not manifestly imprudent, risky, in conflict of interest, in conflict with the resolutions passed by the Shareholders' Meeting and/or likely to compromise the integrity of the company's assets. Furthermore no atypical or unusual transactions were found;
- points out the following events of particular relevance in 2018:
    - o on 1 February 2018, the company completed the placement of bond issues for an amount of € 300 million, respectively, with a 5-year maturity at floating rates and € 700 million with a fixed and maturity of 9 years and a half, based on the € 3 billion Euro Medium Term Notes (EMTN) programme.
    - o on 15 February 2018, the Company's Board of Directors approved the new guidelines for the internal control and risk management system, in line with the best practices that have been consolidated over time with regard to controls;
    - o on 12 April 2018, the 2018 audit plan was approved and Mr. Fabio Lattanzi was appointed as an external member of the Supervisory Board pursuant to Italian Legislative Decree no. 231/2001 as an expert in corporate criminal law;
    - o on 14 June 2018, Mr. Luca Alfredo Lanzalone, involved in the investigation into the stadium in Rome, stepped down from the position of Chairman of the Board of Directors;
    - o on 21 June 2018, the Company's Board of Directors unanimously resolved to appoint the Director Michaela Castelli as Chairwoman of the Board of Directors, in office until the natural expiry of the Board of Directors, subject to any resolution on the matter by the Shareholders' Meeting;
    - o on 31 July 2018, the Company's Board of Directors approved the organisational changes to the macrostructure of Acea S.p.A.. On the same date, the new code of ethics was also approved.

Supervision over the observance of principles of correct administration and the adequacy of the organisational structure

The Board of Auditors:

- became aware of and oversaw, inasmuch as competent, the adequacy of the organisational structure of the Company and observance of the principles of correct administration, by direct observation, collecting information from company function managers and meetings with the Audit Company with a view to reciprocal exchange of relevant data and information and in relation thereto has no particular observations to make, deeming the Company's organisational structure substantially adequate for the requirements of the latter and suited to guaranteeing observance of the principles of correct administration;
- appraised and supervised the adequacy of the administrative-accounting system and the related reliability thereof to correctly represent facts of management, by means of obtaining information from the competent corporate department managers, examining corporate documents and the results of the work carried out by the Audit Company and in relation thereto has no particular observations to make.

The Board of Auditors has established that adequate documentation supporting the items subject matter of discussion during board of directors meetings has been made available to the Directors and Auditors in good time.

On the basis of the acquired information, the Board of Auditors states that managerial choices are made according to the principle of correct information and reasoning and that the Directors are aware of the riskiness and effects of the executed transactions.

The Board of Auditors did not find significant atypical and/or unusual transactions, including those that are intergroup or with intergroup and non-intergroup related parties.

The Board also appraised the adequacy of the information given within the management report concerning the non-existence of significant atypical and/or unusual transactions during 2018.

With regard to the events that concerned the then Chairman of Acea S.p.A., Mr. Luca Alfredo Lanzalone, with its own structures, during the 2018 financial year the Company, the Board of Statutory Auditors and the Auditing Firm – each in its own sphere of responsibility – carried out specific audits of the work done by Mr. Lanzalone as Chairman of Acea during his term of office. As a result of the work carried out, the Board of Statutory Auditors represents that, with regard to the various points of detail examined, on the basis of the information available, no documents, acts or facts have emerged that can be qualified as signs of danger for the Company, nor have any elements emerged to report regarding alleged irregularities understood as acts that do not comply with the law and/or the Articles of Association and/or that are manifestly imprudent, risky, in conflict of interest, in contrast with the resolutions passed by the Shareholders' Meeting and/or likely to compromise the integrity of the Company's assets.

Supervision over the effective implementation of corporate governance regulations

In relation to the provisions under art. 149, paragraph 1, letter c-bis, of the TUF regarding the Board of Auditor's supervision "*over the processes of effective implementation of the corporate governance regulations provided under the codes of conduct drawn up by regulated market management or by category associations with which the company declares its compliance through public disclosure*", the Board of Auditors reports that it has overseen:

- the processes of effective implementation of the corporate governance regulations provided under the codes of conduct drawn up by regulated market management or by category associations with which the company declares its compliance through public disclosure. Pursuant to art. 123-bis of the TUF, the Company has drawn up the annual Report on Corporate Governance and the Ownership Structure related to 2018, approved on 6 March 2019, which provides information concerning (I) corporate governance practices effectively applied by the Company; (II) the main characteristics of the existing internal control and management systems, also in relation to the financial disclosure process, also consolidated; (III) the operational mechanisms of the Shareholders' Meeting, its main powers, Shareholders' rights and the methods for exercising the latter; (IV) the composition and operation of the management and control bodies and their committees, as well as the other information required under art. 123-bis of the TUF;

- the adoption of the Remuneration Policy for Directors and Key Managers, in line with the provisions under the Self-Governance Code of listed companies issued by Borsa Italiana S.p.A., as well as the subsequent Remuneration Report as per art. 123-ter of the TUF;
- the application, during the period, of the procedure for assigning duties to the audit companies within the Acea Group.

The Board of Auditors states, moreover: (I) that it has verified, as recommended by the Self-Governance Code of Borsa Italiana S.p.A., that its members possess the same requirements of independence as requested for the directors of said Code; (II) that it has established the correct application of the criteria and procedures for ascertaining the requisites of independence adopted by the Board of Directors in order to annually assess the independence of its members, as well as an appraisal performed by the Board of Directors which is based on the substantial profiles and consistently with decisions taken on the matter of identifying Acea's related parties and has no observations to make in relation thereof.
Finally, the Board of Statutory Auditors acknowledges that it carried out its self-assessment in accordance with the Rules of Conduct of the Board of Statutory Auditors of listed companies of the National Council of Chartered Accountants and Accounting Experts and that it has no relevant information on the related results to be mentioned in this report.

<u>Supervision of the adequacy of the instructions given by the company to its subsidiaries</u>

Pursuant to article 114, paragraph 2, of the TUF: (I) the listed issuers lay down the necessary provisions for the subsidiaries to provide all information required in order to fulfil the obligations of communication provided by the law; (II) the subsidiaries send the required information in a timely manner.
The Board of Auditors has monitored the adequacy of the provisions laid down for the subsidiaries, having established that the Company is able to promptly and regularly comply with the obligations of communications provided under the law. This is also by means of collecting information from the organisational function managers and holding periodic meetings with the Audit Company, for the purposes of a reciprocal exchange of relevant data and information. In relation thereto, there are no particular observations to make.
Furthermore, Directors and/or Managers from the Parent Company are present in the Boards of Directors of the subsidiaries, with operational delegation, thus guaranteeing coordinated management and an adequate flow of information, also supported by accounting information.

* * *

With reference to the facts occurred after the end of the period, we report as follows:

- on 8 January 2019, with reference to procedure A/513 (abuse of a dominant position in the electric-

ity sales market), the Antitrust Authority notified the Acea Group, and, in particular Acea S.p.A., Acea Energia S.p.A. and areti S.p.A., jointly and severally, of a fine of € 16,199,879.09;
- on 15 March 2019, Mr. Luca Alfredo Lanzalone, elected to the Board of Directors of Acea S.p.A. at the Shareholders' Meeting of 27 April 2017, as part of the list submitted by the shareholder Roma Capitale, a non-executive and non-independent director, resigned from his position as Director;
- on 25 March 2019, the Company responded to a request for documents and information as part of Criminal Procedure no. 45923/18 by delivering the requested documents. The company is not currently the subject of any dispute.

Furthermore, as regards corporate bodies and functions, the Board of Auditors points out that:
- the Board of Directors held 12 meetings in 2018;
- the Control and Risks Committee met 13 times in 2018;
- the Appointments and Remuneration Committee met 11 times in 2018;
- the Ethics and Sustainability Committee met 8 times in 2018;
- the Related-Party Transactions Committee met 2 times in 2018;
- the Supervisory Body met 11 times in 2018.

## Intergroup or related-party transactions

Pursuant to art. 2391-bis of the Italian Civil Code and Consob resolution no. 17221 of 12 March 2010 bearing "Related parties transactions regulation" subsequently amended by Consob resolution no. 17389 of 23 June 2010, on 11 November 2010 the Acea Board of Directors, subject to favourable opinion of the Committee established for such purpose and formed of only three independent Directors (appointed thereto pursuant to art. 4, paragraph 3 of the cited Regulation by specific resolution of the Board of Directors), adopted the procedure for related parties transactions.

Thereafter, on 18 December 2013 the Acea Board of Directors, subject to the favourable opinion of the Related Parties Transactions Committee formed solely of independent Directors, unanimously approved the new procedure for related parties transactions (hereinafter also "Procedure"). The adoption of said new Procedure supersedes, effective as from 1 January 2014, the Procedure on the matter of related parties transactions approved by the Board of Directors with resolution no. 61 of 11 November 2010.

Pursuant to art. 4 of the cited Regulation, we point out that the Procedure adopted by the Company (i) is consistent with the principles contained in such Regulation and (ii) is published on the Company website (www.aceaspa.it).

On the basis of the received information, during financial year 2018 a series of related-party transactions took place, both intergroup and with third parties. Related-party transactions were executed, to our knowledge, also following the supervisory activities carried out, with substantial compliance to the Regulation and Procedure implemented by Acea. The intergroup transactions we examine prove to be of an ordinary nature, in that they essentially concern commercial services and reciprocal performance of administrative, financial and organisation services. The aforementioned relations were governed by applying normal conditions determined using standard parameters reflecting the effective use of the services and were carried out in the interest of the Company. Non intergroup related parties transactions that we examined also prove to be of an ordinary nature (inasmuch as falling within the normal exercise of the operational activity or the financial activities connected thereto) and concluded under equivalent conditions as those of the market or standard. The related-party transactions are described in the notes to the comment on the Company's financial statements and the consolidated financial statements, which also show the consequent economic effects.

**Supervision pursuant to Italian Legislative Decree no. 39/2010**

Pursuant to art. 19 of Italian Legislative Decree no. 39/2010 as amended by Italian Legislative Decree no. 135/2016, the internal control and statutory audit committee, which, in entities of public interest (which includes listed companies) which adopt the traditional governance system is identified as the Board of Auditors, shall undertake:

a) to inform the governing body of the entity undergoing the audit of the outcome of the statutory audit and send such body the supplementary report pursuant to article 11 of European Regulation (Reg. EU 537/2014), enclosing any observations;
b) to monitor the financial disclosure process and present recommendations or proposals aimed at guaranteeing the integrity thereof;
c) to control the efficacy of the internal control systems on quality and corporate risk management and, where applicable, internal audit, inasmuch as pertaining to the financial disclosure of the entity undergoing the audit, without violating the independence of the latter;
d) to monitor the statutory audit of the financial statements for the period and the consolidated financial statements, also considering any results and conclusions of the quality controls performed by Consob according to article 26, paragraph 6 of the European Regulation, where available;
e) to verify and monitor the independence of the statutory auditors or the statutory audit company according to articles 10, 10-bis, 10-ter, 10-quater and 17 of this decree and art. 6 of the European Regulation, in particular with regard to the adequacy of the provision of non-auditing services to the audited entity, in accordance with art. 5 of said Regulation;
f) to be responsible for the procedure for selecting statutory auditors or statutory audit companies and recommend the statutory auditors or statutory audit companies to be designated pursuant to art. 16 of the European Regulation.

The Board of Auditors interacted with the Control and Risks Committee established within the Board of Directors for the purpose of coordinating the respective competencies and avoided overlapping activities.

Apropos the practice of attendance by the entire Board of Auditors was introduced in the activities of the Control and Risks Committee when the subject matter is of specific relevance for the purposes of Italian Legislative Decree no. 39/2010, rendering fluidity in relations and facilitation the informatory exchange between the two bodies.

* * *

With specific reference to the activities envisaged by Italian Legislative Decree no. 39/2010 the following should be noted.

<u>A) Information to the Board of Directors regarding the result of the statutory audit and the supplementary report pursuant to art. 11 of the European Regulation</u>

The Board of Statutory Auditors represents that on 26 March 2019 PwC issued the additional report pursuant to art. 11 of the European Regulation, which represents the results of the statutory audit carried out and includes the declaration of independence pursuant to art. 6, paragraph 2, letter a) of the Regulation, as well as the information required by art. 11 of the same Regulation, noting significant deficiencies in the internal control system with respect to the financial reporting process. The Board of Auditors shall inform the Board of Directors about the results of the statutory audit, sending the supplementary report for such purpose, enclosing any observations, pursuant to art. 19 of Italian Legislative Decree no. 39/2010. With regard to the previous year, the Board of Statutory Auditors informed the Board of Directors of the results of the statutory audit at the meeting held on 10 May 2018.

B) Supervision of the financial disclosure process

The Board of Auditors has verified the existence of norms and procedures which safeguard the process of preparation and circulation of financial information. In relation thereto the Report on Corporate Governance and the Ownership Structure defines the guidelines of reference for the establishment and management of the administrative and accounting system for Acea and its subsidiaries, regulating the various steps and responsibilities.

Assisted by the Financial Reporting Officer, the Board of Auditors examined the procedures concerning the preparation of the financial statements for the Company and the consolidated financial statements, as well as the other periodic accounting documents. The Board of Auditors also had evidence of the process allowing the Financial Reporting Officer and the Director delegated to the latter to issue the declarations provided under art. 154-bis of the TUF.

The Board of Auditors has been informed that the administrative and accounting procedures for drawing up the financial statements and every other financial communication were prepared under the responsibility of the Financial Reporting Officer who, together with the Managing Director, certifies the adequacy and effective application thereof at the time of the financial statements and consolidated financial statements and the interim financial report.

The Internal Audit Function carries out interventions according to a plan approved by the Board of Directors that are aimed at verifying the adequacy of the design and operativity of the controls on companies and processes.

On 26 March 2019 the Board of Auditors received the supplementary report from the Audit Company, as per art. 11 of the European Regulation, the contents of which were subject matter of comparison prior to such date. The aforementioned report notes the following:

- no deficiencies were found in the internal control system with regard to the financial reporting process that, in the opinion of the Auditing Firm, would be sufficiently important to deserve to be brought to the attention of the Board of Statutory Auditors. With regard to the significant deficiencies identified during the audit of the separate and consolidated financial statements in the previous year (2017), during the year 2018 the Company initiated and implemented a series of automatic and manual controls that reduced the exposure to risk deriving from the absence of controls to monitor the areas previously identified, i.e.: i) asset book management (fiscal and accounting), ii) consolidation process and iii) age of creditor and debtor balances. For the other weaknesses in the internal control system identified as part of the audit procedures carried out on the 2018 financial statements, as in the previous year, a letter of suggestions will be issued (i.e. “Management Letter”);
- the assumption of a going concern for the audit of the separate and consolidated financial statements was considered appropriate for their preparation;
- no cases of fraud or suspected cases of fraud were identified;
- no possible issues have been identified regarding actual or presumed cases of non-compliance with laws and regulations or statutory provisions, except as reported in the report commenting on the investigations and proceedings relating to alleged violations of provisions of Italian Legislative Decree no. 231/2001.

The Board of Statutory Auditors has therefore concluded that the overall financial reporting process is adequate.

C) Supervision of the effectiveness of the internal control, internal audit and risk management systems

The Board of Statutory Auditors monitored the adequacy and effectiveness of the internal control and risk management system (hereinafter also "SCIGR"). Apropos, the Board of Auditors, also jointly with the Control and Risks Committee, periodically met with the Internal Audit Function Manager, becoming informed in relation to the results of the audit interventions aimed at verifying the adequacy and operativity of the SCIGR, the observance of law, procedures and corporate processes as well as the implementation of the related improvement plans.

With regard to the evolution of this system during the year and the possible areas for improvement, it is noted that in 2018: (I) the responsibilities entrusted to the Risk & Compliance Function established at the end of 2017 have been progressively extended with regard to the identification, control and monitoring of corporate risks, the monitoring of compliance aspects as well as environmental and social sustainability issues; (II) the consulting firm EY S.p.A. worked with the Control and Risk Committee to identify areas in the Internal Audit Function requiring improvement with respect to aspects of governance and organisation of the Function, as well as its methods. The results have underscored some areas of improvement that have led to the definition of an evolutionary roadmap for the Internal Audit Function, which is still being implemented.

It is further noted that the Board:

- also received the audit plan for financial year 2018 as approved by the Board of Directors on 12 April 2018 (the content of which was positively assessed by the Risks and Control Committee and the board of Auditors existing on such date in the joint meeting of 11 April 2018) and was periodically updated on the state of progress of the plan and any identified corrective actions;
- on 4 March 2019 received the Report of the Head of the Internal Audit Function for the year 2018, which illustrates the activities carried out by the Internal Audit Function during the year and provides information on aspects relating to the operation of the internal control and risk management system within the Acea Group. This report contains the assessment of the Internal Audit Manager of the suitability of the internal control and risk management system, as part of the overall assessment of the internal control system that the Acea Control and Risk Committee periodically submits to the Company's Board of Directors. The opinion expressed at the end of the aforementioned report is as follows: *"From the scope and outcome of the monitoring of the internal control and risk management system entrusted to and carried out by the Internal Audit Function, taking into account the areas for improvement identified and previously specified for the strengthening of the structural aspects of the SCIGR, and, finally, taking into account the results of second-level controls, the Internal Control and Risk Management System adopted by Acea S.p.A. and its subsidiaries was found to be in need of improvement"*;
- acknowledged that the responsibility for the Internal Audit Function was entrusted to Ms. Liberata Giovannelli until 31 January 2019. Starting from 1 February 2019, following a resolution of the Board of Directors of Acea S.p.A. of 22 January 2019, on the proposal of the Managing Director and with the favourable opinion of the Control and Risks Committee, as well as after consulting the Board of Statutory Auditors, the Company appointed Mr. Simone Bontempo as Head of the Internal Audit Function.

Furthermore, on a half-yearly basis, it received the report on completed activities from the Control and Risks Committee.

With regard to the activity outlined in Italian Legislative Decree no. 231/2001, it is noted that on 19 January 2018 the baton was passed from the previous Supervisory Board (hereinafter "SB"), a role taken on by the undersigned Board of Statutory Auditors up to that date, to the new SB with the following members: Mr. Alfonso Dell'Isola, appointed Chairman of the new Supervisory Board by the Board of Directors of Acea on 15 December 2017 (external member), Ms. Liberata Giovannelli (internal member), Mr. Fabio Lattanzi, appointed by the Company's Board of Directors on 12 April 2018 (external member).
With respect to the composition of the Supervisory Board, it should be noted that Ms. Liberata Giovannelli, a former internal member of the Supervisory Board and Head of the Company's Internal Audit Function, left the Acea Group and consequently the Supervisory Board of which she was an internal member on 31 January 2019 and was replaced on 1 February 2019 by Mr. Simone Bontempo as the new Head of the Internal Audit Department.
With regard to the update to the Organisation, Management and Control Model as per Italian Legislative Decree 231/2001 (hereinafter also referred to as the "Model"), the Supervisory Board recommended that the Company update the Model in light (i) of the organisational changes that took place during the year (i.e. the incorporation of the company branch of Acea Elabori S.p.A., relating to asset management and facility management, into Acea S.p.A. within the Human Resources Management Function), simultaneously proceeding to a new risk assessment in order to identify the control structures currently present in Acea and (ii) the legislative changes referred to in Legislative Decree no. 107 of 10 August 2018 (Rules for adapting national legislation to the provisions of Regulation (EU) no. 596/2014 on market abuse and repealing Directive 2003/6/EC and Directives 2003/124/EU, 2003/125/EC and 2004/72/EC) and Law no. 3 of 9 January 2019 (Measures to combat offences against the public administration, as well as on the limitations of the offence and on the transparency of political parties and movements).
With regard to the liability of entities pursuant to Italian Legislative Decree no. 231/2001, the Board of Statutory Auditors reports the existence of investigations and proceedings in progress concerning some Group companies.
Concluding on this point, with regard to the SCIGR, the Board of Statutory Auditors noted the positive developments initiated by the Company with respect to the progressive improvement of the effectiveness of this system.

D) Supervision over the statutory audit of the financial statements and the consolidated financial statements

Note that:

- the accounting records were submitted for the controls provided by the normative and carried out by PwC;
- the Board of Auditors: (i) analysed the activity carried out by the Audit Company and, in particular, the methodological system, the used approach to auditing for the various significant areas of the financial statements and planning the audit work; (ii) shared the problems related to corporate risks with the Audit Company, thus being able to fathom the adequacy of the auditor's planned response in terms of their approach to auditing with the profiles, regarding structure and risk, of the Company and the Group;
- on 26 March 2019 PwC issued the supplementary report as per art. 11 of the European Regulation as described above;
- on 26 March 2019 PwC issued the report on the audit of the financial statements and the report on the audit of the consolidated financial statements. In relation thereto we state that:
    - o both reports contain: (i) a judgement of true and fair view of the equity and financial standing

of Acea S.p.A. and the Group as at 31 December 2018, the economic result and cash flows as of such date in compliance with the International Financial Reporting Standards adopted by the European Union, as well as the measures issued in implementation of art. 9 of Italian Legislative Decree no. 38/05; (ii) a description of the key aspects of the audit and the audit procedures in response to the key aspects; (iii) a judgement of consistency of the management report and certain specific information on the Report on Corporate Governance and on the Ownership Structure with the financial statements and the consolidated financial statements as at 31 December 2018 as well as the conformity thereof with the norms of law; (iv) confirmation that the opinion on the financial statements and the consolidated financial statements expressed in the respective reports are in line with the indications in the supplementary report intended for the undersigned Board of Auditors, in its function as internal control and audit committee, drawn up pursuant to art. 11 of the European Regulation;

- the aforesaid reports contain requests for further disclosure, without remarks;
- in its report on the audit of the consolidated financial statements, PwC states that it has verified the effective approval of the non-financial disclosure on the part of the Directors.

E) Independence of the Auditing Firm, in particular as regards the provision of non-auditing services

With regard to the annual confirmation of independence pursuant to art. 17, paragraph 9, letter a) of Italian Legislative Decree no. 39/2010, the Board of Statutory Auditors represents that it has received said confirmation from the Auditing Firm with the submission of the relative letter on 26 March 2019.
The Board of Auditors monitored the independence of the audit company and, in particular, received periodic evidence of the various assignments other than auditing to be attributed (or attributed by effect of specific regulatory provisions) to the statutory auditor.
As deduced from the consolidated financial statements of the Acea Group, during financial year 2018 PricewaterhouseCoopers S.p.A. performed the activities summarised below for the Group:

| Company and period of reference<br>€ thousand | Audit Services | Audit Related Service | Non audit services | Total |
|---|---|---|---|---|
| Acea S.p.A. | 2018 | 189,813 | 124,000 | 652,000 |
| Acea Group | 2018 | 166,010 | 116,500 | 1,378,121 |
| Total Acea S.p.A. and Group | 1,433,798 | 355,823 | 240,500 | 2,030,121 |

The Board of Auditors considers that the aforementioned payments are suited to the dimension, complexity and characteristics of the performed works and also deems that the assignments (and related payments) that are not audit services are not such as to affect the independence of the statutory auditor.
In light of the above, the Board therefore deems that the Audit Company meets the requirement of independence.

F) Statutory auditor selection procedure

The Company adopted the procedure for selecting the statutory audit company and the recommendation of the statutory audit companies to be designated pursuant to article 16 of the European Regulation.

## Financial Statements, consolidated financial statements and management report

The financial statements for Acea, approved by resolution of the Board of Directors of the Company on 6 March 2019, were drawn up according to IAS/IFRS accounting standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, as well as in conformity with the measures issued in implementation of art. 9 of Italian Legislative Decree no. 38/2005.
With specific regard to examining the financial statements for the year ended 31 December 2018, the consolidated financial statements and the management report, the Board of Auditors reports:

- that the financial statements for the Company and the consolidated financial statements have been drawn up according to the structure an layouts set out by the norms in force;
- that the financial statements include the management report in which the main risks and uncertainties are summarised and the business outlook is considered. They comply with current regulations and are consistent with the resolutions of the Board of Directors and the results of the financial statements. They also contain adequate information on the activities of the year and on intra-group transactions. In accordance with IFRS, the section containing information on transactions with related parties has been included in the explanatory notes to the financial statements;
- that the Report on Corporate Governance and on the Ownership Structure and, pursuant to art. 123-bis of the TUF and the Report on Remuneration pursuant to art. 123-ter of the TUF, have been drawn up;
- that the financial statements were delivered to the Board of Auditors in good time for its related filing at the seat of the Company, enclosing this report;
- that it has verified the rationale of the evaluation procedures applied and their compliance with the logic of the international accounting principles;
- that it has verified the compliance of the financial statements to the facts and information of which it became aware following the fulfilment of the duties of its competence;
- that, to the knowledge of the Board of Auditors, when drawing up the Financial Statements the Directors did not deviate from the norms of law pursuant to art. 2423, paragraph 4 of the Italian Civil Code;
- that the Board of Directors of Acea, consistently with the indications of the joint document of Banca d'Italia/Consob/ISVAP of 3 March 2010, approved the procedure and results of the impairment test autonomously and prior to the approval of the draft financial statements, ascertaining the compliance thereof with the prescriptions of international accounting standard IAS 36. Information and outcomes of the conducted evaluation processes are given in the notes to the financial statements.

## Omissions or criticisable facts, other opinions given, actions taken

The Board notes that:

- pursuant to art. 2389, paragraph 3 of the Italian Civil Code, it has expressed its favourable opinion regarding the remuneration of directors vested with special duties;
- it has not issued the opinions required under art. 2386 of the Italian Civil Code;
- it has not received complaints as per art. 2408 of the Italian Civil Code;
- it has not issued the opinion required under art. 154-bis, paragraph 1, of Legislative Decree no. 58/1998;
- as at the date of this report, it has not received reports pursuant to art. 151, paragraphs 1 and 2 of Legislative Decree no. 58/1998;
- it has held periodic meetings with the representatives of PwC with a view to exchanging with the

latter, as prescribed under art. 150, paragraph 3, of the TUF, relevant data and information for fulfilling its assignment.

### Consolidated non-financial report pursuant to Legislative Decree no. 254/2016 – 2018 Sustainability Report

The Acea Board of Directors approved the consolidated non-financial report - 2018 sustainability report, drawn up pursuant to Italian Legislative Decree no. 254/2016.
On 26 March 2019, the Auditing Firm issued a report on the compliance of the information provided in the consolidated non-financial statement with legal requirements and the adopted accounting standard.
The Board of Statutory Auditors monitored compliance with the provisions set out in Italian Legislative Decree no. 254/2016 and has no observations to make in this report.

### Proposal to the Shareholders' Meeting

1. **Financial Statements as at 31 December 2018**
   The Board of Auditors expresses its opinion in favour of approving the financial statements as at 31 December 2018 and has no objections to raise regarding the proposal of resolution presented by the Board of Directors regarding the allocation of profits.

2. **Group remuneration policy**
   We inform you that the Board of Auditors has not objections to raise with regard to the Remuneration Policy submitted for the consultation of the Meeting.

* * *

Pursuant to art. 144 quinquiesdecies of the Issuers' Regulation, approved by Consob with resolution 11971/99 as amended, the list of assignments covered by the members of the Board of Auditors at the company pursuant to Book V, Title V, Chapters V, VI and VII of the Italian Civil Code is published by Consob in its website (www.consob.it).

* * *

Dear Shareholders,
the mandate of the Board of Statutory Auditors appointed by the Shareholders' Meeting of 28 April 2016 expires with the approval of the financial statements as at 31 December 2018. You are therefore called upon to appoint the new Board of Statutory Auditors for the next three years in accordance with the law and the Articles of Association. We thank you for the trust you have placed in us during these years in office

Rome, 26 March 2019

Signed by Mr. Enrico Laghi

Signed by Ms. Rosina Cichello

Signed by Mr. Corrado Gatti

This report has been translated into the English language solely for the convenience of international readers

INDEPENDENT AUDITOR'S REPORT
IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE
NO. 39 OF 27 JANUARY 2010 AND ARTICLE 10 OF REGULATION
(EU) NO. 537/2014

ACEA SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018 pwc

# *Independent auditor's report*

*in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014*

To the shareholders of Acea SpA

## *Report on the Audit of the Financial Statements*

### *Opinion*

We have audited the financial statements of Acea SpA (the Company), which comprise the income statement, statement of comprehensive income, statement of financial position as of 31 December 2018, statement of changes in equity, statement of cash flow for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Emphasis of matter*

We draw your attention to paragraph "Trend of operating segment – Water segment" of the report on operations which describes:

- The uncertainties regarding the subsidiary Acea Ato5 SpA related to the complex legal matter concerning the ongoing disputes with the Area Authority which are mainly related to the termination of the concession agreement, the approval of the 2016-2019 tariffs, the contractual penalties charged to the company for alleged non-fulfilments, the recognition of

***PricewaterhouseCoopers SpA***

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receivables related to higher operating costs incurred in the 2003-2005 period (as per the settlement agreement of 27 February 2007) and the determination of the concession fees;

- The complex regulatory measures, with particular reference to what lies behind the approval process of water tariffs.

We also draw attention to paragraphs "Information on Related Parties" and "Receivables from Parent Companies – Roma Capitale" in the notes to the financial statements, as well as to paragraph "Relations with Roma Capitale" included in section "Summary of Results" of the report on operations, where the directors describe the existing commercial relations with the Municipality of Rome and related net receivable balance at 31 December 2018.

Our opinion is not qualified in respect of these matters.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| ***Key Audit Matters*** | ***Auditing procedures performed in response to key audit matters*** |
|---|---|
| **Recoverability of the value of investments in subsidiaries and associates**<br><br>*Note 14 to the financial statements "Investments in subsidiaries and associates"*<br><br>The Company recognised in the financial statements as of 31 December 2018 investments in subsidiaries and associates for an amount equal to Euro 1,792 million.<br><br>Annually, the Company, on the basis of its internal procedures, verifies the presence, if any, of impairment losses of investments in subsidiaries and associates comparing their book value with the estimate of their recoverable amount measured pursuant to IAS 36 (the so-called impairment test) through the Discounted Cash Flow method. Such verification is carried out on the main investments apart from the presence of any impairment indicators emerged during the year.<br>As part of our audit activities, we paid particular | We addressed our audit procedures in order to:<br><br>• evaluate if the method for the estimate of the recoverable amount used by the Company was consistent with what envisaged by IAS 36 and the evaluation practice (analysis of the evaluation model used);<br><br>• verify if the types of cash flows used were appropriate and if these were consistent with the 2018-2022 Industrial Plan of the Group approved by the Board of Directors on 28 November 2017 or with the individual companies' industrial plans, |

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| attention to the risk that there could be impairment losses in the abovesaid investments, inasmuch as the process for the estimate of their recoverable amount is particularly complex and based on valuation assumptions affected by economic, financial and market conditions which are hard to forecast. | which in case of significant events occurred in the period were specifically updated; and<br><br>• verify the mathematical accuracy of the quantification of the recoverable amount.<br><br>In particular, our audit activities were focused on the verification of the reasonableness of the main assumptions underlying the expected cash flows and the discounting rates used to perform the impairment test (also through the comparison with the budget data deriving from external information sources). We compared the forecasts of the prior years with the corresponding final data and finally we verified the sensitivity analyses performed by the Company and carried out independent sensitivity analyses.<br>As part of our audit activities, we availed ourselves, where necessary, of the support of the PwC network experts in evaluations. |

***Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements***

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit 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 Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

### *Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014*

On 27 April 2017, the shareholders of Acea SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 December 2017 to 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

## *Report on Compliance with other Laws and Regulations*

### *Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98*

The directors of Acea SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Acea SpA as of 31 December 2018, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Acea SpA as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Acea SpA as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Rome, 26 March 2019

PricewaterhouseCoopers SpA

*Signed by*

Massimo Rota
(Partner)

*This report has been translated into English from the Italian original solely for the convenience of international readers.*

**Certification of separate financial statements in accordance with art.154-bis of Legislative Decree 58/98**
(Translation from the original Italian text)

1. The undersigned, Stefano Donnarumma, as Chief Executive Officer, and Giuseppe Gola, as Executive Responsible for Financial Reporting of the company ACEA S.p.A., taking also account of provisions envisaged by Art.154-bis, paragraphs 3 and 4, of the Legislative Decree n°58 of 24 February 1998, hereby certify:

   - the consistency to the business characteristics and
   - the effective application

   of the administrative and accounting procedures for preparing the separate financial statements at 31 December 2018.

2. To this purpose, no significant issues were recorded.

3. It is also certified that:
   3.1 the separate financial statements:
   a) were drawn up in compliance the applicable international accounting standards recognised in European Community in accordance with EC regulation 1606/2002 of the European Parliament and the Council, of 19 July 2002,
   b) are consistent with the underlying accounting books and records,
   c) provide a true and correct view of the operating results and financial position of the issuer,
   3.2 the report on operations includes a reliable analysis of the operational performance and result, as well as the situation of the issuer, together with a description of the main risks and uncertainties to which they are exposed.

Rome, 26 March 2019

signed by: Stefano Donnarumma, The CEO

signed by: Giuseppe Gola, The Executive Responsible for Financial Reporting

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