



# CONSOLIDATED FINANCIAL STATEMENTS

# FORM AND STRUCTURE

## GENERAL INFORMATION

The Consolidated Financial Statements at 31 December 2018 of the Acea Group were approved by Board of Directors' resolution on 6 March 2019, which also authorised their publication. The Parent Company, Acea S.p.A. is an Italian joint-stock company, with its registered office in Rome, at Piazzale Ostiense 2 and whose shares are traded on the Milan Stock Exchange.

The Acea Group's principal operating segments are described in the Report on Operations.

## COMPLIANCE WITH IAS/IFRS

These Annual Financial Statements have been prepared in compliance with the international accounting standards in effect on the date of the financial statements, approved by the International Accounting Standards Board (IASB) and adopted by the European Commission according to the procedure set forth in art. 6 of the regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and pursuant to art. 9 of Italian Legislative Decree 38/2005.

The international accounting standards include the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and Standard Interpretations Committee (SIC), collectively the "IFRS".

## BASIS OF PRESENTATION

The Consolidated Financial Statements consist of the consolidated statement of financial position, consolidated income statement, statement of consolidated comprehensive income, consolidated statement of cash flows and the statement of changes in consolidated shareholders' equity. The Report also includes notes prepared under the IAS/IFRS currently in effect. The Income Statement is classified according to the nature of the costs, the items of the Statement of Financial Position according to the criterion of liquidity, with the items classified as current and non-current, while the Statement of Cash flows is presented using the indirect method.

The Financial Statements are presented in Euros and all amounts are rounded off to the nearest thousand Euros unless otherwise indicated.

The figures in these Consolidated Financial Statements are comparable to those in the previous year.

## ALTERNATIVE PERFORMANCE INDICATORS

On 5 October 2015, ESMA (European Securities and Markets Authority) published its guidelines (ESMA/2015/1415) on criteria for the presentation of alternative performance indicators which replace, as of 3 July 2016, CESR/05-178b recommendations. This orientation was acknowledged in our system in CONSOB Communication no. 0092543 dated 3 December 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. for the Acea Group, the *gross operating profit* (or EBITDA) is an operating performance indicator and from 1 January 2014 also includes the condensed result of equity investments in jointly controlled entities for which the consolidation method changed when international accounting standards for financial reporting IFRS 10 and IFRS 11 came into force. *EBITDA* is determined by adding the Operative Result to "Amortisation, depreciation, provisions and impairment", insofar as these are the main *non-cash items*;
2. the *net financial position* is an indicator of the Acea Group's financial structure, the sum of Non-current borrowings and Financial liabilities net of Non-current financial assets (financial receivables excluding a part of receivables related to Acea S.p.A.'s IFRIC 12 and securities other than equity investments), Current borrowings and Other current financial liabilities net of current financial assets, cash and cash equivalents;
3. *net invested capital* is the sum of "Current assets", "Non-current assets" and Assets and Liabilities held for sale, less "Current liabilities" and "Non-current liabilities", excluding items taken into account when calculating the *net financial position*;
4. *net working capital* is the sum of the current receivables, inventories, the net balance of other current assets and liabilities and current debts, excluding the items considered in calculating the *net financial position*.

## USE OF ESTIMATES

Drafting of the Consolidated 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. The main sources of uncertainty that could have an impact on the evaluation processes are also considered in making these estimates.

The actual amounts may differ from such estimates. Estimates are used to determine some sales revenues, provisions for risks and charges, provisions for impairment of receivables and other provisions for depreciation, amortisation, valuation of derivatives, 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 details on these methods, see the following reference paragraphs.

## EFFECTS OF THE SEASONALITY OF TRANSACTIONS

For the type of business in which it operates, the Acea Group is

not subject to significant seasonality. Some specific operating segments, however, can be affected by uneven trends that span an entire year.

# CONSOLIDATION POLICIES, PROCEDURES AND SCOPE

## CONSOLIDATION POLICIES

### Subsidiaries

The scope of consolidation includes the Parent Company Acea S.p.A. and the companies over which it directly or indirectly exercises control or when the Group is exposed or entitled to variable returns deriving from the relationship with the investee and has the capacity to influence its returns through the exercise of its power over the investee. Power is defined as the capacity to manage the significant activities of the subsidiary by virtue of existing substantial rights. Subsidiaries are consolidated from the date on which control is effectively transferred to the Group and are de-consolidated from the date on which control is transferred out of the Group.

According to accounting standard IFRS 10, control is obtained when the Group is exposed or has the right to variable performance deriving from relations with the subsidiary and is able, through exercising power over the subsidiary, to influence its performance. Power is defined as the capacity to manage the significant activities of the subsidiary by virtue of existing substantial rights.

The existence of control does not depend exclusively on possession of the majority of the voting rights, but on the substantial rights of the investor over the investee. Consequently, the opinion of the management team is required to assess specific situations leading to substantial rights attributing to the Group the power to manage the significant activities of the subsidiary so as to influence its performance.

In order to assess the requirement of control, the management team analyses all facts and circumstances, including agreements with other investors, the rights deriving from other contracts and potential voting rights (call option, warrant, put option assigned to minority stakeholders, etc.). These other facts and circumstances may be particularly significant in the assessment, especially if the Group holds less than the majority of the voting rights or similar rights in the subsidiary.

The Group reviews the existence of control over a subsidiary when the facts and circumstances indicate that there has been a change in one or more elements considered in verifying its existence. Lastly, it must be noted that in assessing the existence of the control requirements, no situations of de facto control were encountered. Changes in the possession quota of equity investments in subsidiaries that do not imply the loss of control are recorded as capital transactions adjusting the quota attributable to the stakeholders of the Parent Company and that of third parties to reflect the change in the quota owned. The eventual difference between the amount received or paid and the corresponding fraction of the shareholders' equity acquired or sold is recorded directly in the consolidated shareholders' equity. When the Group loses control, any residual equity investment in the company previously controlled is re-measured at fair value (with counterpart in the income statement) on the date on which control is lost. Also, the quota of the OCI of the subsidiary over which control is lost is dealt with in the accounts as if the Group has directly disposed of the relevant assets or liabilities. Where there is loss of control of a consolidated company, the

Consolidated Financial Statements include the results for the part of the reporting period in which the Acea Group had control.

### Joint ventures

A joint venture is a contractual arrangement in which the Group and other parties jointly undertake a business activity, i.e. a contractually agreed sharing of control whereby the strategic, financial and operating policy decisions can only be adopted with unanimous consent of the parties sharing control. The Consolidated Financial Statements include the Group's share of the income and expenses of jointly controlled entities, accounted for using the equity method.

According to IFRS 11, a joint venture is an arrangement over which one or more parties have joint control. Joint control is held when unanimous consent or that of at least two of the parties to the arrangement is required for decisions concerning the significant activities of the joint venture. A joint agreement can either be a joint venture or a joint operation. A joint venture is a joint control arrangement in which the parties holding joint control have all the rights over the net assets of the arrangement. On the other hand, a joint operation is a joint control arrangement in which the parties holding joint control have rights to the assets and obligations for the liabilities in the arrangement. To determine the existence of joint control and the type of joint arrangement, the opinion of the management team is required, which must assess the rights and obligations deriving from the arrangement. To this end, the management team considers the structure and legal form of the arrangements, the terms agreed between the parties in the contractual agreement and, if significant, other facts and circumstances. The Group reviews the existence of joint control when facts and circumstances indicate that there has been a change in one or more elements previously considered in verifying the existence of joint control and the type of joint control.

### Associates

An associate is a company over which the Group exercises significant influence, but not control or joint control, through its power to participate in the financial and operating policy decisions of the associate. The Consolidated Financial Statements include the Group's share of the results of associates at Net equity, unless they are classified as held for sale, from the date it begins to exert significant influence until the date it ceases to exert such influence.

In determining the existence of significant influence, the opinion of the management team is required, which must assess all facts and circumstances.

The Group reviews the existence of significant influence when facts and circumstances indicate that there has been a change in one or more elements previously considered in verifying the existence of significant influence.

When the Group's share of an associate's losses exceeds the carrying amount of the investment, the interest is reduced to zero and any additional losses must be covered by provisions to the extent that the Group has legal or implicit loss cover obligations to the associate or in any event to make payments on its behalf. Any excess of the cost of the acquisition over the Group's interest in the fair



value of the associate's identifiable assets, liabilities and contingent liabilities at the date of the acquisition is recognised as goodwill. Goodwill is included in the carrying amount of the investment and is subject to impairment test together with the value of the investment.

## CONSOLIDATION PROCEDURES

### General procedure

The financial statements of the Group's subsidiaries, associates and joint ventures are prepared for the same accounting period and using the same accounting standards as those adopted by the Parent Company. Consolidation adjustments are made to align any dissimilar accounting policies applied.

All Intragroup balances and transactions, including any unrealised profits on Intragroup transactions, are eliminated in full. Unrealised losses are eliminated unless costs cannot be subsequently recovered. The carrying amount of investments in subsidiaries is eliminated against the corresponding share of the shareholders' equity of each subsidiary, including any adjustments to reflect fair values at the acquisition date. Any positive difference is treated as "goodwill", while any negative difference is recognized through profit or loss at the acquisition date.

The minority interest in the net assets of consolidated subsidiaries is shown separately from shareholders' equity attributable to the Group. This interest is calculated on the basis of the percentage interest held in the fair value of assets and liabilities recognised at the original date of acquisition and in any changes in shareholders' equity after that date. Losses attributable to the minority interest in excess of their portion of shareholders' equity are subsequently attributed to shareholders' equity attributable to the Group, unless the minority has a binding obligation to cover losses and is able to invest further in the company to cover the losses.

### Business combinations

Acquisitions of subsidiaries are accounted for under the acquisition method. The cost of the acquisition is determined as the sum of the fair value, at the date of exchange, of the assets acquired, the liabilities incurred or acquired, and the financial instruments issued by the Group in exchange for control of the acquired company.

The identifiable assets, liabilities and contingent liabilities of the acquired company that meet the conditions for recognition under IFRS 3 are accounted for at fair value on the date of acquisition, with the exception of non-current assets (or disposal groups), which are classified as held for sale under IFRS 5 and accounted for at fair value net of costs to sell.

If the business combination is achieved in stages, the fair value

of the investment previously held has to be re-measured and any resulting gain or loss is recognised in profit or loss.

The purchaser has to recognise any contingent consideration at fair value, on the date of acquisition. The change in fair value of the contingent consideration classified as asset or liability is recognised according to the provisions included in IFRS 9, in the income statement or among the other components of the comprehensive income statement.

The costs directly attributable to the acquisition are included in the income statement.

The purchase cost is allocated by recording the identifiable assets, liabilities and contingent liabilities of the acquisition at fair value on the date of acquisition. Any positive excess between the payment transferred, valued at fair value on the date of acquisition, and the amount of any minority interest, with respect to the net value of the amounts of the identifiable assets and liabilities of the acquisition valued at fair value is recorded as goodwill or, if negative, in the Income Statement.

For every business combination, the purchaser must value any minority stake in the acquired entity at fair value or in proportion to the share of the minority interest in net identifiable assets of the acquired entity.

### Consolidation procedure for assets and liabilities held for sale (IFRS 5)

Non-current assets and liabilities are classified as held for sale, in accordance with the provisions of IFRS 5.

### Consolidation of foreign companies

The Financial Statements of investee companies operating in currencies other than the Euro, which is the functional currency of the Parent Company Acea, are converted into Euros by applying the exchange rate at the end of the period to the assets and liabilities, and the average exchange rates for the period to income statement items and to the cash flow statement.

The exchange differences arising from the translation of the financial statements of investee companies operating in currencies other than the Euro are recognised directly in equity and are shown separately in a specific reserve of; this reserve is reversed to the income statement at the time of complete disinvestment or loss of control, joint control or significant influence over the investee company. In the case of partial disposal:

- without loss of control, the share of the exchange differences relating to the shareholding sold is attributed to the shareholders' equity pertaining to minority interests;
- without loss of joint control or significant influence, the portion of exchange differences relating to the shareholding sold is recognised in the income statement.

# BASIS OF CONSOLIDATION

The Acea Group's Consolidated Financial Statements include the financial statements of the Parent Company, Acea, and the financial statements of the Italian and foreign subsidiaries, for which, in accordance with the provisions of IFRS 10, there is exposure to the variability of returns and of which a majority of voting rights in the ordinary meetings is held, either directly or indirectly, and consequently the ability to influence the investee returns by exerting management power. Furthermore, the companies on which the Parent Company exercises joint control with other shareholders are consolidated using the equity method.

## A. Changes in basis of consolidation

With regard to the scope of consolidation as at 31 December 2018, we note the merger by incorporation of Gori Servizi S.r.l. into GORI S.p.A. effective from 1 January 2018 and the full consolida-

tion of GORI S.p.A. starting from 8 November 2018 following the long-term industrial agreement with the Campania Region and the Campania Water Authority. The new consolidation of two foreign companies – Consorcio Servicios Sur and Acea Perú – and of Bioecologia S.r.l. The latter is part of the Industrial Environment Area. It should also be noted that the company Acea Illuminazione Pubblica S.p.A. placed in liquidation on 13 December 2018 approved the Final Financial Statements of the liquidation and the related allotment plan on 7 February 2019.

## B. Unconsolidated investments

Tirana Acque S.c.a.r.l. in liquidation, 40% owned by Acea, is recognised at cost. The subsidiary, entirely devalued, is excluded from the scope of consolidation as it is not operational and its relevance in qualitative and quantitative terms is not significant.

# ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

## MEASUREMENT CRITERIA

### Currency conversion

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 converted 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 Consolidated 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 assets and liabilities denominated in foreign currency and recorded at historical cost are converted using the exchange rate in force on the date of initial recognition of the transaction. Non-monetary assets and liabilities denominated in foreign currencies and recognized at fair value are converted using the exchange rate on the date of determination of this value. Any emerging exchange differences are reflected in the income statement. Non-monetary items recorded at fair value are converted using the exchange rate on the date of calculation of this value.

### 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. Specifically:

- **revenues from the sale and transport of electricity and gas** are recognised at the time the service is supplied or supplied, even if they are not invoiced, and are determined by adding estimates calculated on the basis of pre-established reading calendars. These revenues are calculated on the basis of the provisions of the law, of the resolutions of the Authority for electricity and gas and the water system in force during the

period, also taking into account the pro tempore equalisation measures in force; it should be noted that with reference to the valorisation of revenues from the transport of electricity, if the admission of investments in tariffs that establishes the right to payment for the operator is virtually certain already in the year in which they are realized, the corresponding revenues they are ascertained on an accrual basis regardless of how they will be financially recognized as a result of ARERA Resolution no. 654/2015;

- **the revenues of the integrated water service** are determined on the basis of the Water Tariff Method (MTI), valid for the determination of the tariffs for the years 2016 - 2019, approved with Resolution no. 664/15/R/idr and subsequent modifications by ARERA. Based on the interpretation of the legal nature of the tariff component Fo.NI. (New Investments Fund) is entered among the revenues for the year the relative amount due to the Water Companies where expressly recognized by the Area Authorities which establish the intended use.

The adjustment for the so-called pass-through items is also entered among the revenues of the year (i.e. electricity, wholesale water) of which the aforementioned resolution provides specific details as well as any adjustment relating to costs pertaining to the Integrated Water System incurred for the occurrence of exceptional events (i.e. water and environmental emergencies) if the preliminary investigation for their recognition gave positive results.

### 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.

Water connection fees are recorded among other non-current liabilities and released to the income statement over the life of the investment to which they refer, if related to an investment, and fully recognized as income if they are related to costs incurred.

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.

### Employee benefits

Benefits guaranteed to employees paid in connection with or fol-

lowing 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.

## 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. They are classified in the income statement under the item investment income.

## Taxes

Income taxes for the year represent the sum of current 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 and/or 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. These assets and liabilities are not recognized if the temporary differences derive from goodwill or from initial recognition (not in business combination transactions) of other assets or liabilities in transactions that have no influence on the accounting result or on the taxable result.

Deferred tax liabilities are recognized on the taxable temporary differences relating to investments in subsidiaries, associates and joint ventures, with the exception of cases in which the Group is able to control the cancellation of such temporary differences and it is probable that the latter will not they will cancel in the foreseeable future. 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 of the Parent, 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 recognised in equity.

## Tangible assets

Tangible assets are recognised at historical 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. The corresponding liability is recognized in the liability item for risks and charges. 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:

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	12.5%
Other non-capital goods	6.67% - 19.00%
Instrumental vehicles	8.33%
Non-instrumental vehicles	16.67%

Systems and equipment under construction for production purposes or for purposes yet unknown are recorded at cost, net of write-downs for losses in value. The cost includes any professional fees and, where applicable, capitalised financial charges. 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.

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.

## Lease

Leases are classified as finance leases whenever the terms of the contract are such that they substantially transfer all the risks and benefits of ownership to the lessee. All other leases are considered operational.

Assets subject to financial lease contracts are recognised as Group assets at their fair value at the acquisition date, or, if lower, at the current value of the minimum payments due for the lease. The corresponding liability to the lessor is included in the balance sheet as a liability for financial leases. Lease payments are split between principal and interest so as to reach a constant interest rate on the residual liability.

Financial charges, certain or estimated, are recognized on an accruals basis, except in cases where they are directly attributable to the acquisition, construction or production of an asset that justifies their capitalization.

Costs for lease rentals deriving from operating leases are recorded in the income statement on a straight-line basis based on the duration of the contract. The benefits received or to be received as an incentive to enter into operating leases are also recorded on a straight-line basis over the duration of the contract.

## Intangible assets

Intangible assets refer to assets without identifiable physical substance, controlled by the company and capable of producing future economic benefits, as well as the goodwill purchased for consideration. 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 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. Depreciation is calculated at constant rates based on the estimated useful life, which is reviewed annually and any changes, where possible, are made with prospective applications. Depreciation begins when the intangible asset is available for use.

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.

## Goodwill

Goodwill deriving from business combinations (including but not

limited to, the acquisition of subsidiaries, jointly controlled entities or the acquisition of business units or other extraordinary transactions) represents the excess of the cost acquisition of the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly-controlled entity at the acquisition date compared to the Group's share of the fair value. Goodwill is recognised as an asset and reviewed annually to verify that it has not suffered any loss in value. The losses in value are recorded immediately in the income statement and are not subsequently restored.

At the acquisition date, any emerging goodwill is allocated to each of the independent cash generating units that are expected to benefit from the synergistic effects deriving from the acquisition. Any loss in value is identified through assessments that refer to the capacity of each unit to generate cash flows to recover the part of goodwill allocated to it. In the event that the recoverable amount by the cash-generating unit is lower than the assigned load value, the relative loss in value is recorded.

In the event of the sale of a subsidiary or jointly controlled entity, the amount not yet amortized of the goodwill attributable to them is included in the determination of the gain or loss on disposal.

## Concessions

This item includes the value of the concession right to the assets consisting of water and purification plants that were transferred. This value refers to state property belonging to the so-called "accidental state" of water and sewage treatment and is systematically amortised based on the residual duration of the concession.

It should be noted that the residual depreciation period is in line with the average duration of the operations entrusted with a public procedure.

Also included in this entry:

- the net value of the goodwill deriving from the transfer of the sewerage service effected with effect from 1 September 2002 from Roma Capitale to Acea Ato 2;
- the higher cost, for the portion attributable to this item, deriving from the acquisition of the A.R.I.A. with particular reference to SAO, the company that manages the Orvieto landfill, now merged into Acea Ambiente.

## Infrastructure law

In line with the provisions of IFRIC 12 "Service Concession Arrangements", based on the intangible asset model the Group reports the total amount of the physical infrastructure supplied for the management of the water service, since the service concession contract does not give the concessionaire the right to control the use of the public service infrastructure but rather allows access to the management of the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract.

In fact, the aforementioned interpretation requires the registration of a single intangible asset representing the concessionaire's right to charge the fee to users of the public service instead of the takeover of the physical infrastructure for the management of the service.

The amount also includes the capitalisation of the margin deriving from investment activities, which in accordance with IAS 11 "Contract work-in-progress" takes place indirectly through the income statement.

## Rights of use of intellectual property

Costs related to this item are included under intangible assets and are amortised on the basis of a period of presumed usefulness of three/five years.

## Impairment

At the end of each reporting period, the Group reviews the value



of its property, plant and equipment and intangible assets to assess whether there is any indication that an asset may be impaired ("Impairment test"). 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, the Group 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 test consists of a comparison between the carrying amount of the asset and its estimated recoverable amount.

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.

### **Emission allowances, green certificates and white certificates**

Different accounting policies are applied by the Group to allowances or certificates held for own use in the "Industrial Portfolio", and those held for trading purposes in the "Trading Portfolio".

Surplus allowances or certificates held for own use, which are in excess of the company's requirement in relation to the obligations accruing at the end of the year, are accounted for at cost in other intangible assets. Allowances or certificates assigned free of charge are accounted for at a zero value.

Given that these are assets for instant use, they are not amortised but are tested for impairment. The recoverable amount is the higher of the asset's value in use and its market value.

The burden resulting from the fulfilment of the energy efficiency obligation is estimated on the basis of the average purchase price for the contracts entered into, taking into account the certificates in the portfolio at the financial statements date; a provision for liabilities is allocated for the negative difference between the said burden and the contribution estimated pursuant to AEEGSI Resolution no. 13/2014/R/efr, to be paid at the time the certificates are delivered in fulfilment of the obligation.

Allowances or certificates held for trading in the "Trading Portfolio"

are accounted for in inventories and measured at the lower of purchase cost and estimated realisable value, based on market trends. Allowances or certificates assigned free of charge are accounted for at a zero value. Market value is established on the basis of any spot or forward sales contracts already signed at the end of the reporting period, or otherwise on the basis of market prices.

### **Inventories**

Warehouse stock is valued as the difference between costs and net value of earnings. Costs include direct materials and, where applicable, direct labour, general production expenses and other costs sustained to bring the stock to its current conditions and location. Cost is calculated using the moving weighted average method. The net value of earnings is estimated sales price minus estimated costs for completion and estimated costs necessary to execute the sale.

Devaluations of warehouse stock, according to its nature, are made through allocation funds, written in the balance sheet reducing assets entries, i.e. item by item, offsetting variations of leftover stock in the profit and loss statement.

### **Financial instruments**

Financial assets and liabilities refer to the moment in which the Group became party to the contractual provisions of the instrument.

#### **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 calcu-

lated 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.

### 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. In addition, the Group reports revenues on the contract for construction and improvement services, both for the part carried out internally by the Group and for the part of Third Parties. The margin recorded equal to 5% of the costs incurred is accounted for according to the provisions of IFRS 15 and amortised over the residual duration of the concession.

### Cash and cash equivalents

This item includes cash and bank current accounts and deposits repayable on demand or very short term 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 liability (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 the Group 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)".

If the debt is related to the dismantling and/or renovation of material assets, the initial fund is reported as an offset to the asset it refers to; its incidence on the Profit and loss statement takes place through the process of amortisation of the material fixed asset to which the obligation refers.

#### 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*):

1. 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.
2. 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, countervailing 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 set-



tlement 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.

## 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.

## “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).

## EFFECTS DERIVING FROM THE APPLICATION OF NEW ACCOUNTING STANDARDS

With effect from 1 January 2018, the Group adopted the following principles:

- “IFRS 15 - Revenues from contracts with customers”, including the document “Clarifications of IFRS 15 Revenues from contracts with customers”
- “IFRS 9 - Financial Instruments”

With regard to IFRS 15, upon first application the Group adopted the retrospective method, with the possibility of recognising the cumulative effect on shareholders’ equity at 1 January 2018.

While for IFRS 9, in consideration of the complexity of recalculating the amounts at the beginning of the first year presented, the effects were recognised in shareholders’ equity at 1 January 2018 without restatement, as required by the transitional provisions of the accounting standard.

The following table shows the changes to the consolidated balance sheet as at 1 January 2018 deriving from the first application of the two new standards, IFRS 9 and IFRS 15:

### ASSETS

€ thousand	31/12/17 Published Data	Bills of exchange IFRS 9	Bills of exchange IFRS 15	01/01/2018 Restated
Tangible Fixed Assets	2,252,910			2,252,910
Real Estate Investments	2,547			2,547
Goodwill	149,978			149,978
Concessions	1,770,865			1,770,865
Other intangible fixed assets	144,121		2,520	146,640
Investments in subsidiaries and affiliate companies	280,853			280,853
Other equity investments	2,614			2,614
Deferred tax assets	271,148	42,873	18,317	332,337
Financial assets	38,375			38,375
Other assets	234,154		11,157	245,310
<b>NON-CURRENT ASSETS</b>	<b>5,147,563</b>	<b>42,873</b>	<b>31,993</b>	<b>5,222,430</b>
Inventories	40,201			40,201
Trade receivables	1,022,710	(178,637)		844,074
Other current assets	148,192		11,904	160,096
Current tax assets	61,893			61,893
Current Financial Assets	237,671			237,671
Cash and cash equivalents	680,641			680,641
<b>CURRENT ASSETS</b>	<b>2,191,309</b>	<b>(178,637)</b>	<b>11,904</b>	<b>2,024,576</b>
Non-current assets held for sale	183			183
<b>Total Assets</b>	<b>7,339,055</b>	<b>(135,764)</b>	<b>43,897</b>	<b>7,247,189</b>

## LIABILITIES

€ thousand	31/12/17 Published Data	Bills of exchange IFRS 9	Bills of exchange IFRS 15	01/01/2018 Restated
Shareholders' Equity				
Share capital	1,098,899			1,098,899
Legal reserve	100,619			100,619
Other reserves	(308,073)	(132,378)	(25,979)	(466,431)
Retained earnings/(losses)	645,500			645,500
Profit (loss) for the year	180,682			180,682
<b>Total Group shareholders' equity</b>	<b>1,717,626</b>	<b>(132,378)</b>	<b>(25,979)</b>	<b>1,559,269</b>
Non-controlling interests	93,580	(3,386)	(673)	89,521
<b>Total shareholders' equity</b>	<b>1,811,206</b>	<b>(135,764)</b>	<b>(26,652)</b>	<b>1,648,790</b>
Employee severance indemnity and other defined-benefit plans	108,430			108,430
Provision for risks and charges	209,619			209,619
Borrowings and financial liabilities	2,745,035			2,745,035
Other liabilities	184,270		36,265	220,535
Deferred tax provision	92,835		7,392	100,227
<b>NON-CURRENT LIABILITIES</b>	<b>3,340,189</b>	<b>0</b>	<b>43,656</b>	<b>3,383,846</b>
Payables to suppliers	1,237,808			1,237,808
Other current liabilities	277,819		26,893	304,712
Financial debt	633,155			633,155
Tax Payables	38,841			38,841
<b>CURRENT LIABILITIES</b>	<b>2,187,623</b>	<b>0</b>	<b>26,893</b>	<b>2,214,516</b>
Liabilities directly associated with assets held for sale	37			37
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>7,339,055</b>	<b>(135,764)</b>	<b>43,897</b>	<b>7,247,189</b>

With regard to the first application of IFRS 15, starting from previous years the Group has undertaken an analysis of each business area, analysing all the relevant contractual cases for the purposes of the standard in the revenue streams with which it operates. In particular, the most significant cases at the Consolidated Financial Statements level led to the accounting change:

1. in the recording of connection fees (both for water and electricity) which are attributed to the income statement over the useful life of the related asset (previously the contributions were recorded directly in the income statement) and
2. in the recording of costs for agents that, in line with the new requirements set by IFRS 15, are recorded under intangible assets and amortised based on the churn rate of the end users.

The adoption of IFRS 9, centrally managed in this first application by the Acea Group, involved an assessment of the financial instruments impacted by the requirements of the adoption of IFRS 9 Classification & Measurement and developed appropriate methods of Impairment to support the calculation of expected losses. Given the option granted by the principle, the group decided for the 2017 financial year to avail itself of the choice to opt out, applying the current regulations to these Financial Statements and awaiting the final enactment of the Hedge Accounting legislation. At present, the Acea Group does not hold any financial instruments for trading purposes or financial instruments that envisage contractual cash flows for reasons other than the repayment of capital and accrued interest.

Equity instruments are measured at the FVTPL unless the specific accounting option at FVOCI is exercised. The latter possibility may be exercised only if the Company does not hold such investments for trading purposes, and in this case the changes recorded in OCI are never charged to the Income Statement.

The equity investments held by the Acea Group that fall within the definition of Equity Instrument according to IFRS 9 have a minimum value within the Group's financial statements.

Financial liabilities are recorded at amortised cost unless they are held for trading purposes. IFRS 9 grants a specific option to account for the liabilities at fair value in the event that this option helps eliminate an accounting misalignment. At the time the option is exercised, all changes in fair value are recognised in the income statement, with the exception of changes in fair value attributable to the effect of their own credit risk, which are instead charged to OCI.

Finally, note that the table above represents the effects deriving from the companies consolidated on a line-by-line basis starting from 1 January 2018, therefore the effects deriving from:

- the consolidation of the company GORI on 8 November 2018, in which the first application of IFRS 9 generated a negative FTA of € 11,173 thousand;
- companies valued using the equity method, whose effects deriving from the first application of IFRS 9 and IFRS 15 were € 481 thousand and € 1,653 thousand respectively

## ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE AFTER CLOSURE OF THE YEAR AND NOT ADOPTED IN ADVANCE BY THE GROUP

### 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:

- a. 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
- b. 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 Group in this phase presuppose the recording at 1 January 2019 of assets and liabilities for an amount between € 50 million and € 60 million, while on the economic side there is an improvement in EBITDA of approximately € 10 million and a lower pre-tax profit of around € 1 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 im-

prove 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:** 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.

# CONSOLIDATED INCOME STATEMENT

Rif. Note	2018	Of which related party transactions	2017	Of which related party transactions	Change
1 Revenue from sales and services	2,836,890		2,669,876		167,015
2 Other revenue and proceeds	191,597		127,107		64,490
<b>Consolidated net revenue</b>	<b>3,028,487</b>	<b>127,314</b>	<b>2,796,983</b>	<b>104,081</b>	<b>231,504</b>
3 Personnel costs	219,624		215,231		4,392
4 Costs of materials and overheads	1,918,936		1,768,621		150,315
<b>Consolidated Operating Costs</b>	<b>2,138,560</b>	<b>47,225</b>	<b>1,983,853</b>	<b>50,023</b>	<b>154,707</b>
<b>5 Income/(Costs) from equity investments of a non-financial nature</b>	<b>43,320</b>		<b>26,864</b>		<b>16,456</b>
<b>Gross Operating Profit</b>	<b>933,247</b>	<b>80,088</b>	<b>839,994</b>	<b>54,058</b>	<b>93,253</b>
6 Amortisation, depreciation, provisions and impairment charges	454,687		480,102		(25,415)
Operating profit/(loss)	478,560	80,088	359,892	54,058	118,668
7 Financial income	17,838	13,303	17,379	8,147	459
8 Financial costs	(100,697)		(89,334)		(11,363)
9 Income/(Costs) from equity investments	13,332		259		13,073
<b>Profit/(loss) before tax</b>	<b>409,033</b>	<b>93,391</b>	<b>288,196</b>	<b>62,205</b>	<b>120,837</b>
10 Taxes	124,334		95,992		28,341
Net result	284,699	93,391	192,203	62,205	92,496
<b>Net profit/(loss) from Discontinued Operations</b>					
Net result	284,699	93,391	192,203	62,205	92,496
Profit/(loss) attributable to minority interests	13,700		11,521		2,179
Net profit/(loss) attributable to the Group	270,999		180,682		90,317
11 Earnings (loss) per share attributable to Parent Company's shareholders					
Basic	1.27250		0.84841		0.42409
Diluted	1.27250		0.84841		0.42409
Earnings (loss) per share attributable to Parent Company's shareholders, net of Treasury Shares					
Basic	1.27500		0.85008		0.42492
Diluted	1.27500		0.85008		0.42492

Amounts in € thousand



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2018	2017	Change	% Change
<b>Net income for the period</b>	<b>284,699</b>	<b>192,203</b>	<b>92,496</b>	<b>48.1%</b>
<b>Profit/Loss from conversion of financial statements expressed in foreign currency</b>	<b>279</b>	<b>(5,311)</b>	<b>5,590</b>	<b>(105.3%)</b>
Reserve for exchange differences	(11,103)	14,800	(25,903)	(175.0%)
Tax reserve for exchange differences	2,665	(3,552)	6,217	(175.0%)
<b>Gains/losses from exchange rate difference</b>	<b>(8,438)</b>	<b>11,248</b>	<b>(19,686)</b>	<b>(175.0%)</b>
Effective portion of profits/(losses) on hedging instruments ("cash flow hedges")	22,657	(8,245)	30,902	(374.8%)
Tax effect of other gains/(losses) on hedging instruments ("cash flow hedges")	(5,686)	1,982	(7,668)	(386.9%)
<b>Profit/Loss From the Effective Portion on Hedging Instruments net of tax effect</b>	<b>16,970</b>	<b>(6,263)</b>	<b>23,233</b>	<b>(371.0%)</b>
Actuarial gains/(losses) on employee benefits recognised in equity	5,101	298	4,803	1,612.9%
Tax effect on the other actuarial profit/(loss) on staff benefit plans	(1,487)	421	(1,908)	(453.3%)
<b>Actuarial Profit/(Loss) on defined benefit pension plans net of tax effect</b>	<b>3,613</b>	<b>719</b>	<b>2,894</b>	<b>402.7%</b>
<b>Total components of other comprehensive income, net of tax effect</b>	<b>12,424</b>	<b>393</b>	<b>12,031</b>	<b>3,062.1%</b>
<b>Total comprehensive income/loss</b>	<b>297,123</b>	<b>192,596</b>	<b>104,527</b>	<b>54.3%</b>
<b>Total comprehensive income (loss) attributable to:</b>				
Group	282,895	180,673	102,222	56.6%
Minority interests	14,228	11,923	2,305	19.3%

Amounts in € thousand

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Ref. Note	ASSETS	31/12/2018	Of which related party transactions	31/12/17	Of which related party transactions	Change
13	Tangible Fixed Assets	2,365,019		2,252,910		112,109
14	Real Estate Investments	2,489		2,547		(58)
15	Goodwill	149,886		149,978		(92)
16.a	Concessions	2,126,120		1,770,865		355,256
16.b	Other intangible fixed assets	147,229		144,121		3,108
17	Equity investments in unconsolidated subsidiaries and associates	279,085		280,853		(1,768)
18	Other equity investments	2,614		2,614		0
19	Deferred tax assets	227,362		178,312		49,050
20	Financial assets	55,831	30,847	66,099	35,637	(10,267)
21	Other assets	379,878		206,430		173,449
	<b>NON-CURRENT ASSETS</b>	<b>5,735,514</b>	<b>30,847</b>	<b>5,054,728</b>	<b>35,637</b>	<b>680,786</b>
22.a	Inventories	48,789		40,201		8,588
22.b	Trade receivables	927,834	83,982	985,465	153,901	(57,631)
22.c	Other current assets	252,888		185,346		67,542
22.d	Current tax assets	9,756		24,739		(14,984)
22.e	Current Financial Assets	113,960	86,644	237,671	121,137	(123,712)
22.f	Cash and cash equivalents	1,068,138		680,641		387,497
<b>22</b>	<b>CURRENT ASSETS</b>	<b>2,421,364</b>	<b>170,593</b>	<b>2,154,063</b>	<b>275,039</b>	<b>267,301</b>
23	Non-current assets held for sale	183		183		0
	<b>TOTAL ASSETS</b>	<b>8,157,061</b>	<b>201,473</b>	<b>7,208,974</b>	<b>310,676</b>	<b>948,087</b>

Amounts in € thousand

Rif. Nota	LIABILITIES	31/12/18	Of which related party transactions	31/12/17	Of which related party transactions	Change
	Shareholders' Equity					
	Share capital	1,098,899		1,098,899		0
	Legal reserve	111,948		100,619		11,329
	Other reserves	(285,728)		(308,073)		22,345
	Retained earnings/(losses)	533,522		645,500		(111,979)
	Profit (loss) for the year	270,999		180,682		90,317
	<b>Total Group shareholders' equity</b>	<b>1,729,638</b>		<b>1,717,626</b>		<b>12,012</b>
	Non-controlling interests	173,853		93,580		80,273
<b>24</b>	<b>Total shareholders' equity</b>	<b>1,903,491</b>		<b>1,811,206</b>		<b>92,285</b>
25	Employee severance indemnity and other defined-benefit plans	103,930		108,430		(4,500)
26	Provision for risks and charges	136,651		204,772		(68,121)
27	Borrowings and financial liabilities	3,374,134		2,745,035		629,099
28	Other liabilities	348,148		184,270		163,879
	<b>NON-CURRENT LIABILITIES</b>	<b>3,962,864</b>		<b>3,242,507</b>		<b>720,357</b>
	Payables to suppliers	1,524,876	124,499	1,237,808	136,054	287,068
	Other current liabilities	329,369		281,564		47,805
	Financial debt	408,675	627	633,155	3,042	(224,480)
	Tax Payables	27,750		2,697		25,052
<b>29</b>	<b>CURRENT LIABILITIES</b>	<b>2,290,670</b>	<b>125,126</b>	<b>2,155,225</b>	<b>139,096</b>	<b>135,445</b>
23	Liabilities directly associated with assets held for sale	37		37		0
	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>8,157,061</b>	<b>125,126</b>	<b>7,208,974</b>	<b>139,096</b>	<b>948,087</b>

Amounts in € thousand

# CONSOLIDATED STATEMENT OF CASH FLOWS

Ref. Note	31/12/2018	Of which related party transactions	31/12/17	Of which related party transactions	Change
<b>Cash flow from operating activities</b>					
	Profit before tax from continuing operations		288,196		120,837
7	Depreciation/amortisation		328,911		37,928
7	Revaluations/impairment charges		63,228		(44,801)
26	Change in provisions for risks		56,032		(107,894)
25	Change in Employee severance indemnity		(2,087)		(5,017)
	Gains on disposals		0		0
	Net financial interest		71,955		10,905
11	Income taxes paid		(137,764)		58,619
	<b>Financial flows generated by operating activities before changes</b>		<b>668,471</b>		<b>70,577</b>
22	Increases in current receivables included in the working capital	(69,302)	(70,073)	29,465	168,794
30	Increase/decrease in current payables included in the working capital	(11,555)	10,752	(12,944)	(26,296)
22	Increase/(decrease) in inventories	(7,623)	(8,475)		852
	<b>Change in working capital</b>		<b>(67,797)</b>		<b>143,350</b>
	<b>Change in other assets/liabilities during the period</b>		<b>(287,675)</b>		<b>197,764</b>
	<b>TOTAL CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>312,999</b>		<b>411,691</b>
<b>Cash flow from investment activities</b>					
			<b>0</b>		
	Purchase/sale of tangible fixed assets		(183,395)		(58,213)
13-14	Purchase/sale of intangible fixed assets		(330,583)		(44,693)
15	Equity investments		0		0
17-18	Purchase/sale of equity investments in subsidiaries		(3,814)		(1,756)
17	Collections/payments deriving from other financial investments	(39,283)	(117,026)	13,827	233,064
18	Collected dividends	8,612	9,626	9,626	(1,014)
	Interest income collected	20,643	16,929		3,714
	<b>TOTAL CASH FLOW FROM INVESTMENT ACTIVITIES</b>		<b>(608,263)</b>		<b>131,103</b>
<b>Cash flow from financing activities</b>					
			<b>0</b>		
	Non-controlling interests in subsidiaries' capital increase	0	0		0
27	Repayment of borrowings and long-term loans	(380,862)	(386,401)		5,538
27	Disbursement of borrowings/other medium/long-term loans	1,000,000	450,000		550,000
30	Decrease / increase in other short-term financial debts	(233,453)	481,614	(968)	(715,067)
	Interest expense paid	(108,340)	(98,732)		(9,609)
	Dividends paid	(137,379)	(136,110)	(136,110)	(1,268)
	<b>TOTAL CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>310,372</b>		<b>(170,406)</b>
	<b>Cash flows for the period</b>		<b>15,108</b>		<b>372,389</b>
	<b>Net opening balance of cash and cash equivalents</b>		<b>665,533</b>		<b>15,108</b>
	<b>Net closing balance of cash and cash equivalents</b>		<b>680,641</b>		<b>387,497</b>

Amounts in € thousand

# STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Share capital	Legal reserve	Other reserves	Profit for the period	Total	Non-control- ling interests	Total shareholders' equity
Balances as at 01 January 2017	1,098,899	95,188	218,040	259,009	<b>1,671,136</b>	86,807	<b>1,757,943</b>
Income statement profit				180,682	<b>180,682</b>	11,521	<b>192,203</b>
Other comprehensive income (losses)				(9)	<b>(9)</b>	402	<b>393</b>
Total comprehensive income (loss)	-	-	-	180,673	<b>180,673</b>	11,923	<b>192,596</b>
Allocation of result for 2016		5,431	253,579	(259,009)	-	-	-
Distribution of dividends			(131,780)	-	<b>(131,780)</b>	(4,330)	<b>(136,110)</b>
Change in basis of consolidation			(2,496)	-	<b>(2,496)</b>	(714)	<b>(3,210)</b>
Other Changes			93	-	<b>93</b>	(106)	<b>(14)</b>
Balances as at 31 December 2017	1,098,899	100,619	337,435	180,673	<b>1,717,626</b>	93,580	<b>1,811,206</b>

Amounts in € thousand

	Share capital	Legal reserve	Other reserves	Profit for the period	Total	Non-control- ling interests	Total shareholders' equity
Balances as at 31 December 2017	1,098,899	100,619	337,435	180,673	<b>1,717,626</b>	93,580	<b>1,811,206</b>
FTA reserve	0	0	(158,569)	0	<b>(158,569)</b>	(3,847)	<b>(162,416)</b>
Balances as at 1 January 2018	1,098,899	100,619	178,867	180,673	<b>1,559,057</b>	89,733	<b>1,648,790</b>
Income statement profit	0	0	0	270,999	<b>270,999</b>	13,700	<b>284,699</b>
Other comprehensive income (losses)	0	0	0	11,896	<b>11,896</b>	528	<b>12,424</b>
Total comprehensive income (loss)	0	0	0	282,895	<b>282,895</b>	14,228	<b>297,123</b>
Allocation of result for 2017	0	11,329	169,344	(180,673)	<b>0</b>	0	<b>0</b>
Distribution of dividends	0	0	(133,905)	0	<b>(133,905)</b>	(6,519)	<b>(140,424)</b>
Change in basis of consolidation	0	0	0	0	<b>0</b>	84,374	<b>84,374</b>
Other Changes	0	0	21,591	0	<b>21,591</b>	(7,962)	<b>13,629</b>
Balances as at 31 December 2018	1,098,899	111,948	235,897	282,895	<b>1,729,638</b>	173,853	<b>1,903,491</b>

Amounts in € thousand



# NOTES TO THE CONSOLIDATED INCOME STATEMENT

## CONSOLIDATED NET REVENUE

At 31 December 2018 this item amounted to € 3,028,487 thousand

and (€ 2,796,983 thousand at 31 December 2017), recording an increase of € 231,504 thousand (8.3%) from the previous year; they are broken down as follows.

€ thousand	2018	2017	Change	% Change
Revenue from sales and services	2,836,890	2,669,876	167,015	6.3 %
Other revenue and proceeds	191,597	127,107	64,490	50.7 %
<b>Consolidated net revenue</b>	<b>3,028,487</b>	<b>2,796,983</b>	<b>231,504</b>	<b>8.3%</b>

### 1. Revenue from sales and services – € 2,836,890 thousand

This item registered a total increase of € 167,015 thousand (6.3%)

compared to the previous financial year which closed with € 2,669,876 thousand. The composition of the item is shown below.

€ thousand	2018	2017	Change	% Change
Revenue from electricity sales and services	1,805,912	1,697,743	108,170	6.4 %
Revenue from gas sales	73,600	62,816	10,784	17.2 %
Revenue from electricity incentives	24,238	22,670	1,569	6.9 %
Revenues from the Integrated Water System	712,392	657,348	55,044	8.4 %
Revenue from Overseas Water Services	36,148	35,124	1,024	2.9 %
Revenue from biomass transfer and landfill operations	62,674	58,835	3,839	6.5 %
Revenue from customer services	88,009	106,056	(18,046)	(17.0)%
Connection fees	33,916	29,285	4,631	15.8 %
<b>Revenue from sales and services</b>	<b>2,836,890</b>	<b>2,669,876</b>	<b>167,015</b>	<b>6.3 %</b>

## REVENUE FROM ELECTRICITY SALES AND SERVICES

This item amounted to € 1,805,912 thousand and, net of inter-company eliminations, include the following items:

€ thousand	2018	2017	Change	% Change
Electricity and heat generation	9,581	9,637	(56)	(0.6)%
Electricity sales	1,442,683	1,366,364	76,319	5.6 %
Transport and metering of energy	303,273	272,404	30,869	11.3 %
Energy sales from WTE	45,265	43,700	1,565	3.6 %
Energy from photovoltaic plants	729	714	15	2.1 %
Co-generation	4,381	4,922	(542)	(11.0)%
<b>Revenue from electricity sales and services</b>	<b>1,805,912</b>	<b>1,697,742</b>	<b>108,170</b>	<b>6.4 %</b>

The main changes concern:

the increase in revenues from the sale of electricity for € 108,170 thousand due to:

- the increase in prices only partially mitigated by the decrease in quantities sold (- 11.6%) on the protected market as well as for the trading activity of the energy starting from the second half of the year,
- the reduction in electricity volumes sold in the Free Market (- 12.1%). The reduction essentially concerned the B2B segment and derives from a strategy of consolidation in the small business and mass market segments. The reduction is also a consequence of the effects deriving from the revision regarding electrical imbalances;
- the increase in revenues from the transport and measurement of energy destined for the protected and free markets due to the combined effect of the increased energy fed into the network and the increase in tariff parameters.

### REVENUE FROM GAS SALES

Revenues equal € 73,600 thousand and show an increase of € 10,784 thousand compared to 31 December 2017 due to both the price effect and the quantity-sold effect, to final customers and wholesalers by Acea Energia (+ 25.3 million m3 of gas compared to 2017).

### REVENUE FROM ELECTRICITY INCENTIVES

These revenues amount to € 24,238 thousand and show an increase of € 1,569 thousand compared to the previous year. The item includes the recognition of revenues from green certificates: 1) those of Acea Energia (€ 18,285 thousand) in relation to the energy produced by the Salisano and Orte Station, 2) those of Acea Ambiente (€ 5,163 thousand) from revenue for green certificates deriving from an incentive system from renewable sources of the WTE plants in Terni and San Vittore del Lazio.

## REVENUES FROM THE INTEGRATED WATER SYSTEM

As mentioned in the paragraph to which reference is made for more detailed explanations, revenue from the Integrated Water Service is almost exclusively generated by the companies managing the service

in Lazio and Campania. Said revenue amounts in total to € 712,392 thousand and shows an increase of € 55,044 thousand (+ 8.4%) compared to the previous year (€ 657,348 thousand).

Details of the breakdown by company are given below.

€ thousand	2018	2017	Change	% Change
Acea Ato 2	602,591	570,789	31,803	5.6 %
Acea Ato 5	67,193	64,455	2,738	4.2 %
Crea Gestioni	3,669	3,707	(38)	(1.0)%
Gesesa	10,753	11,913	(1,160)	(9.7)%
GORI	21,957	0	21,957	100 %
Umbria2	6,229	6,484	(255)	(3.9)%
<b>Revenues from the Integrated Water System</b>	<b>712,392</b>	<b>657,348</b>	<b>55,044</b>	<b>8.4 %</b>

The change recorded by Acea Ato 2 (+ € 31,803 thousand) derives mainly from the increase in the 2018 VRG approved in the session of 13 November 2018 compared to the previous year and the higher adjustments deriving from pass-through items (electricity, concession fees) totalling € 18,272 thousand; to this is added the recognition of the premium of contractual quality (€ 33,636 thousand at 31 December 2018) recognised to Acea Ato 2 pursuant to art. 32, letter a), resolution 664/2015, gross of compensation due to users. It should be remembered that on 8 November 2018 GORI was consolidated on a line-by-line basis with a contribution for the portion of the year 2018 of € 21,957 thousand. The decrease recorded by Gesesa (- € 1,160 thousand) derives mainly from the recovery of effects linked to the tariff adjustments recorded in 2017.

## REVENUE FROM INTERNATIONAL WATER SERVICES

These revenues are equal to € 36,148 thousand and show an increase of € 1,024 thousand compared to the previous year (€ 35,124 thousand as at 31 December 2017).

## REVENUE FROM BIOMASS TRANSFER AND LANDFILL OPERATIONS

These revenues amounted to € 62,674 thousand, up € 3,839 thousand compared to the previous year (€ 58,835 thousand). The breakdown by company is provided below:

€ thousand	2018	2017	Change	% Change
A.R.I.A.	47,661	46,017	1,644	3.6 %
Aquaser	7,592	6,415	1,177	18.3 %
ISECO	205	154	50	32.5 %
Acque Industriali	7,217	6,249	968	15.5 %
<b>Revenue from biomass transfer and landfill operations</b>	<b>62,674</b>	<b>58,835</b>	<b>3,839</b>	<b>6.5 %</b>

The performance of the year 2018 is influenced by the following main events:

- Acea Ambiente + € 1,644 thousand as a result of the greater contribution of pulp to WTE plants, as well as the tariff effect;
- Aquaser + € 1,177 thousand
- Acque Industriali + € 968 thousand due to the increased activities deriving from waste disposal and management of waste water treatment plants.

## REVENUE FROM CUSTOMER SERVICES

This item amounted to € 88,009 thousand (€ 106,056 thousand at 31 December 2017) and decreased by € 18,046 thousand.

This item breaks down as follows:

€ thousand	2018	2017	Change	% Change
Public Lighting - Rome	42,444	59,887	(17,443)	(29.1)%
Public Lighting - Naples	0	48	(48)	(100.0)%
Work for third parties	34,260	33,013	1,247	3.8 %
Intercompany services	7,089	10,272	(3,183)	(31.0)%
Photovoltaic	197	203	(7)	(3.3)%
GIP revenue	6,354	6,361	(7)	(0.1)%
Change in inventories	(2,334)	(3,728)	1,394	(37.4)%
<b>Revenue from customer services</b>	<b>88,009</b>	<b>106,056</b>	<b>(18,046)</b>	<b>(17.0)%</b>

The main change is due to the decrease in revenues of the Parent Company from Roma Capitale (- € 17,443 thousand) with reference to the LED Plan. It should be noted that the Acea Group is completing the plan for the mass replacement of lighting fixtures with LEDs financed by Roma Capitale. For the most part these re-

placements took place during 2017.

With reference to the breakdown of this item, the table for the Industrial Segment compared with the figures as at 31 December 2017 is shown below.

€ thousand	2018	2017	Change	% Change
Environment	7,355	5,964	1,391	23.3 %
Commercial and Trading	237	606	(368)	(60.8)%
Overseas	1,300	0	1,300	0 %
Water	18,816	14,948	3,868	25.9 %
Energy Infrastructures	51,239	68,496	(17,257)	(25.2)%
Engineering and Services	3,256	8,170	(4,914)	(60.1)%
Parent Company	5,807	7,872	(2,066)	(26.2)%
<b>Revenue from customer services</b>	<b>88,009</b>	<b>106,056</b>	<b>(18,046)</b>	<b>(17.0)%</b>

## CONNECTION FEES

These amounted to € 33,916 thousand, recording a decrease of € 4,631 thousand compared to 31 December 2017. These revenues were achieved as follows:

- Commercial and Trading Segment: € 19,125 thousand (+ € 5,745 thousand);
- Water Segment: € 3,267 thousand (- € 2,617 thousand);
- Energy Infrastructures Segment: € 11,521 thousand (+ € 1,544 thousand).

## 2. Other proceeds – € 191,597 thousand

This item increased by € 64,490 thousand (50.7%) compared to 31

December 2017, which closed with a total of € 127,107 thousand.

The variation was primarily determined by the following offsetting effects:

1. higher contingent assets of € 51,012 thousand originating mainly in the Acea Energia companies (+ € 26,018 thousand) relating to extraordinary pass-through items as well as the assessment of energy items from previous years, and Acea Ato 2 (+ € 12,143 thousand) due to the recognition of non-existent assets from previous years for greater allocations to suppliers and for pass-through items in the calculation of the VRG for the years 2014-2017.
2. increase in the IFRIC 12 margin of € 12,296 thousand following the revision of the method used to calculate it.

The following table supplies the breakdown of said entry:

€ thousand	2018	2017	Change	% Change
Contributions from Entities for Energy Efficiency Certificates	41,009	42,168	(1,159)	(2.7)%
Contingent assets	98,171	47,159	51,012	108.2 %
Other revenues	16,283	12,741	3,542	27.8 %
Refunds for damages, penalties, collateral	6,157	5,114	1,042	20.4 %
Feed-in-tariff	4,443	5,169	(726)	(14.0)%
Government grant (Prime Ministerial Decree of 23/04/04)	4,373	4,000	373	9.3 %
Regional grants	3,034	3,446	(412)	(12.0)%
Revenue from users	(239)	1,503	(1,742)	(115.9)%
Seconded personnel	1,115	899	216	24.0 %
Real estate income	1,907	1,797	110	6.1 %
IFRIC 12 margin	14,558	2,262	12,296	n.s.
Gains on asset disposals	21	10	11	107.4 %
Recharged cost for company officers	764	813	(48)	(5.9)%
Premiums for continuity of service	0	26	(26)	(100.0)%
<b>Other revenue and proceeds</b>	<b>191,597</b>	<b>127,107</b>	<b>64,490</b>	<b>50.7 %</b>

## CONSOLIDATED OPERATING COSTS

As at 31 December 2018 these amounted to € 2,138,560 thou-

sand (€ 1,983,853 thousand at 31 December 2017), recording an increase of € 154,707 thousand (7.8%) from the previous year.

The breakdown is as follows:

€ thousand	2018	2017	Change	% Change
Personnel costs	219,624	215,231	4,392	2.0 %
Costs of materials and overheads	1,918,936	1,768,621	150,315	8.5 %
<b>Consolidated operating costs</b>	<b>2,138,560</b>	<b>1,983,853</b>	<b>154,707</b>	<b>7.8 %</b>

### 3. Personnel costs – € 219,624 thousand

€ thousand	2018	2017	Change	% Change
Staff costs including capitalised costs	342,566	327,757	14,809	4.5 %
Costs capitalised	(122,942)	(112,526)	(10,417)	9.3 %
<b>Personnel costs</b>	<b>219,624</b>	<b>215,231</b>	<b>4,392</b>	<b>2.0 %</b>

The increase in labour costs, gross of capitalised costs, amounted to € 14,809 thousand and was mainly influenced by higher personnel costs recorded in the Water Segment (+ € 8,014 thousand, of which € 6,853 thousand related to the recent GORI consolidation). There were also increases in the Energy Infrastructures Segment (+ € 1,681 thousand) and in the Overseas Segment (+ € 1,893 thousand).

With regard to capitalised costs, there was an increase of € 10,417

thousand primarily driven by the growth of capitalised costs recorded in the Water Segment. The increase stems from the efficiency of company processes to meet the greater commitment required by the management of the service and the need to renew corporate assets.

The following tables show the average and actual number of staff by operating segment compared to same period of the previous year.

	Average number of employees			
	2018	2017	Change	% Change
Environment	360	355	5	1.4 %
Commercial and Trading	464	474	-10	(2.0)%
Overseas	781	656	124	18.9 %
Water	2,551	1,796	755	42.1 %
Lazio-Campania	2,506	1,751	755	43.2 %
Tuscany-Umbria	0	0	0	0 %
Other	45	45	0	0 %
Energy Infrastructures	1,387	1,366	21	1.6 %
Distribution	1,309	1,287	22	1.7 %
Electricity generation	78	79	0	(0.5)%
Public lighting	0	0	0	0 %
Engineering and Services	265	319	-54	(16.9)%
Parent Company	663	589	74	12.5 %
<b>Total</b>	<b>6,471</b>	<b>5,555</b>	<b>916</b>	<b>16.5 %</b>

	End-of-period composition			
	31/12/2018	31/12/17	Change	% Change
Environment	359	361	-2	(0.6)%
Commercial and Trading	472	467	5	1.1 %
Overseas	797	601	196	32.6 %
Water	2,599	1,811	788	43.5 %
Lazio-Campania	2,554	1,766	788	44.6 %
Tuscany-Umbria	0	0	0	0 %
Other	45	45	0	0 %
Energy Infrastructures	1,379	1,362	17	1.2 %
Distribution	1,301	1,283	18	1.4 %
Electricity generation	78	79	-1	(1.3)%
Public lighting	0	0	0	0 %
Engineering and Services	272	323	-51	(15.8)%
Parent Company	656	594	62	10.4 %
<b>Total</b>	<b>6,534</b>	<b>5,519</b>	<b>1,015</b>	<b>18.4 %</b>

### 4. Costs of materials and overheads – € 1,918,936 thousand

Said entry shows a total increase of € 150,315 thousand

(8.5%) compared to 31 December 2017 which closed with € 1,768,621 thousand.



€ thousand	2018	2017	Change	% Change
Electricity, gas and fuel	1,399,780	1,312,451	87,329	6.7 %
Materials	46,626	49,687	(3,060)	(6.2)%
Services	264,085	252,976	11,109	4.4 %
Concession fees	52,321	45,741	6,580	14.4 %
Cost of leased assets	26,351	27,886	(1,535)	(5.5)%
Other operating costs	129,773	79,880	49,893	62.5 %
<b>Costs of materials and overheads</b>	<b>1,918,936</b>	<b>1,768,621</b>	<b>150,315</b>	<b>8.5 %</b>

## ELECTRICITY, GAS AND FUEL COSTS

This item includes:

€ thousand	2018	2017	Change	% Change
Purchase of electricity	1,028,288	889,988	138,301	15.5 %
Gas purchase	22,730	16,489	6,241	37.9 %
Transportation of electric energy and gas	305,015	361,497	(56,483)	(15.6)%
White certificates	40,123	43,372	(3,249)	(7.5)%
Green certificates and Co2 rights	3,624	1,105	2,518	n.s.
<b>Electricity, gas and fuel costs</b>	<b>1,399,780</b>	<b>1,312,451</b>	<b>87,329</b>	<b>6.7 %</b>

The change mainly derived from:

1. higher costs related to the supply of electricity due to the trading of energy started in the second half of 2018 and only partially offset by lower transport costs and energy measurement for the protected and free markets;
2. higher costs incurred for the procurement of gas both due to a price effect and a quantity effect.

## MATERIALS

The cost of materials amounted to € 46,626 thousand and represents the cost of materials used net of capital expenditure, as shown in the table below.

€ thousand	2018	2017	Change	% Change
Purchase of materials	90,845	77,980	12,865	16.5 %
Change in inventories	(10,624)	(3,979)	(6,646)	167.0 %
<b>Change in inventories</b>	<b>80,221</b>	<b>74,001</b>	<b>6,220</b>	<b>8.4 %</b>
Costs capitalised	(33,595)	(24,315)	(9,280)	38.2 %
<b>Materials</b>	<b>46,626</b>	<b>49,687</b>	<b>(3,060)</b>	<b>(6.2)%</b>

The purchases of materials, net of inventories, recorded a € 6,220 thousand increase, essentially attributable to the Water Segment.

The costs for materials incurred by the operating segments are detailed below.

€ thousand	2018	2017	Change	% Change
Environment	6,745	6,793	(48)	(0.7)%
Commercial and Trading	90	439	(349)	(79.4)%
Overseas	2,052	1,723	329	19.1 %
Water	17,244	13,986	3,259	23.3 %
Energy Infrastructures	15,094	20,167	(5,074)	(25.2)%
Engineering and Services	4,370	6,165	(1,795)	(29.1)%
Parent Company	1,030	413	617	149.3 %
<b>Costs for Materials</b>	<b>46,626</b>	<b>49,687</b>	<b>(3,060)</b>	<b>(6.2)%</b>

## SERVICES AND CONTRACT WORK

This item amounted to € 264,085 thousand, an overall increase of

€ 11,109 thousand compared to € 252,976 thousand at 31 December 2017. For an analysis of the breakdown, please see the following table:

€ thousand	2018	2017	Change	% Change
Technical and Administrative Services (including consulting and collaborations)	48,984	58,618	(9,635)	(16.4)%
Contract work	49,809	40,153	9,656	24.0 %
Disposal and transport of sludge, slag, ash and waste	39,738	32,610	7,128	21.9 %
Other services	34,325	35,023	(697)	(2.0)%
Personnel services	14,298	14,093	205	1.5 %
Insurance costs	8,253	11,077	(2,824)	(25.5)%
Electric, water and gas consumption	17,023	9,300	7,723	83.0 %
Internal use of electricity	6,808	8,777	(1,969)	(22.4)%
Intragroup services and otherwise	744	1,442	(698)	(48.4)%
Telephone and data transmission expenses	5,165	6,645	(1,480)	(22.3)%
Postal expenses	4,010	3,889	121	3.1 %
Maintenance fees	13,771	12,251	1,520	12.4 %
Cleaning, transport and portorage costs	3,592	1,036	2,557	n.s.
Advertising and sponsorship costs	7,094	6,731	363	5.4 %
Corporate bodies	2,265	2,112	153	7.3 %
Meter readings	4,308	3,978	331	8.3%
Bank charges	2,406	2,681	(275)	(10.3)%
Travel expenses	1,611	1,598	13	0.8 %
Seconded personnel	(310)	644	(954)	(148.1)%
Printing expenses	190	321	(130)	(40.7)%
<b>Costs for services</b>	<b>264,085</b>	<b>252,976</b>	<b>11,109</b>	<b>4.4 %</b>

The main change concerns the costs incurred by Acea Energia for agents and representatives, which, following the application of the new IFRS 15 standard (contract cost), amortises the value of an intangible asset. Works carried out in areti (+ € 6,162 thousand) and sludge disposal and transport in Aquaser (+ € 5,554 thousand) and in Acea Ambiente (+ € 1,353 thousand) following the increase in the services provided to the group companies explain the greater increase in costs in 2018 compared to the previous year.

#### Concession fees

Concession fees totalled € 52,321 thousand (+ € 6,580 thousand compared to 31 December 2017) and referred to companies that manage Area Authorities under concession in Lazio and Campania.

The following table shows a breakdown by Company, compared to 2017.

€ thousand	2018	2017	Change	% Change
Acea Ato 2	47,530	38,669	8,861	22.9%
Acea Ato 5	3,705	6,631	(2,926)	(44.1)%
GORI	435	0	435	n.s.
Gesesa	356	390	(34)	(8.7)%
Other group companies	296	52	244	n.s.
<b>Concession fees</b>	<b>52,321</b>	<b>45,741</b>	<b>6,580</b>	<b>14.4%</b>

It should be noted that the increase recorded in Acea Ato 2 refers to the charges related to the mandatory Convention for the management of the Peschiera - Le Capore aqueduct system, signed on 2 February 2018, which provides for an annual charge to Ato 3 of € 7 million. It is also specified that these costs are passed in order to determine the manager's VRG.

For other information regarding the concessions, reference should be made to the information in the specific section entitled "Service concession arrangements".

#### COST OF LEASED ASSETS

This item amounted to € 26,351 thousand, a decrease of € 1,535 thousand compared to last year (€ 27,886 thousand at 31 December 2017).

The following table shows variations by Industrial Segment:

€ thousand	2018	2017	Change	% Change
Environment	1,297	1,303	(6)	(0.5)%
Commercial and Trading	473	555	(81)	(14.6)%
Overseas	2,423	2,206	217	9.8 %
Water	5,893	8,070	(2,178)	(27.0)%
Energy Infrastructures	8,377	7,213	1,164	16.1 %
Engineering and Services	671	1,458	(787)	(54.0)%
Parent Company	7,217	7,081	136	1.9 %
<b>Cost of leased assets</b>	<b>26,351</b>	<b>27,886</b>	<b>(1,535)</b>	<b>(5.5)%</b>

This item includes lease payments of € 8,752 thousand (€ 8,458 thousand at 31 December 2017) and charges relating to other lease payments and rentals for € 17,599 thousand (€ 19,428 thousand at 31 December 2017).

## OTHER OPERATING COSTS

These amounted to € 129,773 thousand as at 31 December 2018 and increased by € 49,893 thousand. The table below provides details of this item by type:

€ thousand	2018	2017	Change	% Change
<b>Taxes and duties</b>	<b>28,137</b>	<b>11,376</b>	<b>16,761</b>	<b>147.3 %</b>
Damages and outlays for legal disputes	11,818	11,636	183	1.6 %
Contributions paid and membership fees	3,491	2,945	546	18.5 %
General expenses	13,596	7,978	5,619	70.4 %
Non-recurring losses	72,731	45,946	26,785	58.3 %
<b>Other operating costs</b>	<b>129,773</b>	<b>79,880</b>	<b>49,893</b>	<b>62.5 %</b>

This increase is mainly due to the higher contingencies deriving from the ascertainment of energy items coming from previous years (partially covered by contingent assets of the same) as well as the administrative fine imposed by the Antitrust Authority on the Acea Group for € 16,200 thousand.

## 5. Income/(Costs) from equity investments of a non-financial nature - € 43,320 thousand

This item represents the consolidated result according to the equity method that is included among the EBITDA components of companies previously consolidated using the proportionate method. The breakdown of this item is detailed below:

€ thousand	2018	2017	Change	% Change
EBITDA	161,364	149,577	11,787	7.9 %
Amortisation, depreciation, impairment charges and provisions	(94,545)	(100,881)	6,336	(6.3)%
Total profit/(loss) on equity investments	(39)	0	(39)	n.s.
Financial items	(5,928)	(6,753)	826	(12.2)%
Taxes	(17,534)	(15,079)	(2,455)	16.3 %
<b>Income from equity investments of a non-financial nature</b>	<b>43,320</b>	<b>26,864</b>	<b>16,456</b>	<b>61.3 %</b>

The EBITDA of these companies increased by € 16,456 thousand mainly due to changes in the EBITDA of Publiacqua (+ € 6,583 thousand), Acque (+ € 5,210 thousand) and Acquedotto del Fiora

(+ € 2,316 thousand) compared to 31 December 2017.

The companies' assessments are detailed below:

€ thousand	2018	2017	Change	% Change
Publiacqua	15,784	9,201	6,583	71.5 %
Acque Group	13,863	8,653	5,210	60.2 %
Acquedotto del Fiora	4,619	2,303	2,316	91.3 %
Umbra Acque	1,147	279	868	n.s.
Gori	3,032	1,796	1,236	58.1 %
Nuove Acque and Intesa Aretina	459	501	(42)	(8.4)%
GEAL	982	1,253	(270)	(21.6)%
Ingegnerie Toscane	2,318	1,786	532	29.8 %
Ecomed in liquidation	(6)	(32)	26	(80.8)%
Acea Gori Servizi	0	122	(122)	(100.0)%
AZUL	1,120	1,002	119	11.8 %
<b>Total</b>	<b>43,320</b>	<b>26,864</b>	<b>16,456</b>	<b>61.3 %</b>

## 6. Amortisation, depreciation, impairment charges and provisions - € 454,687 thousand

Compared to 2017, there was a decrease of € 25,415 thousand.

The breakdown is as follows:

€ thousand	2018	2017	Change	% Change
Amortisation and depreciation	366,839	328,911	37,928	11.5 %
Provision for doubtful accounts	75,080	90,351	(15,271)	(16.9)%
Provision for risks and charges	12,768	60,840	(48,072)	(79.0)%
<b>Total</b>	<b>454,687</b>	<b>480,102</b>	<b>(25,415)</b>	<b>(5.3)%</b>

### AMORTISATION AND DEPRECIATION

€ thousand	2018	2017	Change	% Change
Depreciation	135,103	140,100	(4,998)	(3.6)%
Intangible amortisations	222,118	166,853	55,266	33.1 %
Impairment charges	9,618	21,958	(12,340)	(56.2)%
<b>Depreciation/amortisation</b>	<b>366,839</b>	<b>328,911</b>	<b>37,928</b>	<b>11.5 %</b>

The € 37,928 thousand increase in depreciation and amortisation breaks down as follows:

- decrease in depreciation of tangible fixed assets of € 4,998 thousand;
- increase in the amortisation of intangible fixed assets of € 55,266 thousand, mainly due to the increase in costs in all business areas incurred for upgrades on technological infrastructure common to the Acea Group. To this is added the effects related to the application of the new IFRS 15 standard with reference to the contract costs of Acea Energia equal to € 7,400 thousand.

Impairment losses refer to the write-down of current assets by Acea Ato 2 for € 4,890 thousand, a further portion of the Acea Ambiente plant for € 1,337 thousand (in particular Monterotondo) as well as € 1,400 thousand for the Cinecittà Parchi plant of Eco-gena following the Settlement Agreement signed with the counterparty on 27 December 2018.

### IMPAIRMENT CHARGES AND LOSSES ON RECEIVABLES

The item recorded a decrease compared to the previous year of € 15,271 thousand. This change is mainly attributable to the company areti (- € 15,085 thousand) as a consequence of the write-down the previous year related to Gala. In this regard, it is recalled that Gala, which represents one of the main parties operating in the concession area of areti as a wholesaler for the transport service, has interrupted payments to the Company, speciously using administrative court judgements having to do with general system charges. For more information on the Gala case, refer to the section "Updates on major disputes and litigation" and to the section "Energy Infrastructures Operating Segment".

The breakdown by operating segment is provided below:

€ thousand	2018	2017	Change	% Change
Environment	87	315	(228)	(72.5)%
Commercial and Trading	35,820	36,357	(537)	(1.5)%
Overseas	2,302	1,309	993	75.8 %
Water	29,643	24,937	4,706	18.9 %
Energy Infrastructures	4,138	21,767	(17,629)	(81.0)%
Engineering and Services	104	136	(32)	(23.6)%
Parent Company	2,986	5,529	(2,543)	(46.0)%
<b>Impairment charges and losses on receivables</b>	<b>75,080</b>	<b>90,351</b>	<b>(15,271)</b>	<b>(16.9)%</b>

### PROVISIONS

As of 31 December 2018, net sums released due to surplus, appropriation reserves total € 12,768 thousand and are divided thusly by type:

€ thousand	2018	2017	Change	% Change
Legal	2,618	5,408	(2,789)	(51.6)%
Tax Office	5,381	3,385	1,996	59.0 %
Regulatory risks	11,440	8,961	2,479	27.7 %
Investees	1,000	48	952	n.s.
Contributory risks	284	115	169	147.5 %
Procurement and supplies	2,012	4,784	(2,771)	(57.9)%

(follows)

€ thousand	2018	2017	Change	% Change
Insurance excess	2,488	804	1,685	n.s.
Other risks and charges	10,632	2,935	7,697	n.s.
<b>Total Provision for Risks</b>	<b>35,856</b>	<b>26,438</b>	<b>9,418</b>	<b>35.6 %</b>
Early retirements and redundancies	28,210	28,052	157	0.6 %
Liquidation charges	174	(5)	179	n.s.
Charges towards Others	1,671	110	1,562	n.s.
IFRIC 12 restoration charges	0	9,062	(9,062)	(100.0%)
<b>Total Provisions</b>	<b>65,910</b>	<b>63,656</b>	<b>2,254</b>	<b>3.5 %</b>
<b>Release of Provisions</b>	<b>(53,142)</b>	<b>(2,816)</b>	<b>(50,326)</b>	<b>n.s.</b>
<b>Total</b>	<b>12,768</b>	<b>60,840</b>	<b>(48,072)</b>	<b>(79.0)%</b>

The breakdown of provisions by Operating Segment are shown in the following table:

€ thousand	2018	2017	Change	% Change
Environment	(908)	(568)	(340)	59.8 %
Commercial and Trading	11,763	5,935	5,828	98.2 %
Overseas	97	79	17	22.0%
Water	14,535	22,486	(7,951)	(35.4)%
Energy Infrastructures	23,339	13,241	10,098	76.3 %
Engineering and Services	816	1,460	(644)	(44.1)%
Parent Company	(36,873)	18,207	(55,081)	n.s.
<b>Provisions</b>	<b>12,768</b>	<b>60,840</b>	<b>(48,072)</b>	<b>(79.0)%</b>

The most significant allocations made in the financial year are appropriations for:

- the provision for voluntary redundancies and early retirements (€ 28,210 thousand) which represents the amounts necessary to cover the staff reduction plan through the adoption of voluntary redundancy and early retirement measures for the Group staff; this item increased in line with the provision set aside last year;
- regulatory risks (€ 11,440 thousand) of which € 5,440 thousand relating to Acea Produzione for rent to the Abruzzo region and BIM (Bacino Imbrifero Montano), and € 5,000 thousand to areti for service continuity risks;
- other risks for € 10,632 thousand (+ € 7,697 thousand) due to the provision recorded in Acea Energia (€ 5,946 thousand) to cover the risks associated with the management of agents and representatives as well as the risks associated with the lower recognition of some components related to the gas

supply following the start of adjustment sessions;

- other charges (€ 1,597 thousand) to cover the differential between costs and revenues linked to the obligation of the EECs for areti falling under 2018.

On the other hand, there was a reduction in IFRIC 12 restoration costs following the cancellation of the provision previously set up to maintain in good condition the infrastructure used for water service management. Finally, note the full release of the provision relating to GORI (€ 44,239 thousand) as a result of the elimination of the conditions that had determined its creation also for the effects deriving from the agreements signed with the Campania Region and the EIC on 8 November 2018.

Further information is provided in note 27 and in the section “Update on major disputes and litigation”.

## 7. Financial income - € 18,267 thousand

€ thousand	2018	2017	Change	% Change
Interest on financial receivables	4,699	4,615	83	1.8 %
Bank interest income	214	420	(207)	(49.2)%
Interest on trade receivables	12,260	5,975	6,285	105.2 %
Interest on other receivables	949	852	96	11.3 %
Financial income from discounting to present value	754	5,395	(4,641)	(86.0%)
Financial income from measurement of fair value hedges	(919)	(302)	(617)	n.s.
Other income	311	423	(113)	(26.6)%
<b>Financial income</b>	<b>18,267</b>	<b>17,379</b>	<b>888</b>	<b>5.1 %</b>



Financial income amounted to € 18,267 thousand, an increase of € 888 thousand compared to the previous year.

The main change derives from the recognition of interest to customers of € 6,285 thousand, mainly referring to areti for Gala, partially offset by the recognition in the previous year of proceeds

from discounting for € 4,532 thousand as a result of changes in accounting estimates relating to the discounting of the provision called Post mortem on the landfill for non-hazardous waste located in Pian del Vantaggio (Orvieto), owned by Acea Ambiente.

## 8. Financial costs - € 100,697 thousand

€ thousand	2018	2017	Change	% Change
Costs (Income) on Interest Rate Swaps	2,090	1,051	1,039	98.9 %
Interest on bonds	66,320	59,225	7,095	12.0%
Interest on medium/long-term borrowings	15,506	17,667	(2,162)	(12.2)%
Interest on short-term debt	595	376	219	58.2 %
Default interest and interest on deferred payments	4,166	2,166	2,000	92.3 %
Interest cost net of actuarial gains and losses	1,446	1,438	7	0.5 %
Factoring fees	6,900	5,486	1,413	25.8 %
Interest on payments by instalment	32	159	(127)	(79.9)%
Discounting charges	1,119	444	675	152.0 %
Other financial charges	1,145	311	834	n.s.
Interest payable to end users	1,223	755	468	62.0%
Foreign exchange gains (losses)	156	255	(98)	(38.6)%
<b>Financial costs</b>	<b>100,697</b>	<b>89,334</b>	<b>11,363</b>	<b>12.7 %</b>

Financial costs amounted to € 100,697 thousand, up € 11,363 thousand compared to 31 December 2017.

The average overall "All in" cost of the Acea Group's debt at 31 December 2018 stood at 2.21% against 2.59% at the end of 2017.

In reference to financial costs related to indebtedness one reports the following variations:

- compared to 31 December 2017 the interest on bonds increased by € 7,095 thousand due to the interest accrued on the two new bonds issued on 1 February 2018, partly offset by the repayment of the bond loan which took place on 12 September 2018;
- compared to 31 December 2017 default interest and interest

- on deferred payments increased by € 2,000 thousand;
- interest on medium/long-term indebtedness decreased by € 2,162 thousand mainly due to Acea S.p.A.'s repayment of two EIB loans in March 2018;
- commissions on receivables transferred, compared to 31 December 2017, increased by € 1,413 thousand;
- net foreign exchange gains and losses reduced by € 98 thousand compared to 31 December 2017.

## 9. Income and costs from Equity Investments - € 13,332 thousand

€ thousand	2018	2017	Change	% Change
Income from equity investments in associates	13,639	1,021	12,618	n.s.
(Costs) of shares in related companies	(306)	(762)	455	(59.8)%
<b>(Costs) and revenue from shares</b>	<b>13,332</b>	<b>259</b>	<b>13,073</b>	<b>n.s.</b>

Revenue from shares refers to consolidation according to the net worth method of some Group companies primarily S.I.I. S.c.p.a. which manages the water service in the province of Terni and is 25% owned by Umbriadue (+ € 342 thousand). It should also be noted that, after the acquisition of the TWS Group, the accounting was carried out according to the provisional acquisition method of a fund to be used at the time of the closing of the Business Combination. That closure confirmed what was already determined in the 2017 financial statements. The income registered amounted to € 8,902 thousand. This item also includes the income of € 3,609 thousand relating to the effects resulting from the discounting of the rescheduled debt that the newly consolidated GORI has with the Campania Region.

## 10. Income Tax - € 124,334 thousand

The estimated tax burden for the period is equal to € 124,334 thousand compared to € 95,992 thousand in the previous financial year.

The breakdown is essentially as follows:

- Current taxes: € 123,716 thousand (€ 97,344 thousand at 31 December 2017),
- Net deferred/(prepaid) taxes: € 618 thousand (- € 1,351 thousand at 31 December 2017).

The increase in absolute value of taxes recorded in the period is a direct result of higher pre-tax profit.

The table below shows the breakdown of taxes and the correlated percentage weight calculated on consolidated profit before tax.

€ thousand	2018	%	2017	%
Profit before tax from continuing and discontinued operations	409,033		288,196	
Expected tax charge at 27.5% on profit before tax	98,168	24.0%	69,167	24.0%
Net deferred taxation	618	0.2%	(9,335)	
Permanent differences	(11,281)	(2.8%)	4,268	1.5%
IRES for the period	87,504	21.4%	64,100	22.2%
Tax Assets	5,955	1.5%	7,873	2.7%
IRAP	30,874	7.5%	24,019	8.3%
<b>Total taxes</b>	<b>124,334</b>	<b>30.4%</b>	<b>95,992</b>	<b>33.3%</b>

The tax rate from the financial year is reported as 30.4% (it was 33.3% in 2017).

### 11. Earnings per share

Earnings per share are calculated by dividing profit for the year attributable to Acea by the weighted average number of Acea shares outstanding during the year, excluding treasury shares. The weighted average number of shares outstanding was 212,547,907 as at 31 December 2018. Diluted profit per share is calculated dividing profit for the financial year attributable to Acea by the weighted av-

erage number of Acea shares in circulation during the year, excluding treasury shares, increased by the number of shares which could potentially be put in circulation. At 31 December 2018 there were no shares that could potentially be put into circulation and, accordingly, the weighted average number of shares for the calculation of basic earnings per share coincides with the weighted average number of shares for the calculation of diluted earnings per share.

Earnings per share, determined in accordance with IAS 33, are shown below:

€ thousand	2018	2017	Change
Net profit attributable to the Group (€/000)	270,999	180,682	90,317
Net profit attributable to ordinary equity holders of the Group (€/000) (A)	270,999	180,682	90,317
Weighted average number of ordinary shares for the purpose of determining earnings per share			
- basic (B)	212,964,900	212,964,900	0
- basic (C)	212,964,900	212,964,900	0
<b>Earnings per share (€)</b>			
<b>basic (A/B)</b>	<b>1.2725</b>	<b>0.8484</b>	<b>0.4241</b>
<b>diluted (A/C)</b>	<b>1.2725</b>	<b>0.8484</b>	<b>0.4241</b>

€ thousand	2018	2017	Change
Net profit attributable to the Group (€/000)	270,999	180,682	90,317
Net profit attributable to ordinary equity holders of the Group (€/000) (A)	270,999	180,682	90,317
Weighted average number of ordinary shares outstanding for the purpose of determining earnings per share			
- basic (B)	212,547,907	212,547,907	0
- basic (C)	212,547,907	212,547,907	0
<b>Earnings per share (€)</b>			
<b>basic (A/B)</b>	<b>1.2750</b>	<b>0.8501</b>	<b>0.4249</b>
<b>diluted (A/C)</b>	<b>1.2750</b>	<b>0.8501</b>	<b>0.4249</b>

# NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## ASSETS

At 31 December 2018 these amounted to € 8,157,061 thousand

(€ 7,208,974 thousand at 31 December 2017), recording an increase of € 948,087 thousand or 13.2% from the previous year. They are broken down as continued:

€ thousand	31/12/18	31/12/17	Change	% Change
Non-current fixed assets	5,735,514	5,054,728	680,786	13.5%
Current assets	2,421,364	2,154,063	267,301	12.4%
Non-current assets held for sale	183	183	0	n.s.
<b>Total Assets</b>	<b>8,157,061</b>	<b>7,208,974</b>	<b>948,087</b>	<b>13.2 %</b>

### 13. Tangible fixed assets - € 2,365,019 thousand

82% of the tangible fixed assets comprise the net booking value of the infrastructures used for the distribution and generation of electricity (€ 1,932,782 thousand). The remaining 20% refer to:

- facilities belonging to the Environment Segment companies for € 229,270 thousand,
- infrastructure related to the Parent Company for € 100,688 thousand,

- infrastructure related to the Water Segment for € 52,250 thousand,
- infrastructure related to the Overseas Segment for € 34,372 thousand.

The following table reports the details and transfers of material assets related to FY 2018.

€ thousand	Land and buildings	Plant and machinery	Industrial equipment	Other assets	Fixed assets under construction	Assets to be relinquished	Total tangible fixed assets
<b>Historical cost 31.12.2017</b>	<b>512,849</b>	<b>2,801,245</b>	<b>805,815</b>	<b>141,937</b>	<b>30,391</b>	<b>6,878</b>	<b>4,299,114</b>
Assets held for sale	-	-	-	-	-	-	-
Investments/ Acquisitions	10,957	141,425	54,141	12,457	29,931	-	248,912
Disinvestments	(43)	(1,097)	(2,254)	(909)	(1,872)	-	(6,176)
Change in basis of consolidation	8,924	(1,072)	(4,555)	15,116	23,664	-	42,076
Other changes	(24,315)	27,838	(2,113)	(27,296)	(21,216)	2,423	(44,678)
<b>Historical cost 31.12.2018</b>	<b>508,373</b>	<b>2,968,339</b>	<b>851,033</b>	<b>141,305</b>	<b>60,897</b>	<b>9,301</b>	<b>4,539,249</b>
<b>Accumulated depreciation at 31.12.2017</b>	<b>(155,045)</b>	<b>(1,536,192)</b>	<b>(248,193)</b>	<b>(100,576)</b>	<b>(2,091)</b>	<b>(4,107)</b>	<b>(2,046,204)</b>
Assets held for sale	-	-	-	-	-	-	-
Depreciation/amortisation and impairment charges	(13,423)	(77,058)	(31,463)	(15,566)	(209)	(270)	(137,989)
Disinvestments	6	(1,583)	315	133	-	-	(1,128)
Change in basis of consolidation	(3,691)	4,130	6,181	(11,858)	-	-	(5,238)
Other changes	21,028	(20,939)	350	17,700	-	(1,809)	16,331
<b>Accumulated depreciation at 31.12.2018</b>	<b>(151,125)</b>	<b>(1,631,643)</b>	<b>(272,809)</b>	<b>(110,166)</b>	<b>(2,300)</b>	<b>(6,186)</b>	<b>(2,174,229)</b>
<b>Net value 31.12.2018</b>	<b>357,247</b>	<b>1,336,696</b>	<b>578,224</b>	<b>31,139</b>	<b>58,597</b>	<b>3,116</b>	<b>2,365,019</b>

**Investments** increased compared to last year (€ 210,119 thousand at 31 December 2017) and amounted to € 248,912 thousand. They refer mainly to those made by:

- **areti** for € 189,325 thousand in relation to the construction and maintenance of HV lines, scheduled maintenance and expansion of primary cabins and reconstruction of secondary cabins and renewal, expansion and ordinary and extraordinary maintenance of MV lines and extraordinary maintenance on overhead lines;
- **Acea Ambiente** for € 16,876 thousand for investments concerning: 1) the works to expand the Monterotondo Mar-

ittimo plant, 2) the works carried out in the WTE plants in Terni and San Vittore, 3) the works on the waste treatment plant and biogas production located in Orvieto and, 4) works to upgrade and further develop the composting plants in Aprilia and Sabaudia.

- **Acea Produzione** for € 14,665 thousand mainly for the re-vamping works of the Mandela hydroelectric plant and for the extension and renovation works of the district heating network in the Mezzocammino area in the south of Rome;
- **Acea** for € 4,126 thousand for extraordinary maintenance

works on the premises used for company activities and for hardware-related investments within the Acea2.0 project. The item depreciation/amortisation and impairment charges includes the € 2,944 thousand reductions in: 1) Acea Ambiente for € 1,335 thousand for the impairment of the Monterotondo Marittimo plant and 2) Ecogena for € 1,400 thousand for the total impairment of the trigeneration plant in the Laurentino area. Other changes refer to reclassifications due to the commissioning of assets under construction and disposals and disinvestments of assets.

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

Investment property primarily includes land and buildings not

used in operations and held for rental. The decrease of € 58 thousand compared to last year derives from the amortisations and depreciations.

#### 15. Goodwill - € 149,886 thousand

At 31 December 2018 goodwill amounted to € 149,886 thousand (€ 149,978 thousand at 31 December 2017). The change compared to last year refers to the goodwill recorded in the TWS (Technologies for Water Services) accounts, consolidated on a line-by-line basis following the acquisition in February 2017. The table below shows the individual CGUs by associated Industrial Segment.

€ thousand	31.12.2017	Acquisitions	Impairments/ Revaluations	Other changes	31.12.2018
<b>Environment Segment</b>	<b>11,232</b>	-	-	(94)	<b>11,138</b>
Waste-to-energy and Composting plants	11,232	-	-	-	11,232
<b>Commercial and Trading Segment</b>	<b>46,982</b>	-	-	-	<b>46,982</b>
Energy sales	46,982	-	-	-	46,982
<b>Energy Infrastructures Segment</b>	<b>91,618</b>	-	-	-	<b>91,618</b>
Renewable energy plants	91,618	-	-	-	91,618
<b>Other</b>	<b>147</b>	-	-	2	<b>149</b>
<b>Goodwill</b>	<b>149,978</b>	-	-	(92)	<b>149,886</b>

Note that:

for the Energy Infrastructure Segment:

- the "Renewable source plants" CGU is composed of the entity Acea Produzione and Ecogena;

for the Commercial and Trading Segment:

- the "Electric Energy Sales" CGU refers to Acea Energia;

for the Environment Segment:

- the "Waste-to-energy and composting plants" CGU consists of the Acea Ambiente plants.

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 latest estimates and projections of the 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
<b>Energy Infrastructures Segment</b>				
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
<b>Commercial and Trading Segment:</b>				
Acea Energia	value in use	7.6%	Perpetuity without growth	up to 2022
<b>Environment Segment</b>	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 re-valued 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.

The result of the impairment test confirmed the recoverability of the value of the recorded goodwill.

It should be noted that during the period of reference, there were no impairment indicators also as regards to the updated estimates and forecasts in the 2018-2022 Industrial Plan approved by the Board of Directors. For further information regarding the cash generating units and the corresponding goodwill values, please refer to the Notes to the Consolidated Financial Statements as at 31 December 2017.

## 16. Intangible Fixed Assets

€ thousand	Patent rights	Other intangible fixed assets	Fixed assets in progress	Concessions	Total Intangible fixed assets
<b>31.12.2017</b>	<b>137,077</b>	<b>2,880</b>	<b>4,163</b>	<b>1,770,865</b>	<b>1,914,985</b>
Depreciation/amortisation and impairment charges	(59,252)	(9,025)	(401)	(160,114)	(228,792)
Investments/ Acquisitions	44,673	10,497	7,392	319,357	381,919
Disinvestments	(790)	(334)	(229)	(5,289)	(6,643)
Change in basis of consolidation	(5,479)	10,966	(883)	226,638	231,243
Other changes	(345)	10,422	(4,102)	(25,338)	(19,363)
<b>Net value at 31.12.2018</b>	<b>115,884</b>	<b>25,405</b>	<b>5,940</b>	<b>2,126,120</b>	<b>2,273,349</b>

These amounted to € 2,273,349 thousand, recording an increase of € 358,364 thousand compared to 31 December 2017. This increase is mainly due to the change in the scope of consolidation following the full consolidation of GORI. The investments made in 2018 for internal development – related to the joint IT platform – amounted to approximately € 30,378 thousand.

### 16.a Concessions and Rights on Infrastructure - € 2,126,120 thousand

This item mainly refers to the Water Services and essentially includes:

- the values of concessions received from the Municipalities (€ 141,801 thousand),
- the overall amount of all tangible infrastructures for the management of water services (€ 1,728,031 thousand), in accordance with IFRIC 12.

Concessions refer for € 117,594 thousand to the thirty-year concession from Roma Capitale on the assets consisting of water and sewage treatment facilities, and to the right arising from taking over the management of the integrated water service in the Municipality of Formello. Rights are amortised on the basis, respectively, of the remaining term of the concession signed between Acea and Roma Capitale and the term of the Management Agreement signed by the Mayors in Ato 2. The balance is completed by the thirty-year concession for the management of the integrated water service of the city of San Pedro Sula in Honduras for a total amount of € 9,399 thousand and the concession of GORI S.p.A for € 12,368 thousand, fully consolidated from November 2018.

Capital expenditure for the period relating to **Infrastructure rights** amounted to € 319,357 thousand and mainly refers to:

- Acea Ato 2 for € 285,627 thousand for the modernisation, expansion and reclamation of the water and sewerage pipes of

the various municipalities; to the extraordinary maintenance of the water centres of the treatment plants and to the actions aimed at reducing water leaks;

- Acea Ato 5 for € 32,621 thousand for the replacement, maintenance and expansion of water supplies and sewerage pipes and of water treatment plants.

The item **Other changes** mainly comprises reclassifications for the commissioning of the assets.

### 16.b Other intangible fixed assets - € 147,229 thousand

The increase over the previous year, amounting to € 3,108 thousand, arises from capital expenditure incurred during the period (€ 62,561 thousand), net of amortisation and reductions in value (€ 68,678 thousand) and reclassifications.

Capital expenditures during the year totalled € 62,561 thousand and are mainly attributable to:

- areti for € 29,089 thousand for charges incurred for the re-engineering of the information and commercial distribution systems and for the harmonisation of systems to support measurement activities, with particular reference to technological innovations related to the Acea 2.0 project;
- Acea Energia for € 24,078 thousand for software related to the Acea 2.0 programme, the Credit Scoring project and the CRM and DMS systems;
- the Parent Company for € 5,904 thousand for the purchase and implementation of software to support the development of IT platform management systems, corporate security and administrative management.

The item "**other intangible assets**" includes the effects of the first application of IFRS 15 in relation to agents' costs (€ 19,249 thousand).



## 17. Equity investments in unconsolidated subsidiaries and associates - € 279,085 thousand

€ thousand	Equity investments accounted for using the equity method	Equity investments valued at cost	Total
<b>Value at 31.12.2017</b>	<b>280,440</b>	<b>413</b>	<b>280,853</b>
- acquisitions - sales	0	0	0
- changes in capital reserves	(2,134)	0	(2,134)
- equity valuations	44,447	(306)	44,141
- dividends	(10,069)	0	(10,069)
- change in scope of consolidation	(47,337)	0	(47,337)
- other changes	13,630	0	13,630
<b>Value at 31.12.2018</b>	<b>278,977</b>	<b>107</b>	<b>279,085</b>

The primary changes which occurred over the course of the year refer to:

- changes in capital reserves deriving from the effects of the adoption of the new IFRS 15 (€ 1,203 thousand) and IFRS 9 (€ 930 thousand) international standards from 1<sup>st</sup> January 2018;
- valuations of companies consolidated using the equity method, having a positive impact on the income statement totalled € 44,447 thousand; these valuations are booked mainly under “Income/costs from equity investments of a non-financial nature” (€ 43,320 thousand) and under “Income/costs from equity investments” for € 1,128 thousand;
- a reduction due to the consolidation of the company Gori for € 44,448 thousand;
- other changes mainly due to a reclassification of the provision for risks of write-downs made in previous years on some investments.

### Year 2018

€ thousand	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenues	Net profit/(loss)	NFP
AZUL	4,743	2,537	(112)	(211)	3,124	1,120	2,198
INTESA ARETINA	10,232	396	-	(506)	266	537	223
NUOVE ACQUE	18,530	4,574	(9,461)	(2,726)	9,002	916	(4,546)
ECOMED	3	375	(4)	(421)	-	(6)	165
FIORA	99,020	30,007	(72,994)	(22,316)	46,341	4,854	(38,805)
GEAL	15,669	5,057	(7,362)	(5,494)	8,536	1,001	(2,049)
INGEGNERIE TOSCANE	3,299	13,436	(569)	(9,263)	11,734	2,318	(3,782)
ACQUE SERVIZI	981	10,326	(1,564)	(5,993)	12,273	571	(399)
ACQUE	198,213	39,689	(54,418)	(114,640)	77,191	14,243	(78,043)
PUBLIACQUA	196,858	48,706	(80,006)	(57,132)	102,814	16,528	(39,828)
UMBRA ACQUE	63,710	11,090	(32,117)	(30,503)	33,468	1,292	(14,969)
<b>TOTAL</b>	<b>611,258</b>	<b>166,194</b>	<b>(258,600)</b>	<b>(249,205)</b>	<b>304,750</b>	<b>40,287</b>	<b>(179,835)</b>

### Year 2017

€ thousand	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenues	Net profit/(loss)	NFP
AZUL	5,162	1,859	(110)	(163)	3,285	1,002	1,533
INTESA ARETINA	9,403	249	0	(633)	133	(463)	80
NUOVE ACQUE	18,614	5,408	(11,538)	(2,503)	9,300	964	(5,619)
ECOMED	3	376	(4)	(417)	0	(32)	165
FIORA	100,661	24,313	(75,510)	(20,340)	40,997	2,303	(47,336)
GEAL	14,376	5,399	(7,444)	(4,928)	7,992	1,253	(1,881)
GORI	97,367	164,432	(71,451)	(147,244)	63,825	1,796	1,712
GORI SERVIZI	528	1,871	(81)	(1,003)	2,175	122	9
INGEGNERIE TOSCANE	3,078	13,590	(457)	(10,008)	12,042	1,786	(3,403)
ACQUE SERVIZI	985	10,644	(1,196)	(6,880)	10,954	425	(779)
ACQUE	183,311	45,535	(120,504)	(54,743)	73,286	8,228	(83,292)
PUBLIACQUA	182,839	58,969	(92,354)	(50,093)	104,770	9,201	(48,884)
UMBRA ACQUE	58,984	15,052	(34,655)	(28,785)	30,683	279	(13,699)
<b>Total</b>	<b>669.619</b>	<b>343.968</b>	<b>(415.105)</b>	<b>(326.574)</b>	<b>353.982</b>	<b>25.740</b>	<b>(202.936)</b>

## 18. Other equity investments - € 2,614 thousand

This item, totalling € 2,614 thousand (€ 2,614 thousand also at the end of 2017), consists of equity interests that do not qualify as subsidiaries, associates or joint ventures.

## 19. Deferred tax assets - € 227,362 thousand

At 31 December 2018, deferred tax assets, net of deferred tax liabilities, amounted to € 227,362 thousand (€ 178,312 thousand at 31 December 2017).

The changes in deferred tax assets were mainly related to: 1) € 26,064 thousand relating to the provision for tax risks (€ 18,016 thousand as at 31 December 2017), 2) € 121,899 thousand to the amortisation/depreciation of tangible and intangible assets (€

129,842 thousand as at 31 December 2017), 3) € 63,085 thousand for the impairment of receivables (€ 56,648 thousand as at 31 December 2017) 4) for € 13,592 thousand to defined benefit and defined contribution plans (€ 14,027 thousand at 31 December 2017), 5) € 19,853 thousand to fair value of commodities and other financial instruments (€ 11,247 thousand as at 31 December 2017).

The deferred taxes allocation fund includes in particular the deferred taxes tied to differences existing between the economic-technical amortisation portions applied to depreciable assets and tax portions. Uses in the period totalling € 6,862 thousand and allocations amounting to € 9,487 thousand contributed to this item.

The following table details the changes in this item:

€ thousand	2017		Changes in 2018				
	Balance	Changes in scope of consolidation	Adjustments/ Reclassifications	Changes in shareholders' equity	Uses	IRES/IRAP provisions	Balance
<b>Prepaid taxes</b>							
Tax losses	132	0	0	0	0	0	132
Remuneration of BoD members	110	0	(90)	0	(18)	14	16
Provisions for risks and charges	18,016	0	40	0	(9,900)	17,907	26,064
Impairments of receivables and equity investments	56,648	0	919	5,918	(11,369)	10,969	63,085
Depreciation/amortisation	129,842	0	(7,715)	303	(10,523)	10,991	122,899
Defined benefit and defined contribution plans	14,027	0	639	(519)	(793)	238	13,592
Tax assets on consolidation adjustments	20,726	0	(15,554)	0	(5,955)	6,739	5,955
Fair value commodities and other financial instruments	11,247	114	(135)	16,054	(7,426)	0	19,853
Others	20,400	10,218	(3,507)	33,214	(10,656)	11,788	61,456
<b>Total</b>	<b>271,148</b>	<b>10,332</b>	<b>(25,403)</b>	<b>54,970</b>	<b>(56,640)</b>	<b>58,646</b>	<b>313,053</b>
<b>Deferred taxes</b>							
Depreciation/amortisation	79,625	59	(27,184)	(1,735)	(1,894)	451	49,322
Defined benefit and defined contribution plans	(1,667)	0	645	908	(142)	70	(186)
Fair value commodities and other financial instruments	8,807	0	511	2,463	386	3,848	16,016
Others	6,069	7,606	(286)	7,247	(5,213)	5,118	20,539
<b>Total</b>	<b>92,834</b>	<b>7,665</b>	<b>(26,314)</b>	<b>8,882</b>	<b>(6,862)</b>	<b>9,487</b>	<b>85,691</b>
<b>Net</b>	<b>178,314</b>	<b>2,667</b>	<b>911</b>	<b>46,087</b>	<b>(49,777)</b>	<b>49,160</b>	<b>227,362</b>

The Group recognised deferred tax assets based on earnings forecasts in the Group's business plans, which confirm the probability that sufficient future taxable profit will be available against which all of the deferred tax assets recognised in the financial statements can be recovered.

## 20. Non-current financial assets - € 55,831 thousand

These amount to € 55,831 thousand (€ 66,099 thousand at 31 December 2017) and show a decrease of € 10,267 thousand due mainly to the change in receivables due from Roma Capitale for €

3,471 thousand, relating to new investments for the Public Lighting service, such as plant upgrading, energy savings, legislative adjustments and technological innovation, which will be paid to Acea, for an amount equal to tax depreciation, after 2015, in compliance with the terms of the Supplementary Agreement to the service contract signed on 15 March 2011, and for € 4,590 thousand resulting from the application of the financial asset model envisaged by IFRIC 12, for the parent company, with respect to concession services. This receivable represents all the investments made up to 31 December 2010 related to the service itself.

## 21. Other non-current assets - € 379,878 thousand

At 31 December 2018, the break-down was as follows:

€ thousand	31/12/18	31/12/17	Change	% Change
Amounts due from the State	92	92	0	n.s.
Advances and deposits	1,006	897	109	12.2%
Other receivables	366	295	71	24.1%
Long-term receivables for tariff adjustments	286,103	135,920	150,183	110.5%
Long-term receivables for Regulatory Lag	80,020	68,938	11,082	16.1%
Accrued income and prepayments	12,292	288	12,003	n.s.
<b>Other non-current assets</b>	<b>379,878</b>	<b>206,430</b>	<b>173,449</b>	<b>84.0%</b>

This item includes long-term receivables for tariff adjustments for € 286,103 thousand (€ 135,920 thousand at 31 December 2017) of the water companies, which increased mainly following the consolidation of Gori (+ € 129,176 thousand), while € 80,020 thou-

sand (€ 68,938 thousand at 31 December 2017) are the receivables registered in areti for the regulatory lag.

## 22. Current assets - € 2,421,364 thousand

€ thousand	31/12/2018	31/12/17	Change	% Change
<b>Inventories</b>	<b>48,789</b>	<b>40,201</b>	<b>8,588</b>	<b>21.4 %</b>
Trade receivables:				
Receivables from customers	863,200	901,311	(38,111)	(4.2)%
Receivables from Parent Company	52,513	47,651	4,862	10.2%
Receivables from subsidiaries and associates	12,122	36,503	(24,382)	(66.8)%
<b>TOTAL TRADE RECEIVABLES</b>	<b>927,834</b>	<b>985,465</b>	<b>(57,631)</b>	<b>(5.8%)</b>
Other current receivables and assets	252,888	185,346	67,542	36.4 %
Current financial assets	113,960	237,671	(123,712)	(52.1)%
Tax receivables	9,756	24,739	(14,984)	(60.6)%
Cash and cash equivalents	1,068,138	680,641	387,497	56.9 %
<b>Current assets</b>	<b>2,421,364</b>	<b>2,154,063</b>	<b>267,301</b>	<b>12.4%</b>

### 22.a -Inventories

These amounted to € 48,789 thousand (€ 40,201 thousand at 31 December 2017). The breakdown by operating segment is as follows:

€ thousand	31/12/2018	31/12/17	Change	% Change
Environment	5,608	5,639	(31)	(0.5)%
Commercial and Trading	401	0	401	n.s.
Overseas	945	777	167	21.5 %
Water	9,217	7,016	2,202	31.4 %
Energy Infrastructures	30,293	22,022	8,271	37.6 %
Engineering and Services	2,325	4,747	(2,423)	(51.0)%
Parent Company	0	0	0	0 %
<b>Total</b>	<b>48,789</b>	<b>40,201</b>	<b>8,588</b>	<b>21.4 %</b>

The increase is essentially due to the increase in areti (+ € 9,606 thousand).

when the figure was € 985,465 thousand.

### 22.b - Commercial Trade

These amounted to € 927,834 thousand, recording a decrease of € 57,631 thousand compared to the previous year,

#### Trade receivables

These amounted to € 863,200 thousand, recording a decrease of € 38,111 thousand compared to 31 December 2017.

€ million	31/12/2018	31/12/17	Change	% Change
Trade receivables	863,200	901,311	(38,111)	(4.2)%
Amounts due from Roma Capitale	52,513	47,651	4,862	10.2%
Receivables from subsidiaries and associates	12,122	36,503	(24,382)	(66.8)%
<b>Current receivables</b>	<b>927,834</b>	<b>985,465</b>	<b>(57,631)</b>	<b>(5.8%)</b>

€ thousand	31/12/2018	31/12/17	Change	% Change
Receivables due from end users for bills issued	307,075	449,749	(142,673)	(31.7)%
Receivables due from end users for bills to be issued	411,299	301,480	109,819	36.4 %
<b>Total receivables due from end users</b>	<b>718,374</b>	<b>751,229</b>	<b>(32,854)</b>	<b>(4.4)%</b>
Receivables from other customers	144,766	150,022	(5,256)	(3.5)%
Other current receivables and assets	60	60	0	0 %
<b>Total receivables</b>	<b>863,200</b>	<b>901,311</b>	<b>(38,111)</b>	<b>(4.2)%</b>

Receivables are shown net of the allowance for doubtful accounts, which at 31 December 2018 amounted to € 694,220 thousand and increased by € 290,617 thousand compared to the previous year mainly due to the first application of IFRS 9 starting from 1 January 2018, which, as clearly noted in the Measurement Criteria and Ac-

counting Principles of the Explanatory Notes to the Financial Statements, replaced the previous IAS 39 accounting standard.

The performance of receivables, both gross and net of the provision for the impairment of receivables, is shown below.

€ million	31/12/18			31/12/17			Change		
	Gross receivables	Impairment provision	Net receivables	Gross receivables	Impairment provision	Net receivables	Gross receivables	Impairment provision	Net receivables
	(a)	(b)		(c)	(d)		(a)-(c)	(b)-(d)	
Environment	56,240	(4,400)	51,840	54,016	(3,611)	50,405	2,224	(789)	1,435
Commercial and Trading	540,076	(323,686)	216,389	587,202	(269,282)	317,920	(47,126)	(54,404)	(101,531)
International	16,458	(8,218)	8,240	14,209	(6,248)	7,961	2,249	(1,970)	279
Water	726,119	(267,947)	458,172	454,681	(81,521)	373,160	271,438	(186,426)	85,012
Energy Infra-structures	213,786	(87,891)	125,895	184,976	(38,715)	146,262	28,810	(49,177)	(20,367)
Engineering and Services	2,753	(918)	1,835	5,741	(859)	4,882	(2,988)	(59)	(3,046)
Parent Company	1,989	(1,160)	829	4,090	(3,368)	722	(2,100)	2,207	107
<b>Total</b>	<b>1,557,421</b>	<b>(694,220)</b>	<b>863,200</b>	<b>1,304,914</b>	<b>(403,604)</b>	<b>901,311</b>	<b>252,506</b>	<b>(290,617)</b>	<b>(38,111)</b>

#### Environment segment receivables

These totalled € 51,840 thousand and increased by € 1,435 thousand compared to 31 December 2017; the increase is due for € 768 thousand to the consolidation of Bioecologia, for the rest to the combined effect of the increase in Acque Industriali (+ € 1,367 thousand) and in Iseco (+ € 995 thousand) mitigated by the reduction recorded in Aquaser (- € 1,725 thousand).

During 2018, Acea Ambiente receivables were transferred without recourse for a total amount of € 15,332 thousand, all due from the Public Administration.

#### Commercial and Trading segment receivables

Receivables in this segment amounted to € 216,389 thousand and are primarily generated by the sale of electricity to the protected and free markets and by gas sales. The decrease compared to 2017 was € 101,531 thousand. The provision for impairment of receivables at 31 December 2018 amounted to € 323,686 thousand, with an increase net of uses of € 54,404 thousand compared to 31 December 2017. The increase in the provision attributable to the first application of the new IFRS 9 standard is € 59,867 thousand. In 2018, Acea Energia receivables totalling € 451,145 thousand were transferred pro-soluto, € 5,954 thousand to the Public Administration.

#### Overseas segment receivables

These totalled € 8,240 thousand and increased compared to 31 December 2017 mainly due to the consolidation of Consorcio Servicio Sur.

#### Water Segment receivables

These totalled € 458,172 thousand, recording an increase of

€ 85,012 thousand compared to 31 December 2017.

The increase in receivables before the provision of € 271,438 thousand is mainly attributable to the consolidation of Gori (+ € 211,617 thousand).

The provision for impairment of receivables at 31 December 2018 amounted to € 267,947 thousand, with an increase net of uses of € 186,426 thousand compared to 31 December 2017. The increase in the provision attributable to the first application of the new IFRS 9 standard is € 103,990 thousand.

The Group recognised part of the adjustments in non-current assets for € 285,796 thousand (€ 135,920 thousand as at 31 December 2017).

In 2018, Acea Ato 2 receivables totalling € 360,905 thousand were transferred pro-soluto, € 36,324 thousand to the Public Administration.

#### Energy Infrastructures segment receivables

These amount to € 125,895 thousand with a decrease of € 20,367 thousand compared to 31 December 2017, which refers to areti for € 19,326 thousand. The increase in gross receivables (+ € 28,810 thousand) refers to € 22,032 thousand for the effects to areti deriving from the regulatory changes contained in Resolution no. 654/2015/R/eel of ARERA, which led to the registration of income deriving from the elimination of regulatory lag. For more detail, please see the comments on the performance of the business segments.

The provision for impairment of receivables at 31 December 2018 totalled € 87,891 thousand and recorded an increase of € 49,177 thousand, also due to the first application of the new IFRS 9 standard (€ 23,712 thousand).

In 2018, areti receivables totalling € 548,372 thousand were transferred pro-soluto, € 146,257 thousand to the Public Administration.

#### Engineering and Services segment receivables

These totalled € 1,835 thousand, and the reduction of € 3,046 thousand compared to 31 December 2017 refers to Technologies for Water Services.

#### Parent Company receivables

These totalled € 0.8 thousand, recording an increase of € 0.1 thousand compared to 31 December 2017. The Provision for impairment of receivables amounted to € 1.2 thousand, unchanged compared to the previous year.

#### Receivables from the Parent Company Roma Capitale

Trade receivables due from Roma Capitale totalled € 52,513 thousand at 31 December 2018 (€ 47,651 thousand at 31 December 2017).

The total amount of receivables (including short-term and medium/long term financial receivables resulting from the public lighting contract) was € 155,993 thousand compared to € 187,219 thousand at the end of the previous year.

As part of the activities required for the first consolidation of the Acea Group in the 2018 Financial Statements of Roma Capitale, a round table was launched to reconcile the Roma Capitale Receivables and Payables. After several meetings and exchanges, Roma Capitale expressed various objections concerning the supply of both works and services for the 2008-2018 period. These objections were fully rejected by the Acea Group. However, in order to identify a complete resolution of the divergences, a joint Acea Group - Roma Capitale Committee will be launched during 2019 that will seek to settle the various claims.

Given the uncertainty over the full recovery of receivables due from Roma Capitale, the Group has prudently drawn up its best estimate of their 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.

The following table presents an analysis of receivables and payables, including those of a financial nature, between Acea Group and Roma Capitale, as regards both net credit exposure and debt exposure, including financial items.

€ thousand	31/12/2018	31/12/17	Change	% Change
RECEIVABLES	155,993	187,291	(31,298)	(16.7 %)
PAYABLES (including dividends)	(108,063)	(129,064)	21,000	(16.3%)
<b>Balance (Receivables - Payables)</b>	<b>47,930</b>	<b>58,227</b>	<b>(10,297)</b>	<b>17.7 %</b>

The following tables also provide a breakdown of Group receivables/payables due from/to Roma Capitale. Receivables are expressed net of the related provision for doubtful accounts which at 31 December 2018 amounted to € 51,534 thousand (€ 23,091 thousand at 31 December 2017). During the year, € 9,500 thousand was written down for receivables arising during the year (of

which € 4,233 thousand for default interest) and the valuation at 1 January 2018 was updated to € 15,736 thousand for the first application of the IFRS 9 accounting principle. It should be noted that in the 2018 interim reports this assessment had not yet been considered; if it had been entered the effects would have been the same as those recorded at 31 December 2018.

Amounts due from Roma Capitale	31/12/2018	31/12/17	Change
Utility receivables	55,639	43,089	12,550
Provision for write-downs	(9,315)	(5,021)	(4,294)
<b>Total receivables from users</b>	<b>46,324</b>	<b>38,067</b>	<b>8,256</b>
Receivables for water works and services	3,274	4,599	(1,325)
Receivables for water works and services to be invoiced	1,542	1,306	236
Contributions	0	2,402	(2,402)
Provision for write-downs	(1,897)	0	(1,897)
Receivables for electrical works and services	3,568	1,184	2,384
Provision for write-downs	(326)	0	(326)
<b>Total receivables for works</b>	<b>6,161</b>	<b>9,490</b>	<b>(3,329)</b>
<b>Total trade receivables</b>	<b>52,485</b>	<b>47,558</b>	<b>4,927</b>
Financial receivables for Public lighting services billed	99,110	118,322	(19,212)
Provision for write-downs	(30,152)	(12,460)	(17,692)
Financial receivables for Public lighting services to be billed	25,697	17,314	8,383
Provision for write-downs	(9,843)	(5,610)	(4,233)
M/L term financial receivables for Public lighting services	18,697	22,168	(3,471)
<b>Total public lighting receivables</b>	<b>103,508</b>	<b>139,733</b>	<b>(36,225)</b>
<b>Total Receivables</b>	<b>155,993</b>	<b>187,291</b>	<b>(31,298)</b>



Payables due to Roma Capitale	31/12/2018	31/12/17	Change
Electricity surtax payable	(15,252)	(15,257)	5
Concession fees payable	(79,839)	(100,235)	20,396
<b>Other payables</b>	<b>(12,972)</b>	<b>(11,403)</b>	<b>(1,569)</b>
<b>Dividend payables</b>	<b>0</b>	<b>(2,169)</b>	<b>2,169</b>
<b>Total payables</b>	<b>(108,063)</b>	<b>(129,064)</b>	<b>21,000</b>
<b>Net balance receivables payables</b>	<b>47,930</b>	<b>58,227</b>	<b>(10,297)</b>

The change in receivables and payables results from items accrued in the period and consequent to adjustments and amounts received. During the period, collections and compensation were recognised for a total of €65,305 thousand. The types of loans involved 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 as an off-balance sheet debt by the Capitoline 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 receivables related to the agreement supplementing the Public Lighting contract relating to the LED Plan;
- € 2,898 thousand for loans relating to network modernisation and security for the 1st, 2nd and 3rd quarter 2016;
- € 936 thousand for reimbursements related to cable theft, years 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 direct payment (overall total € 68.4 million).

#### Trade receivables from associates and joint ventures

€ thousand	31/12/2018	31/12/17	Change	% Change
Receivables from Associates	6,314	2,807	3,506	124.9%
Receivables from jointly controlled entities	5,808	33,696	(27,888)	(82.8%)
<b>Total</b>	<b>12,122</b>	<b>36,503</b>	<b>(24,382)</b>	<b>(66.8%)</b>

#### Receivables from associates

These amount to € 6,314 thousand (€ 2,807 thousand at 31 December 2017) and mainly refer to receivables from S.I.I. for € 4,013 thousand and from Marco Polo for € 1,262 thousand.

#### Receivables from joint ventures

These amounted to € 5,808 thousand (€ 33,696 thousand at 31 December 2017), down by € 27,888 thousand, and they refer to amounts due from companies consolidated using the equity meth-

od. In particular, the balance consists of the receivables recorded in Acea from its subsidiaries for € 5,601 thousand. The decrease derives for € 10,431 thousand from the full consolidation of Gori S.p.A.. The receivables from subsidiaries recorded in Acea were affected by the recognition of others arising from the allocation of costs incurred for the Acea2.0 programme and reflects the allocation of the investment in the joint venture.

#### 22.c - Other current assets and credits

€ thousand	31/12/2018	31/12/17	Change	% Change
Receivables from others	225,142	169,427	55,715	32.9%
Accrued income and prepayments	19,196	13,678	5,517	40.3%
Payables arising from commodity derivatives	8,550	2,241	6,310	n.s.
<b>Total</b>	<b>252,888</b>	<b>185,346</b>	<b>67,542</b>	<b>36.4%</b>

#### Receivables from others

These totalled € 225,142 thousand, with breakdown of the main contributing items as follows:

€ thousand	31/12/2018	31/12/17	Change	% Change
Receivables due from the Equalisation Fund	54,147	47,842	6,305	13.2%
Receivables from Equalisation Fund for Tariff Contribution from cancellation	2,823	12,809	(9,986)	(78.0%)
Other receivables from Equalisation Fund	11,718	(55)	11,774	n.s.
Regional grants receivable	10,252	6,841	3,412	49.9%

(follows)

€ thousand	31/12/2018	31/12/17	Change	% Change
Receivables from Equitalia	96	4,293	(4,197)	(97.8%)
Security deposits	2,988	10,803	(7,815)	(72.3%)
Receivables from social security institutions	2,780	3,160	(380)	(12.0%)
Receivables from individual transfers	2,192	2,200	(8)	(0.3%)
Suppliers' advances	775	5,387	(4,613)	(85.6%)
Receivables due from Municipalities	11,589	1,085	10,503	n.s.
Receivables from Factor from the sale	62	62	0	0.0%
Receivables for accrued Green Certificates	9,438	12,657	(3,219)	(25.4%)
Receivables from staff	3	5	(1)	(23.0%)
Other receivables for Naples public lighting services	0	647	(647)	(100.0%)
Advances to employees	60	(38)	98	n.s.
Other receivables	84,577	24,574	60,002	n.s.
<b>Total</b>	<b>193,501</b>	<b>132,273</b>	<b>61,228</b>	<b>46.3%</b>

The change compared to the previous year derived mainly from the full consolidation of Gori (€ 58,541 thousand).

#### Accrued income and prepaid expenses

These amounted to € 19,196 thousand (€ 13,678 thousand at 31 December 2017) and refer mainly to rent on public land, lease payments and insurance.

The change was a positive € 5,517 thousand.

#### **22.d - Current tax assets**

These amounted to € 9,756 thousand (€ 24,739 thousand at 31 December 2017) and include IRAP and IRES receivables.

#### **22.e - Current financial assets**

€ thousand	31/12/2018	31/12/17	Change	% Change
Financial receivables from the Parent Company	84,783	117,472	(32,689)	(27.8%)
Financial receivables from subsidiaries and associates	2,306	2,309	(3)	(0.1%)
Financial receivables from third parties	26,871	117,891	(91,020)	(77.2%)
<b>Total</b>	<b>113,960</b>	<b>237,671</b>	<b>(123,712)</b>	<b>(52.1%)</b>

#### Financial receivables from the Parent Company Roma Capitale

These totalled € 84,783 thousand, recording a decrease of € 32,689 thousand compared to 31 December 2017. They represent the unconditional right to receive cash flows in line with the methods and timing envisaged in the service agreement for public lighting management. Further details are provided in the note "Receivables due from the Parent Company Roma Capitale".

#### Financial receivables from associates and joint ventures

These amount to € 2,306 thousand (€ 2,309 thousand as at 31 December 2017) and refer for € 1,399 thousand to the short-term portion of the loan for financing members registered in Umbriadue Servizi provided to the associated company S.I.I.

#### Financial receivables from third parties

These amounted to € 26,871 thousand (€ 117,891 thousand at 31 December 2017) and are mainly broken down as follows:

- € 10,700 thousand recorded in Acea Ato 5. This amount refers to the receivable from the ATO and accrued over three years; one-third of the above amount was due December 31 of each year, with the first instalment due on 31 December

2007. The Settlement Agreement entered into by the Company and the ATO concerns the issue of higher operating costs incurred in the 2003-2005 period and provides for the recognition of higher costs net of sums relating to 1) the tariff portion - corresponding to amortisation/depreciation and return on inflated invested capital - relating to the investments set out in the Area Plan and not carried out in the first three-year period 2) the portion of inflation accrued on concession fees and 3) fines for the non-fulfilment of contractual obligations in the three-year period,

- € 5,283 thousand recorded in Acea and accrued from receivables for the management of the public lighting service.
- € 3,760 thousand recorded in Ecogena for finance leases issued for the cogeneration plants built.

#### **22.f- Cash and cash equivalents**

The balance at 31 December 2018 of bank current accounts and postal accounts, opened with the various banks and Post Offices by the consolidated companies, except by companies held for sale, amounted to € 1,068,138 thousand. A breakdown and changes in this item by operating segment are shown in the table below:

€ thousand	31/12/2018	31/12/17	Change	% Change
Environment	2,773	1,875	898	47.9 %
Commercial and Trading	7,218	27,118	(19,899)	(73.4%)
Overseas	4,735	2,785	1,950	70.0%
Water	50,362	65,089	(14,728)	(22.6%)
Energy Infrastructures	15,104	55,019	(39,915)	(72.5%)
Engineering and Services	9,395	1,332	8,063	n.s.
Parent Company	978,552	527,423	451,129	85.5 %
<b>Total</b>	<b>1,068,138</b>	<b>680,641</b>	<b>387,497</b>	<b>56.9 %</b>

### 23. Non-current assets held for sale/Liabilities directly associated with assets held for sale - € 146 thousand

The balance at 31 December 2018 amounted to € 146 thousand, unchanged from 31 December 2017. It includes the recognition of € 183 thousand as the fair value of the repurchase commitment, if certain contractual conditions are not satisfied, as a result of the possible exercise of the put option granted to the buyer of the PV business unit, and the recognition of € 37 thousand for the amount

due to the buyer for the repayment of equity corresponding to the plants subject to the put.

#### Liabilities

At 31 December 2018 these amounted to € 8,157,061 thousand (€ 7,208,974 thousand at 31 December 2017), recording an increase of € 948,087 thousand (+13.2 %) over the previous year, and are broken down as follows.

€ thousand	31/12/18	31/12/17	Change	% Change
Shareholders' equity	1,903,491	1,811,206	92,285	5.1 %
Non-current liabilities	3,962,864	3,242,507	720,357	22.2 %
Current liabilities	2,290,670	2,155,225	135,445	6.2 %
Liabilities directly associated with assets held for sale	37	37	0	0.0%
<b>Total Liabilities</b>	<b>8,157,061</b>	<b>7,208,974</b>	<b>948,087</b>	<b>13.2 %</b>

### 24. Shareholders' equity - € 1,903,491 thousand

At 31 December 2018, shareholders' equity amounted to € 1,903,491 thousand (€ 1,811,206 thousand at 31 December 2017). Changes in shareholders' equity during the period are shown in the appropriate statement.

#### Share capital

This amounts to € 1,098,899 thousand, 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** ordinary shares with an overall par value of € 560,434 thousand;
- **Market: 103,936,757** shares for a total par value of € 536,309 thousand;
- **Treasury shares: 416,993** ordinary shares for a total par value of € 2,151 thousand.
- **AMA: 1,000** shares for a total par value of € 5 thousand.

#### Legal reserve

The legal reserve includes 5% of the profits from previous years, in accordance with article 2430 of the Italian Civil Code, and it refers to the legal reserve of the parent company amounting to € 111,948 thousand.

#### Other reserves and retained earnings

At 31 December 2018 this item amounted to € 247,793 thousand against € 337,427 thousand at 31 December 2017.

In addition to the allocation of the previous year's result, the change of € 94,040 thousand derives mainly from:

1. distribution of dividends of the parent company for € 133,905 thousand and
2. decrease in cash flow hedges of financial instruments and commodities for € 13,529 thousand
3. increase of € 2,453 thousand in actuarial gains and losses reserves
4. decrease in the exchange rate reserve for € 8,438 thousand. The registration of the FTA following the first application of the new IFRS 9 and IFRS 15 international standards should also be noted. This entry net of tax effects amounts to a total of € 158,569 thousand.

At 31 December 2018 Acea held 416,993 treasury shares to be used for future medium/long-term incentive schemes. At this time there are no medium/long-term share-based payment schemes planned.

#### Minority interests

These amounted to € 173,853 thousand, an increase of € 80,273 thousand. The difference between the two periods under comparison mainly reflects the combined effect of the portion of net profit attributable to minority interests, the decrease in shareholders' equity as a result of the distribution of dividends from net profit for 2017.

### 25. Employee severance indemnity and other defined benefit plans - € 103,930 thousand

At 31 December 2018, this item amounted to € 103,930 thousand (€ 108,430 thousand as at 31 December 2017) and represents termination and other benefits payable to employees on retirement or termination of employment.

The following table shows the change in actuarial liabilities during the year.

€ thousand	31/12/2018	31/12/17	Change	% Change
Benefits due at the time of termination of employment				
- Employee severance indemnity	65,902	67,002	(1,100)	(1.6%)
- Extra months	10,461	10,989	(527)	(4.8%)
- Long-Term Incentive Plans (LTIP)	2,009	1,219	790	64.8 %
Post-employment benefits				
- Tariff subsidies	25,558	29,220	(3,662)	(12.5%)
<b>Total</b>	<b>103,930</b>	<b>108,430</b>	<b>(4,500)</b>	<b>(4.2%)</b>

In addition to the provision which, pursuant to the revised legislation on Termination Benefits, consists of the employee termination benefits accrued until 31 December 2006, the change reflects the revised discount rate used for the valuation according to IAS 19.

As required by paragraph 78 of IAS 19, the interest rate used to calculate the present value of the obligation was based on returns, at the end of the reporting period, on securities of major compa-

nies listed on the same financial market as Acea, and on returns on government bonds in circulation at the same date that have terms to maturity similar to the residual term of the liability for the workforce in question.

As regards the economic and financial scenario, the following table shows the main parameters used for the evaluation.

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

With regard to the measurement of the Group Employee Benefits (Employee severance indemnity (TFR), Monthly bonuses, tariff subsidies for current and retired staff) a sensitivity analysis was per-

formed to assess the changes in the liability resulting from both positive and negative shifts of the rate curve (+ 0.5% shift / - 0.5% shift). The results of this analysis are summarised below.

Type of plan	+0.5%	-0.5%
€ million		
Employee severance indemnity (TFR)	-3.4	+3.7
Tariff subsidies	-1.0	+1.1
Extra months	-0.8	+0.3

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

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

Type of plan	-1 year of age
€ million	
Employee severance indemnity (TFR)	-0.1
Tariff subsidies	-0.8
Extra months	-0.1

## 26. Provision for risks and charges - € 136,651 thousand

At 31 December 2018, the provision for risks and charges amounted to € 136,651 thousand (€ 204,702 thousand at 31 December 2017) and is allocated to hedge among other things probable liabilities that may derive from ongoing legal disputes, on the basis of that stated by internal and external lawyers, without considering those that could be successful and those that could be lost being assessed exclusively as possible.

When calculating the size of the provisions, account is taken both of the estimated costs that may derive from litigation or other disputes arising during the year and an update of estimates of the potential liabilities deriving from the litigation involving the Company in previous years.

The following table shows a breakdown of provisions and movements in the year:

€ thousand	31/12/17	Uses	Provisions	Payment of Redundancy Funds	Reclassifications/ Other changes	31/12/18
Legal	11,739	(1,774)	2,618	(429)	1,045	13,198
Tax Office	9,344	(3,727)	5,381	(28)	(242)	10,728
Regulatory risks	60,994	(1,640)	11,440	(44,239)	0	26,556
Investees	10,799	0	1,000	(722)	(3,345)	7,732
Contributory risks	2,594	(136)	284	(1,461)	(205)	1,076
Insurance excess	2,111	(2,051)	2,488	(209)	7,241	9,580

(follows)						
€ thousand	31/12/17	Uses	Provisions	Payment of Redundancy Funds	Reclassifications/ Other changes	31/12/18
Other risks and charges	14,751	(8,086)	12,644	(2,523)	6,765	23,461
<b>Total Provision for Risks</b>	<b>112,331</b>	<b>(17,413)</b>	<b>35,856</b>	<b>(49,611)</b>	<b>11,169</b>	<b>92,332</b>
Early retirements and redundancies	18,155	(18,884)	28,210	(1,830)	0	25,651
VAT Variation Notes	26,719	0	0	0	(26,719)	0
Post mortem	17,303	0	0	(1,022)	428	16,709
Provision for Settlement Charges	222	(173)	174	0	52	275
Provision for Charges of others	361	0	1,671	0	(347)	1,685
<b>Provisions for restoration charges</b>	<b>29,681</b>	<b>0</b>	<b>0</b>	<b>(505)</b>	<b>(29,176)</b>	<b>0</b>
<b>Total Provision for Charges</b>	<b>92,441</b>	<b>(19,057)</b>	<b>30,055</b>	<b>(3,357)</b>	<b>(55,762)</b>	<b>44,319</b>
<b>Total Provisions for Risks and Charges</b>	<b>204,772</b>	<b>(36,470)</b>	<b>65,910</b>	<b>(52,969)</b>	<b>(44,593)</b>	<b>136,651</b>

The main changes refer to:

- the provision for regulatory risks, which decreased by € 44,215 thousand following the release of the provision relating to GORI, as a result of the absence of the conditions for its existence deriving from the effects of the agreements signed with the Campania Region and the EIC;
- the provision for investee risks which fell by an overall € 3,067 thousand, mainly due to the closure of the Business Combination of the TWS Group which resulted in a release of the provision to the income statement of € 8,902 thousand, offset by the reclassification, for € 5,267 thousand, of write-downs made in previous years on certain investments in associated companies previously deducted from the item "Equity investments".
- the provision for early retirements and redundancies to cover the charges deriving from the mobility plan which increased, net of uses, by € 7,496 thousand compared to 31 December 2017;
- the provisions for the change in VAT expense of Acea Energia, areti, Acea Ato 2 and Acea Ato 5 to cover the possible restitution of VAT to the tax authorities in the event of payment by the defaulting customer subsequent to the issue of the variation note as a consequence of modification of the regulation introduced by Italian Law no. 208/2015 regarding variation notes for VAT purposes following termination of contracts for the supply of electricity, gas and water due to default; at 31 December 2018 the entire amount was reclassified to the provision for impairment of receivables for a more suitable classification of the item;

- the provision for restoration charges, which decreased following the change in the methods for applying IFRIC 12's estimation criteria.
- the post-mortem fund which refers to 1) charges related to the management of the Orvieto landfill, which decreased due to the change in the accounting estimates relating to the discounting of this fund and 2) to the fund set up in Acea Produzione for the decommissioning of the Tor di Valle plant which entered service in 2017. The change is attributable to the substantial A.I.A. change for "Morphological adaptation of the site and optimisation of volumes and top capping" which extended the concession of the Orvieto landfill in terms of volume and time horizon; the post-mortem costs and the effect of discounting have therefore been restated.

For more details about the nature of the allocations please refer to note 7.

Acea considers that the settlement of ongoing disputes and other potential disputes should not create any additional charges for Group companies, with respect to the amounts set aside, which represent the best estimate possible on the basis of elements available as of today.

For further information please refer to the section "Update on major disputes and litigation".

## 27. Non-current borrowings and financial liabilities - € 3,374,134 thousand

€ thousand	31/12/2018	31/12/17	Change	% Change
Bonds	2,678,392	1,695,028	983,363	58.0%
Medium/long-term borrowings	695,743	1,050,007	(354,264)	(33.7%)
<b>Total</b>	<b>3,374,134</b>	<b>2,745,035</b>	<b>629,099</b>	<b>22.9 %</b>

The figures in the table include the fair value, at 31 December 2018, of hedging instruments entered into by Acea and certain

Group companies which are shown separately from the hedged instrument in the table below.

€ thousand	Hedged instrument	Fair value of derivative	31.12.2018	Hedged instrument	Fair value of derivative	31.12.2017
Bonds	2,656,605	21,787	2,678,392	1,656,682	38,347	1,695,028
Medium/long-term borrowings	693,682	2,061	695,743	1,041,131	3,432	1,050,007
<b>Non-current borrowings and financial liabilities</b>	<b>3,350,287</b>	<b>23,848</b>	<b>3,374,134</b>	<b>2,697,813</b>	<b>41,778</b>	<b>2,745,035</b>

## 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 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 of the bonds, including the short-term portion:

€ thousand	Gross Payables (*)	FV hedging instrument	Interest (*) accrued(**)	Total
<b>Bonds:</b>				
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
<b>Total</b>	<b>2,652,610</b>	<b>21,787</b>	<b>30,083</b>	<b>2,704,480</b>

(\*) including amortised cost

(\*\*) including rates on hedging instruments

## MEDIUM/LONG-TERM BORROWINGS (INCLUDING SHORT-TERM PORTIONS)

These totalled € 1,016,921 thousand (€ 1,201,462 thousand at 31 December 2017) and include: **1)** principal outstanding falling due beyond twelve months amounting to 695,743 thousand (€ 1,044,563 thousand at 31 December 2017), **2)** the portions of the same borrowings falling due in the twelve months thereafter, totalling € 321,178 thousand (€ 156,899 thousand at 31 December 2017) including the

fair value portion, negative for € 2,061 thousand, of derivative instruments opened to hedge interest and exchange rate risks.

This change is essentially due to the early repayment of an EIB loan of € 50 million and the reclassification to the short-term position of two other loans falling due in January and June 2019 of € 100 million and € 150 million respectively.

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



Bank Borrowings:	Total Residual Debt	By 31.12.2019	From 31.12.2019 to 31.12.2023	After 31.12.2023
fixed rate	496,405	273,222	103,091	120,092
floating rate	493,463	39,623	213,858	239,981
floating rate to fixed rate	27,054	8,334	18,721	0
<b>Total</b>	<b>1,016,921</b>	<b>321,178</b>	<b>335,669</b>	<b>360,074</b>

The fair value of Acea hedging derivatives was a negative € 2,061 thousand, decreasing by € 1,371 thousand compared to 31 December 2017 (negative € 3,432 thousand).

The Group's principal medium/long-term borrowings are subject to covenants to be complied with by the borrowing companies in accordance with normal international practices.

In particular, the loan taken out by areti is subject to a financial covenant expressed in the current agreement as a two decimal places ratio of 0.65 between net financial debt and the sum of net financial debt and shareholders' equity, which must not be exceeded at the end of each reporting period. This ratio must be complied with by both the borrowing company and the Acea Group. The ratio, calculated with the same criteria as the aforementioned agreement, has been complied with in 2018.

The loan agreements entered into by the Parent Company envisage:

- standard Negative Pledge and Acceleration Events clauses;
- clauses requiring compulsory credit rating monitoring by at least two major agencies;
- clauses requiring the company to maintain a credit rating above certain levels;
- the obligation to arrange insurance cover and maintain owner-

ship, possession and usage of the works, plant and machinery financed by the loan through to the maturity date;

- periodic reporting requirements;
- clauses giving lenders the right to call in the loans on the occurrence of a certain event (i.e. serious errors in the documentation provided when negotiating the agreement, default on repayments, the suspension of payments), giving the bank the right to call in all or a part of the loan.

During the year there was no evidence that any of the covenants had not been complied with.

Information on the fair value of the above borrowings is provided in the section "Additional disclosures on financial instruments and risk management policies".

The table below shows the fair value of borrowings broken down by type of loan and interest rate as at 31 December 2018. The fair value of medium/long-term debt is calculated on the basis of the risk-free and the risk-adjusted interest rate curves. As regards the type of hedge for which the fair value is calculated and with reference to the hierarchies required by the IASB, given they are composite instruments, they are categorised as level 2 in the fair value hierarchy.

Bank Borrowings: € thousand	Amortised cost (A)	RISK-FREE FV (B)	Delta (A)-(B)	RISK ADJUSTED FV (C)	Delta (A)-(C)
Bonds	2,678,392	2,902,670	(224,279)	2,801,487	(123,095)
fixed rate	496,405	554,347	(57,943)	544,702	(48,297)
floating rate	488,380	499,568	(11,187)	498,034	(9,653)
floating rate to fixed rate	27,054	27,378	(324)	27,103	(49)
<b>Total</b>	<b>3,690,231</b>	<b>3,983,963</b>	<b>(293,733)</b>	<b>3,871,325</b>	<b>(181,095)</b>

## 28. Other non-current liabilities - € 348,148 thousand

€ thousand	31/12/18	31/12/17	Change	% Change
Advances received	146,229	116,045	30,184	26.0%
Water and electrical connection fees	75,462	40,987	34,476	84.1%
Capital grants	126,353	26,633	99,720	n.s.
Accrued liabilities and deferred income	104	605	(501)	(82.8%)
<b>Total other liabilities</b>	<b>348,148</b>	<b>184,270</b>	<b>163,879</b>	<b>88.9%</b>

## ADVANCES FROM END USERS AND CUSTOMERS

Advances include: 1) the amount of the security deposits and consumption advances of the water companies and 2) the amount of the deposits concerning the liabilities for advances on electricity

consumption paid by the customers on the Enhanced Protection market and interest-bearing under the conditions envisaged by the rules of the ARERA (resolution no. 204/99).

The following table provides the breakdown by operating segments:

€ thousand	31/12/18	31/12/17	Change	% Change
Environment	2	2	0	n.s.
Commercial and Trading	39,187	42,442	(3,255)	(7.7%)
Water	102,863	70,351	32,513	46.2 %
Energy Infrastructures	3,525	2,782	744	26.7 %
Engineering and Services	652	446	206	46.2 %
Parent Company	0	23	(23)	(100.0%)
<b>Total</b>	<b>146,229</b>	<b>116,045</b>	<b>30,184</b>	<b>26.0%</b>

The increase recorded by the Water Segment refers mainly to the full consolidation of GORI (+ € 29 million).

## CAPITAL GRANTS AND WATER CONNECTION FEES

These amount to € 75,462 thousand (€ 40,987 thousand as at 31 December 2017) and refer mainly to water connection fees for € 33,531 thousand, Acea Ato 2 for € 28,398 thousand, Acea Energia for € 8,674 thousand and Acea Ato 5 for € 4,759 thousand. The increase compared to the previous year is almost entirely due

to the application of the new IFRS 15 international standard. They are further comprised of € 126,353 thousand (€ 26,633 thousand at 31 December 2017) related to payments on behalf of plants registered in the liabilities annually attributed by share to the Income Statement in relation to the duration of the investment to which the issuance of the contribution is connected. The amount recognised as income is determined on the basis of the useful life of the asset to which it refers. The change compared to the previous year is due to the consolidation of Gori (€ 99,201 thousand).

## 29. Current liabilities - € 2,323,068 thousand

€ thousand	31/12/18	31/12/17	Change	% Change
Financial debt	408,675	633,155	(224,480)	(35.5%)
Trade payables	1,524,876	1,237,808	287,068	23.2 %
Tax Payables	27,750	2,697	25,052	n.s.
Other current liabilities	329,369	281,564	47,805	17.0 %
<b>Current liabilities</b>	<b>2,290,670</b>	<b>2,155,225</b>	<b>135,445</b>	<b>6.3 %</b>

## FINANCIAL PAYABLES

€ thousand	31/12/18	31/12/17	Change	% Change
Payables to banks for short-term credit lines	4,549	34,813	(30,265)	(86.9%)
Payables for bank loans	321,178	156,899	164,279	104.7 %
Short-term bonds	26,088	352,846	(326,758)	(92.6%)
Payables to the parent company Municipality of Rome	420	2,936	(2,516)	(85.7%)
Payables to subsidiaries and associates	596	663	(68)	(10.2%)
Payables to third parties	55,844	84,997	(29,153)	(34.3%)
<b>Total</b>	<b>408,675</b>	<b>633,155</b>	<b>(224,480)</b>	<b>(35.5%)</b>

### Payables to banks for short-term credit lines

These amount to € 4,549 thousand (€ 34,813 thousand at 31 December 2017) and show a decrease of € 30,265 thousand, mainly attributable to the Parent Company.

### Payables for bank loans

These amounted to € 321,178 thousand (€ 156,899 thousand at 31 December 2017), and refer to the current portion of bank loans falling due within twelve months. The increase is mainly attributable to the Parent Company, in particular 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. Further details are provided in note 28 of these documents.

### Short-term bonds

These amounted to € 26,088 thousand (€ 352,846 thousand at

31 December 2017). The decrease in short-term bonds is attributable for € 330,956 thousand to the extinction of the bond loan issued by the Parent Company at the beginning of September 2013, for a duration of 5 years expiring on 12 September 2018.

### Payables to the Parent Company Roma Capitale

These amount to € 420 thousand (€ 2,936 thousand at 31 December 2017) and are essentially composed of a residual advance paid in relation to the LED Plan.

### Payables to subsidiaries and associates

These amounted to € 596 thousand and decreased by € 68 thousand. This can be attributed to the Parent Company.

### Payables to third parties

These amounted to € 55,844 thousand (€ 84,997 thousand at 31 December 2017). The item can be represented as follows:

€ thousand	31/12/18	31/12/17	Change	% Change
<b>Dividends payable to shareholders</b>	<b>130</b>	<b>65</b>	<b>65</b>	<b>100.3%</b>
Environment	97	(72)	169	n.s.
Overseas	0	104	(104)	(100.0%)
Water	31	31	0	0.6%
Parent Company	2	2	0	n.s.
<b>Payables to third parties</b>	<b>55,714</b>	<b>84,932</b>	<b>(29,218)</b>	<b>(34.4%)</b>
Environment	2,784	6,944	(4,161)	(59.9%)
Commercial and Trading	17,306	21,006	(3,700)	(17.6%)

(follows)

€ thousand

	31/12/18	31/12/17	Change	% Change
Overseas	361	0	361	n.s.
Water	7,782	20,762	(12,980)	(62.5%)
Energy Infrastructures	25,722	34,460	(8,739)	(25.4%)
Parent Company	1,760	1,760	0	0
<b>Total</b>	<b>55,844</b>	<b>84,997</b>	<b>(29,153)</b>	<b>(34.3%)</b>

Payables to third parties recorded a decrease of € 29,153 thousand, mainly due to the reduction in payables to factors for the sale of receivables.

## PAYABLES TO SUPPLIERS

€ thousand

	31/12/18	31/12/17	Change	% Change
Payables to suppliers	1,413,928	1,106,681	307,246	27.8 %
Payables to the parent company	107,644	126,128	(18,484)	(14.7%)
Payables to subsidiaries and associates	3,305	4,999	(1,694)	(33.9%)
<b>Trade payables</b>	<b>1,524,876</b>	<b>1,237,808</b>	<b>287,068</b>	<b>23.2 %</b>

### Payables to third-party suppliers

Payables to suppliers amounted to € 1,413,928 thousand. The increase of € 307,246 thousand is mainly attributable to the consolidation of Gori (+ € 306,763 thousand), as well as to opposite postings as highlighted below by business area:

- **Environment:** growth of € 1,694 thousand is mainly attributable to Aquaser (+ € 2,768 thousand), the consolidation of Bioecologia (+ € 987 thousand), partly offset by the reduction of Acea Ambiente (- € 3,400 thousand);
- **Commerciale and Trading:** € 7,844 thousand increase, compared to 31 December 2017, primarily due to Acea Energia;
- **Water:** the growth of € 18,997 thousand (net of the increase deriving from the consolidation of Gori) compared to 31 December 2017 is mainly attributable to Acea Ato 2 (+ € 29,531 thousand), partially offset by a decrease in ACEA Ato 5's payables (- € 9,530 thousand);
- **Overseas:** increased by € 638 thousand mainly due to the consolidation of Consorcio Sur (+ € 336 thousand) and Agua de San Pedro (+ € 262 thousand);
- **Energy infrastructure:** € 22,865 thousand, down compared to 31 December 2017, mainly due to Acea Produzione (- € 6,393 thousand) and for the public lighting business (- € 13,905 thousand);
- **Engineering and Services:** decreased by € 5,582 thousand due

in part to the effect of the sold facility management business;

- **Parent Company:** they increased by € 2,011 thousand compared to 31 December 2017.

The Group has entered into factoring agreements, typically in the reverse factoring technical form. On the basis of the contractual structures in place the supplier has an option sell, at its discretion, the receivables from the company to a lending bank. In some cases, the payment deadline set in the invoice is further deferred by agreement between the supplier and the Group; these delays are granted against payment of a fee.

If the payment has been deferred, a quantitative analysis is performed aimed at verifying whether the change of contractual terms is material; this is made through a quantitative test in accordance with the provisions of IAS 39 AG62. In this context, the relationships for which the primary obligation with the supplier is maintained and the deferral of the payment deadline, if granted, does not involve a substantial change in payment terms, retain their nature and are therefore classified as trade payables.

### Trade payables due to the Parent Company Roma Capitale

These amounted to € 107,644 thousand and are commented on with the trade receivables in paragraph 23 of these notes.

### Trade payables to subsidiaries and associates

€ thousand

	31/12/2018	31/12/17	Change	% Change
Payables to subsidiaries	2,549	2,592	(43)	(1.7%)
Payables to associates	756	2,407	(1,651)	(68.6%)
<b>Total</b>	<b>3,305</b>	<b>4,999</b>	<b>(1,694)</b>	<b>(33.9%)</b>

Payables to subsidiaries include payables to companies consolidated under the equity method, including Ingegnerie Toscane (€ 2,300 thousand), while payables to associates are mainly due to payables of the Parent Company due to the associated company Citelum Napoli Pubblica Illuminazione.

December 2017) and include the IRAP and IRES tax burden for the period. The increase is equal to € 25,052 thousand also due to a higher IRES payable for € 20,835 thousand and a higher IRAP payable for € 4,217 thousand.

## TAXES PAYABLE

These amount to € 27,750 thousand (€ 2,697 thousand at 31 De-

## OTHER CURRENT LIABILITIES

These are equal to € 329,369 thousand and are represented as follows:

€ thousand	31/12/2018	31/12/17	Change	% Change
Payables to social security institutions	22,232	19,714	2,518	12.8 %
Accrued liabilities and deferred income	31,407	466	30,942	n.s.
Other current liabilities	275,729	261,385	14,345	5.5 %
<b>Total</b>	<b>329,369</b>	<b>281,564</b>	<b>47,805</b>	<b>17.02 %</b>

#### Payables to social security institutions

These amounted to € 22,232 thousand (€ 19,714 thousand at 31 December 2017); their breakdown by Operating Segment is as follows:

€ thousand	31/12/18	31/12/17	Change	% Change
Environment	1,202	1,157	45	3.9 %
Commercial and Trading	1,968	1,828	140	7.7 %
Overseas	84	12	72	n.s.
Water	7,966	5,825	2,140	36.7 %
Energy Infrastructures	6,572	6,558	13	0.2 %
Engineering and Services	883	1,175	(292)	(24.9%)
Parent Company	3,559	3,159	400	12.7 %
<b>Total</b>	<b>22,232</b>	<b>19,714</b>	<b>2,518</b>	<b>12.8 %</b>

#### Accrued liabilities and deferred income

This item amounts to € 31,407 thousand at 30 June 2018 (€ 466 thousand at 31 December 2017). The change is attributable for the most part to areti and Acea as a result of the application of the new IFRS 15 international accounting standard starting from 1 January 2018, as well noted in the measure-

ment criteria and accounting principles of this document.

#### Other current liabilities

These amounted to € 275,729 thousand, an increase of € 14,345 thousand compared to 31 December 2017. The entry is made up as follows:

€ thousand	31/12/2018	31/12/17	Change	% Change
Payables to Equalisation Fund	53,552	53,914	(361)	(0.7%)
Payables to municipalities for concession fees	44,502	51,585	(7,082)	(13.7%)
Payables for collections subject to verification	7,430	22,351	(14,921)	(66.8%)
Payables due to personnel	47,474	39,556	7,918	20.0%
Other payables to Municipalities	31,024	16,616	14,408	86.7%
Payables to Equitalia	2,275	4,745	(2,471)	(52.1%)
Welfare contribution payables	0	4,755	(4,755)	(100.0%)
Payables for environmental premium Art. 10 of ATI4 agreement of 13/08/2007	487	661	(174)	(26.4%)
Payables for purchase of surface rights	383	633	(250)	(39.5%)
Payables to end users for refund of Tariff Component as per referendum outcome	9	9	0	0.0%
Payables for the purchase of a business unit	1,156	5,537	(4,382)	(79.1%)
Other payables	87,438	61,022	26,416	43.3%
<b>Other current liabilities</b>	<b>275,729</b>	<b>261,385</b>	<b>14,345</b>	<b>5.5%</b>

The change, amounting to € 14,345 thousand, mainly refers to the combined effect of the following opposite factors:

- + € 14,408 thousand for higher payables to municipalities, mainly due to the consolidation of Gori (+ € 16,108 thousand) partly offset by lower debts of Acea Ato 2 (- € 1,694 thousand);
- + € 7,918 thousand for lower payables to employees;
- + € 26,416 thousand of other payables, of which € 6,692 thousand due to the consolidation of Gori. The remaining increase is mainly attributable to the parent company (+ € 7,281

thousand) and to Acea Energia (+€11,567 thousand);

- - € 14,921 thousand for lower payables for collections subject to verification mainly attributable to Acea Energia;
- - € 4,382 thousand for lower payables for the acquisition of the business unit registered in Acea Ato 2;
- - € 7,082 thousand for lower payables to municipalities for concession fees, of which € 4,001 thousand relating to Acea Ato 2 and € 3,422 thousand relating to Acea Ato 5.

# COMMITMENTS AND CONTINGENCIES

## ENDORSEMENTS, SURETIES AND GUARANTEES

At 31 December 2018 they totalled € 330,901 thousand (€ 330,455 thousand at 31 December 2017) and showed a reduction of € 446 thousand. The balance is made up of:

- € 70,189 thousand for the bank guarantees for Acea Energia, mostly for Terna and Eni Trading & Shipping and ERG Power Generation relative to the electricity dispatch service contract;
- € 68,277 thousand for the Sole Purchaser and in the interests of Acea Energia as a back-to-back guarantee relating to the electricity sale agreement signed between the parties;
- € 53,666 thousand in the form of a guarantee issued by Acea to Cassa Depositi e Prestiti (the Deposit and Loans Account) in relation to refinancing of the loan issued to areti. This is a sole guarantee giving the lender first claim and covering all obligations linked to the original loan (€ 493 million). The sum of € 53,666 thousand refers to the guaranteed portion exceeding the loan originally disbursed (€ 439 million);
- € 30,756 thousand issued by insurance companies on behalf of Acea Ambiente (formerly ARIA) in relation to waste collection plants (€ 7,138 thousand), waste collection plants with electricity production (€ 3,933 thousand) and to the Umbria region for the management of operational and post-operative activities of the landfill (€ 16,715 thousand);
- the guarantee of € 30,000 thousand in favour of EDF Trading in the interests of Acea Energia as a back-to-back guarantee on electrical energy trading transactions;
- the guarantee of € 20,000 thousand for Enel Trade in the interest of Acea Energia as a back-to-back guarantee on electrical energy trading transactions;
- € 13,784 thousand for the guarantees issued for areti in favour of Terna relative to the electricity transmission service contract;
- € 2,701 thousand for the bank guarantee issued in favour of Roma Capitale in relation to the “Progetto Tecnologico” contract for the construction of the new multi-service pipe network of Via Tiburtina and adjacent streets, in the interest of areti;
- € 4,000 thousand relating to the bank guarantee issued for Roma Natura in connection with works to upgrade the network in the Marcigliana Reserve;
- € 3,712 thousand for the guarantee issued in favour of Italgas S.p.A. in the interest of Acea Energia, renewed in October 2014;
- € 1,295 thousand relating to the bank guarantee issued by Banco Bilbao Vizcaya Argentaria in favour of the GSE for the correct fulfilment of the obligation for Acea Ambiente (formerly ARIA) to make the reimbursement to the GSE;
- € 6,306 thousand concerning Acea Ato 5, and specifically a guarantee required obligatorily by art. 31 of the Technical Regulation, released by UNICREDIT in favour of the AATO, calculated on 10% of the three-year average of the Financial Plan - Tariff of the Framework Plan of the A.A.T.O.

# SERVICE CONCESSION ARRANGE

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

As for the water - environment segment, the Acea Group provides the **Integrated Water Service (IWS)** under a concession arrangement in the following regions:

- Lazio, where Acea Ato 2 S.p.A. and Acea Ato 5 S.p.A. provide services in the provinces of Rome and Frosinone, respectively,
- Campania where Gori S.p.A. provides services in the area of the Sorrento Peninsula and Capri island, the Vesuvio area, the Monti Lattari Area, as well as in the hydrographic basin of the Sarno river,
- Tuscany, where the Acea Group operates in the province of Pisa, through Acque S.p.A., in the province of Florence, through Publiacqua S.p.A., in the provinces of Siena and Grosseto, through Acquedotto del Fiora S.p.A. in the province of Arezzo through Nuove Acque S.p.A. and in the province of Lucca and periphery through GEAL S.p.A.,
- Umbria where the Group operates in the province of Perugia through Umbra Acque S.p.A., and Terni through S.I.I. ScpA.

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

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

## PUBLIC LIGHTING - ROME

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

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

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

percentage of the annual contractual amount and the number of years until expiry of the concession.

On the basis of the number of public lighting plants as at 31 December 2009, the supplemental agreement establishes the ordinary annual fee as € 39.6 million, including all costs relative to the provision of electricity to supply the plants, ordinary operations and ongoing and extraordinary maintenance.

In June 2016, Acea and Roma Capitale signed a private agreement aimed at regulating commitments and obligations arising from the implementation of the LED Plan and, consequently, amending Article 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 € 48.0 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 amended Article 2.1 of the 2011 Supplementary Agreement with reference to the price list and the composition of the service management fee.

## INTEGRATED WATER SERVICE

### Lazio – Acea Ato 2 S.p.A. (Ato 2 - Central Lazio - Rome)

Acea Ato 2 provides integrated water services on the basis of a thirty-year agreement signed on 6 August 2002 by the company and Rome Provincial Authority (representing the Authority for the ATO comprising 112 municipalities, including Roma Capitale). In return for award of the concession, Acea Ato 2 pays a fee to all the municipalities based on the date the related services are effectively acquired, which is expected to occur gradually: to date, the survey work (including that for municipalities already taken over) has been completed for 96 municipalities out of 112, equivalent to around 3,869,179 residents (source ISTAT 2011).

As at 31 December 2018 the managed territory underwent changes with respect to 31 December 2017 following the acquisition of the Municipalities of Civitavecchia and Morlupo.

With regard to the tariffs, it is known that the ARERA – in resolution 572 dated 13 November 2018 – approved the tariff update for 2018-2019 as proposed by the Conference of Mayors and the Presidents of the Provinces of Ato 2 Central Lazio; the essential contents are summarised below:

- the recognition of costs for the improvement of technical quality introduced by ARERA resolution 917/2017;
- the definitive recognition of the adjustment components of the charges connected to systemic changes relating to the management/maintenance of water kiosks and to the acquisition of new contracts after the postponement of the approval of the 2016-2017 tariff;



- the recognition of the OPsocial component introduced by ARERA Resolution 918/2017 to cover the charges deriving from the possible payment of the water bonus to disadvantaged users;

The Authority determined the maximum values of the tariff multipliers, confirming the values of 2018 and 2019, substantially confirming those established before the update when approving the 2016-2017 tariff proposal, in particular:

- 1.000 for the year 2016;
- 1.048 for the year 2017;
- **1.107 for the year 2018;**
- 1.171 for the year 2019.

The tariff structure applied to users as at 1 January 2018, therefore, recorded an increase of 5.63% compared to the tariffs applied in 2017.

On the basis of ARERA Resolution 572/2018, the revenue for the period amounting to € 574.9 million was valorised. This includes the estimate of the adjustments of passing items, the FNI component (€ 20.7 million) – which as of 2017 is partially allocated to tariff subsidies (€ 2.0 million in 2018) – and the bonus due to the Operator for achieving the improvement standards compared to that envisaged by the ARERA in Resolution 655/2015 (€ 33.6 million including customer indemnities). The bonus accrued during the year represents the best estimate made on the basis of the effective measurement of the performance level and the expected level.

#### **Lazio – Acea Ato 5 S.p.A. (Ato 5 - Southern Lazio - Frosinone)**

Acea Ato 5 provides integrated water services on the basis of a thirty-year agreement signed on 27 June 2003 by the company and Frosinone Provincial Authority (representing the Authority for the ATO comprising 86 municipalities). In return for being awarded the concession, Acea Ato 5 pays a fee to all the municipalities based on the date the related services are effectively acquired.

The management of the integrated water service in the territory of ATO 5 - Southern Lazio-Frosinone involves a total of 85 municipalities for a total population of around 490,000 inhabitants, about 470,000 inhabitants supplied and a number of end users equal to around 197,821.

To date, the Municipality of Paliano has not completed this process, while as per the acting Commissioner appointed by the President of the Province of Frosinone the acquisition of Atina was completed on 19 April 2018. Below is a description of the main events during the period:

- **Municipality of Atina:** during the year several meetings took place at the Operational Technical Secretariat of ATO5, however since the Municipality of Atina had still failed to fulfil its obligation – as ascertained by the administrative judge with sentence no. 356/2013 confirmed by the Council of State with sentence no. 2742/2014 “for the physical delivery of the works and plants belonging to the IWS” – the Operational Technical Secretariat of ATO 5 Southern Lazio-Frosinone and Acea Ato 5 decided in the meeting of 23 January 2018 to urge the President of the Province of Frosinone, as acting Commissioner appointed by the Lazio Regional Administrative Court - Latina section with sentence no. 356/2013 of 21 March 2013, to implement all the appropriate initiatives, activities and all appropriate and/or necessary actions to allow the conclusion of the transfer of the water and sewerage plants and facilities pertaining to the IWS in the municipal territory of Atina to Acea Ato 5.

The Company immediately sent a formal request to the President of the Province of Frosinone, as acting Commissioner, to act on behalf of the defaulting Municipality of Atina to “proceed with the concession...and delivery of the works and plants pertaining to the IWS” to Acea Ato 5. It simultaneous-

ly requested ARERA to initiate a procedure aimed at verifying the legitimacy of the tariffs applied by the Municipality of Atina to its users and invited the competent Supervisory Authorities – including the Public Prosecutor of Cassino and the Court of Auditors – to ascertain any criminal and/or fiscal liability of the persons specified and to take any consequent necessary actions. Subsequent to this request, on 29 March 2018 a first meeting between the parties was held at the offices of the Operational Technical Secretariat of AATO5 in order to complete the process of transferring the IWS of the municipal territory of Atina. Specifically, the parties agreed 1) to proceed with the updating of the reconnaissance report of the works of 28 September 2017 by 10 April 2018; 2) to update the terms established by the parties with regard to their respective obligations, as agreed in the minutes of 9 January 2018, fully confirming the content; 3) to send to the Acting Commissioner the documentation certifying the Municipality of Atina’s transmission of the database relating to the users located in the municipal territory to the Manager, the Municipality agreeing to provide for the subsequent updating of the aforementioned users according to the procedures established in the report of 9 January 2018.

The next meeting was held on 19 April 2018 with the objective of proceeding with the formalisation of the transfer of the works and plants pertaining to the IWS in the Municipality of Atina, as well as for the completion of the Acting Commissioner’s work, in compliance with the Decree of the President of the Province no. 27 of 2 March 2018.

In the aforementioned meeting in the presence of the Operational Technical Secretariat of ATO 5, the Municipality of Atina and Acea Ato 5, the Acting Commissioner – noting that the parties had carried out the obligations referred to in points 1), 2) and 3) of the report of 29 March 2018, in compliance with the sentence of the Latina administrative court no. 356 of 23 April 2013 – transferred the works, assets and facilities pertaining to the IWS in the municipal territory to Acea Ato 5. In addition, with subsequent report signed on the same date by the Operational Technical Secretariat of ATO 5, Acea Ato 5 and the Municipality of Atina, the parties – reaffirming to fully confirm the contents of the minutes of 9 January 2018 – agreed to adjust the deadlines provided for in the aforementioned minutes, updating them to that day’s date and extending them for 100 days.

- **Municipality of Paliano:** following the hearing of 7 December 2017 the administrative court of Latina upheld the appeal brought by the Company against the Municipality of Paliano, which for more than 10 years has unlawfully opposed the transfer of the service to the Company in order to preserve the continuation of the management of its investee company AMEA S.p.A.

Subsequently, the Company requested the immediate transfer of the service and also the Ministry of the Environment requested this fulfilment, also through the exercise of substitute powers by the Regional Administration.

However, the Mayor of the City of Paliano has communicated the will of the City of Paliano to appeal to the Council of State against the ruling of the regional administrative court, and therefore has not proceeded with the transfer of the service, waiting for the Council of State to decide on the appeal.

The Operational Technical Secretariat of the Area Authority, following the warning issued by Acea Ato 5, convened the parties – on 23 January 2018 – to “undertake the activities related to the delivery of the infrastructure of the water service”. At the aforementioned meeting, not being present either the Municipality of Paliano in the person of the Director of the In-

tegrated Water System, or the Company AMEA S.p.A. in the person of its Legal Representative, the Operational Technical Secretariat of Ato 5 Southern Lazio-Frosinone and Acea Ato 5 decided to present a formal petition to the Lazio Regional Administrative Court - Latina section - to proceed with the appointment of the acting Commissioner who would act on behalf of the defaulting Municipality of Paliano and carry out the activities necessary to allow the delivery of the water service infrastructure in the Municipality of Paliano to Acea Ato 5. Furthermore, Acea Ato 5 immediately informed the Public Prosecutor of Frosinone and the Court of Auditors of what happened, inviting them to ascertain any responsibilities, also in relation to the evident violation - already noted by the regional administrative court in the above judgement - of art.153 of Italian Legislative Decree no.152/2006 and of the corresponding fiscal and criminal liability. At the same time, it invited all the Administrations and Supervisory Authorities to take any action necessary within their remit to restore the violated legality - repeating the request already made in previous communications to the Area Authority and the sector regulation Authority to initiate the appropriate checks on the legitimacy of the water tariffs applied until then in the Municipality of Paliano.

On 16 February 2018 the Municipality of Paliano filed an appeal against the sentence of the Latina regional administrative court no. 6/2018 to the Council of State, and on 27 September 2018 a hearing was held in the council chamber for a decision on the merits, for which the Board deferred the filing. Pending the definition of the judgement, the Operational Technical Secretariat has convened the interested parties - Acea Ato 5, the Municipality of Paliano and AMEA - for the day 4 June 2018 in order to comply with the requirements of the Ministry. However, given the absence of both the Municipality of Paliano and AMEA at the aforementioned meeting, the Operational Technical Secretariat sent its report to the Lazio Region, awaiting the measures that the Regional Administration intends to take.

On 2 July 2018, the Company was notified as a counterparty of the Municipality of Paliano's appeal of the Lazio Regional Administrative Court - Latina section's provision of 27 April 2018 with which AATO 5 rejected the safeguard petition presented by the aforementioned Municipality.

Although this is a question connected to the main appeal before the Council of State filed by the Municipality of Paliano against sentence no. 6/2018 of the Latina regional administrative court which accepted the appeal filed by Acea Ato 5, in order to obtain the cancellation of the provision with which the Municipality opposed its refusal to transfer the service, the Company has deemed it appropriate to appear in court.

On 2 October 2018, pending the definition of the appeal to the Council of State, as well as following the convocation of the Operational Technical Secretariat of the AATO5 southern Lazio - Frosinone, a meeting was held between the Company, the Municipality of Paliano and AMEA, aimed at supporting the activities of recognising the works and plants pertaining to the aforementioned IWS, already started in 2009, to facilitate the eventual transfer to Acea Ato 5 of the IWS in the municipal area of Paliano.

In November 2018 the Council of State issued its decision on

the appeal filed by the Municipality of Paliano against the sentence of the regional administrative court no. 6/2018, rejected it and, accepting all the defensive arguments formulated by Acea Ato 5, ascertained the forfeiture by AMEA of management in the territory of the aforementioned local authority due to the start of the three-year safeguard period envisaged by the Cooperation Agreement and the consequent obligation of the Municipality of Paliano to transfer the IWS to the Area manager.

To date, preparatory activities are under way for the transfer of the management of the IWS in the territory of the Municipality of Paliano to the Company. In particular, at the end of November 2018, the definitive report was drawn up transposing the current status of the works and installations relating to the IWS in the Municipality of Paliano.

- **Municipality of Cassino:** as part of the process of aggregation of the management of Southern Lazio Ato 5 - Frosinone, it should be noted that the Company, following the publication of sentence no. 2532/2017 issued by the Council of State - since 1 July 2017 has assumed the management of the IWS for users located in the centre of the Municipality of Cassino.

The aforementioned transfer of management involved approximately 13,000 users, resulting in a greater organisational impact for the manager, with particular reference to the billing and user management processes, thus determining the need for a real new census of the users.

In consideration of the elements represented above and the problems that arose, the manager found it impossible to guarantee the adaptation of the new users to the contractual quality requirements, especially with regard to the critical issues affecting billing, contractual changes, call centres and complaints (likely huge flow of incoming contacts in the first period), separate management, branches, emergency service and user management.

Therefore, on 27 February 2018, with protocol no. 48514, Acea Ato 5 submitted a request to the EGA through the Operational Technical Secretariat to present to the Regulatory Authority for Energy Networks and the Environment (ARERA), pursuant to article 3.2 of Resolution 655-2015 and with reference only to the IWS management of the Municipality of Cassino for an exemption from the application of the RQSII for a period of 12 months starting from 1 July 2017.

On 10 April 2018, with protocol no. 3869 the Operational Technical Secretariat, communicating to share the request of the Manager, asked ARERA to recognise this exemption for a period of 12 months starting from 1 July 2017.

Since the aforementioned request has a legal basis in article 3.2 of Resolution 655-2015, which expressly states that "If the manager proves that it cannot comply with this provision, the Governing Body of the relevant territory, in agreement with the IWS manager, has the right to present a grounded request for exemption to the Authority for a maximum period of twelve (12) months, in order to guarantee the manager the necessary time to adapt its IT and management systems to the contractual provisions", it is likely that it will be accepted.

With reference to the **tariffs**, as is known, in the session of 1 August 2018 the Mayors' Conference approved among other things the 2018-2019 tariff update and the following multipliers

2016	2017	2018	2019
1.080	1.166	1.260	1.360

The basic contents are summarised below:

- confirmation of the valorisation of the FNI component on the basis of the parameter  $\psi$  of 0.4;
- recognition of a default rate of 6.93% in partial acceptance (instead of 7.1%) of the grounded request presented by the Company
- recognition of the  $Opex_{qc}$  component for the improvement of contractual quality levels
- recalculation of the values of the VRG (restriction on the admissible revenues) relating to the period from 2012 to 2017 following the ARERA prescriptions defined with Determination DSAI/42/2018/IDR.

On the basis of the tariff update approved by the Conference of Mayors on 1 August 2018, the revenues for the period have been quantified and amount to € 71.1 million including the estimate of the adjustment of passing items and the FoNI component € of 9.3 million.

As regards tariff adjustments, note that based on the recalculation carried out, as at 31 December 2018 they amounted to € 90.4 million.

With reference to **relations with the Operational Technical Secretariat**, note that sentence no. 304/2017 of the Court of Frosinone was published on 28 February 2017, relating to the civil proceeding RG 1598/2012 pending between Acea Ato 5 S.p.A. and Optimal Area Authority no.5.

The Company had acted in 2012 with the proposition of a monitoring action aimed at recovering its receivable amounting to € 10.7 million arising from the Settlement agreement signed with the Area Authority on 27 February 2007, by implementing the resolution of the Conference of Mayors no. 4 of 27 February 2007.

The Area Authority opposed the injunction, contesting the existence of the receivable and the validity of the Transaction on the assumption that the latter had been engulfed by the cancellation by way of self-protection of resolution no.4 / 2007 (intervened in force of the subsequent resolution of the Conference of Mayors no.5 / 2009). Moreover, the Area Authority itself had contested the legitimacy of the Transaction since, in its view, the latter was adopted in breach of the regulations in force at the time, and in particular of the Normalised Method referred to in the Ministerial Decree of 1 August 1996. Finally, the Area Authority – in formulating opposition to the injunction order for the substantial reasons mentioned above – had also made a counterclaim aimed at obtaining the conviction of the Company to pay the concession fees for the period 2006-2011 and quantified at about € 28.0 million.

The Court of Frosinone:

- rejected the grounds of opposition formulated by the Area Authority, highlighting, on the one hand, that the cancellation, by way of self-defence, of Resolution 4/2007 (due to the subsequent resolution no. 5/2009) did not produce effects on the underlying private relationship, and therefore on the validity of the Settlement Agreement of 27 February 2007, and on the other hand, that the Transaction did not breach the Normalised Method since the so-called principle of the price cap only applies to any tariff increases;
- has instead annulled the injunction on the assumption of the nullity of the resolution of the Conference of Mayors No. 4/2007 and of the Settlement Act that would have been adopted by the Area Authority in breach of the publicity that required to identify the financial coverage of the act itself;
- rejected the requests made by the Company in the alternative (in the event that the Settlement was declared invalid), aimed at recognizing the claim by the Area Authority;
- finally, it dismissed the cause of the preliminary investigation as regards the counterclaim request formulated by the Area Authority which in its closing brief acknowledged the payment by the Manager of a large part of its debt, representing the existence of a residual credit of approximately € 7.0 million. At the

hearing held on 17 November 2017, the following documents were filed: a copy of the transfer of 31 July 2017 for € 2.0 million; copy of the bank transfer of 4 October 2017 for € 2.2 million and the Acea note of 16 November 2017 specifying:

- Acea's commitment to pay € 1.3 million by December 2017;
- the dispute of any further debts regarding concession fees.

Against the aforementioned document production, the counterparty – initially convinced to recognise the amounts referred to the credit transfers on 31 July 2017 and 4 October 2017 against the amounts owed by Acea as a concession fee – took note of the document production, declaring the need, also due to the contents of the note of 16 November 2017, to have to “report” to AATO5. In light of this, the Court, having acknowledged the counterparty request, postponed the hearing to 27 February 2018. During the aforementioned hearing, the documents certifying the last payments of Acea Ato 5 S.p.A. to AATO5 were filed. With these last payments, the Company has paid the entire concession fee for the 2006-2011 period. The above is also confirmed by Operational Technical Secretariat Executive Determination no. 88 of 8 November 2017. In particular, it is expressly noted that “*in the face of planned and/or subsequent payments of the concession fee by the Manager, which to date has paid up to the year 2012*”.

At the outcome of the aforementioned hearing, the new Judge who took charge of the case, having noted the discrepancies that emerged in the respective accounts of Acea Ato 5 and AATO5, granted a postponement to 4 May 2018, inviting the parties to clarify the reasons for such discrepancies and specifying that if they could not the court would appoint an expert to do so. At this hearing there was a further postponement until 21 September 2018.

At this meeting, in light of the Conciliation Panel established on 11 September 2018 with AATO5 – pursuant to art. 36 of the Management Agreement to which the question concerning the determination of concession fees was also referred, among others – the Parties asked the judge for a postponement, the hearing being scheduled for 15 February 2019, then postponed to 17 September 2019.

Linked to this trial, is the appeal against the ruling of the Court of Frosinone that annulled the injunction decree of € 10.7 million initially issued by the Court itself.

The first hearing was automatically postponed to 11 May 2018. On this occasion the Court, having heard the respective positions of the parties, postponed the case to 20 November 2020 for the oral discussion and the ruling of the sentence pursuant to art. 281 sexies of the Italian Code of Civil Procedure.

As regards the appeal before the Latina Regional Administrative Court filed by the Company against resolution no. 1/2016 dated 18 February 2016, in which the Conference of Mayors rejected the incorporation of Acea Ato 5 into Acea Ato 2, which concluded with sentence no. 450/2017 with which the administrative judge upheld the challenge brought by Acea Ato5, the Company appeared in the appeal filed by Area Authority no. 5 Southern Lazio - Frosinone to oppose the aforementioned sentence.

To date there is no information regarding the scheduling of the hearing.

In reference to additional complex cases related to legal controversies, filed or being filed, between Acea Ato 5 and the Environmental Authority, see the “*Update on primary legal controversies*” paragraph of this document.

### **Campania - GORI S.p.A. (Sarnese Vesuviano)**

GORI provides integrated water services in 76 municipalities in the provinces of Naples and Salerno, on the basis of a thirty-year agreement signed on 30 September 2002 by the company and

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

### **Tariffs: Request for economic-financial rebalancing**

First of all, it should be remembered that the ARERA has established: a first transitional tariff method for the years 2012 and 2013, issued with resolution 585/2012/R/ldr (“Transitional Tariff Method” or “MTT”); a second water tariff method for the years 2014 and 2015 issued with resolution 643/2013/R/ldr (“Water Tariff Method” or “MTI”); a third and currently applicable water tariff method for the second regulatory period 2016-2019 implemented with resolution 664/2015/R/ldr, as amended by subsequent resolution 918/2017/R/ldr (“Water Tariff Method - 2” or “MTI-2”). Based on the tariff method implemented by the Authority, the Area Government Body is required to prepare the Regulatory Scheme for the period of reference, which is then approved by the Authority.

In fact, the Extraordinary Commissioner of the Sarnese Vesuvian Area Authority, in execution of the ARERA 664/2015/R/ldr resolution, prepared the 2016-2019 Regulatory Scheme with resolution no. 19 of 8 August 2016 and then updated it, in execution of the ARERA 918/2017/R/ldr resolution, with resolution no. 39 of 17 July 2018. With this last resolution:

1. the RCappr adjustment component was valued at € 216.9 million;
2. the Operator’s Revenue Constraint (“VRG”) was recognised for the years 2016 (VRG: € 167.9 million); 2017 (VRG: € 183.1 million), 2018 (VRG: € 197.0 million) and 2019 (VRG: € 206.3 million) as well as the corresponding “tariff multipliers” for the 2018 financial years (9 1.247505) and 2019 (9 1.309880);
3. it was decided to allocate the FoNI quota already envisaged for the year 2017 and not yet used to finance tariff reductions of a social nature;
4. the additional Water Bonus was established with the valuation of the OPsocial cost component for the years 2018-2019;
5. table no. 2 was updated relating to accruals, amortisation and separate loans for Municipalities of ATO3.

In addition, the 2016-2019 Regulatory Scheme updated with Resolution 39/2018 – in consideration of the fact that the equalisation loan requested by the Area Authority of ARERA with commission resolution no.19/2016 has not yet been granted together with the other rebalancing measures pursuant to the resolution of the same Authority 656/2015/R/ldr – was prepared on the basis of a plan aimed at the full implementation of the IWS of the Sarnese-Vesuvian District that guarantees, concurrently with economic-financial equilibrium: (a) the social sustainability of the IWS tariff applied to users, (b) the investments necessary for the improvement of the service as well as (c) the recovery of accumulated tariff adjustments. For these purposes, the current ATO 3 Regulatory Scheme has established the following objectives to be achieved to ensure, as mentioned, the full implementation of the IWS: 1) the transfer and increased efficiency of the “Regional Works”, and, that is, it underlines, the water infrastructure falling within ATO 3 still under the management of the Campania Region and listed in the resolution of the Regional Council no. 243 of 24 May 2016 (hereinafter referred to as “Regional Works”). 2) re-employment and relocation – always with a view to making the IWS more efficient – the personnel assigned to the Regional Works in accordance with the procedures set forth in the agreements with the Trade Unions on the basis of aforementioned resolution of the Regional Council

243/2016 and the relevant Framework Agreement signed between the Region and the Area Authority on the date 3 August 2016, implementing the same resolution 243/2016 3) the provision of instalment payment plans for the debts accrued by the Company – essentially due to the inadequacy of the tariff system effectively applied until 2016 – for wholesale supplies disbursed from 2013 onwards to the Campania Region and the concurrent resolution of the complex legal dispute arising from the payment of regional supplies of “wholesale water” and services of “collection and treatment of waste water”.

### **Tariffs: Biennial update of the tariff arrangements of the integrated water service**

Pursuant to resolution ARERA no. 918/2017/R/ldr, with resolution no. 39 of 17 July 2018 the Extraordinary Commissioner of the Sarnese Vesuvian District approved: 1) update of the “Regulatory Scheme” of the integrated water service of the Campania Region Ato 3 already approved by Commissioner resolution no. 19/2016, 2) established the Intervention Programme, the Tariff Plan and the Financial Statement and the accompanying Methodological report pursuant to art. 13.2, letter c) resolution ARERA no. 918/2017/R/ldr; furthermore, for the purposes of the obligations of the Body pursuant to art. 13.2, letter c), ARERA resolution no. 918/2017/R/ldr, the Commissioner updated the “operator revenue restriction” of the Ato 3 IWS and the corresponding “tariff multipliers” for the years 2018 and 2019.

With Resolution 39/2018, the Extraordinary Commissioner of the Sarnese Vesuvian Area Authority approved the update of the restriction on revenues recognised to the Ato 3 IWS manager and the corresponding “tariff multipliers” for the years 2018 and 2019, respectively to: 2016 = 1.090000, 2017 = 1.188100, 2018 = 1.247505, 2019 = 1.309880, thus maintaining the tariff multipliers already determined with commission resolution no. 19/2016 for the years 2016-2019.

Taking into account what is represented by the President of the Campania Water Authority, with note no. 144 of 10 April 2018 regarding the continuing competence of the Commissarial Management of the Sarnese Vesuvian Area Authority in order to implement the obligations deriving from the ARERA resolutions on tariff matters, pending the completion of the full establishment and operation of the Campania Water Authority, the Commissioner of the Ato 3 Sarnese Vesuvian has prudentially “updated the current ‘regulatory framework’ within the limits of what is strictly necessary, without prejudice to the choices that the Campania Water Authority will make when it will determine the conditions for its takeover of the functions that Italian Legislative Decree no. 152/2006 and Regional Law no. 15/2015 assign to it”. In this prudential perspective, the main determinations adopted were as follows:

- the tariff multipliers already determined with commission resolution no. 19/2016 for the years 2016-2019 to the extent of the maximum admissible limit, equal to 9% for the two-year period 2016-2017 and equal to 5% for the two-year period 2018-2019;
- the interventions already approved in the previous tariff programme for the four-year period 2016-2019 by the commissioner management with resolution no. 19/2016 was updated solely to take into account the investments necessary to ensure the timely implementation of regulatory obligations that occurred in the meantime as a result of ARERA resolutions on technical quality, tariff structure and social water bonus. Therefore, with respect to the proposed interventions detailed by the Company with note no. 22159/2018, the approved “Intervention Plan” – due to the need to guarantee the technical quality objectives recently imposed by ARERA – has



been changed from € 122.1 million to € 141.8 million for the four-year period 2016-2019. For the period 2020-2032, in line with what was previously specified the commissioner's management of the Body has deemed it appropriate to maintain the level of investments to be implemented starting from 2020, according to what is already envisaged in the Intervention Plan approved by commission resolution. no. 19/2016;

- as regards the hypothesis of transfer of the regional works, the update of the deliberated regulatory scheme took into account the impossibility of a complete and timely implementation of the time schedule annexed to the Framework Agreement signed on 3 August 2016 in execution of resolution G.R. Campania no. 243/2016, due to the failure to define, at present, the request for access to the financial equalisation measures, which was an indispensable prerequisite for covering the greater charges deriving from the planned change in the scope. Therefore, the proposed update process took into account the works and infrastructure already transferred to GORI in the years 2016-2017-2018 and has substantially maintained the methods of transferring the plants that are still in the management of the Campania Region, with a delay of twenty-four months;
- as regards the rebalancing measures, the update of the approved regulatory scheme took into account the proposal of an industrial agreement formalised at the beginning of 2018 by GORI to the Campania Region (currently under examination by the competent regional offices) called "Plan for the complete implementation of the Ato 3 IWS" also valid as an update to the rebalancing measures included in the "Regulatory Scheme" approved with Commission resolution no. 19/2016, with the consequent reduction in the financial requirements to be met with access to the equalisation system financed by the Energy and Environmental Services Fund (CSEA) from € 243.9 million to € 100.0 million, compared to the request for access to the financial equalisation institution, formulated in the context of an update of the regulatory framework pursuant to resolution 39/2018;
- the recognition of the additional costs related to the activities carried out for the purpose of adapting to the commercial quality standards referred to in ARERA resolution 655/2015/R/IDR and to the technical quality standards as per resolution 917/2018/R/IDR, i.e. the  $Opex_{QC}$  and  $Opex_{QT}$  components of the opex have been quantified to the extent required by the Manager in the respective requests for recognition of the additional costs for adaptation to the quality standards set by the authority in the aforementioned resolutions; specifically, the higher charges recognised in the context of the update of the approved regulatory scheme amounted to  $Opex_{QC}$  € 3.2 million for both 2018 and 2019 and  $Opex_{QT}$  2018 equal to € 2.0 million and  $Opex_{QT}$  2019 equal to € 2.2 million;
- pursuant to the provisions of art. 23-ter of Annex A of Resolution 918/2017/R/idr, the Opsocial component was quantified at € 2.0 million per year for both 2018 and 2019 to cover charges related to the maintenance of improved benefits over the minimum required by the national regulation (so-called additional water bonus) and at the same time the FoNI tariff component was set to zero;
- as regards the recognition of the additional costs of arrears in the context of the update of the approved regulatory framework, implemented prudentially on the basis of the foregoing concerning the nature and limits of the updates formulated by Commission Management, the value of the already recognised arrears cost has been kept unchanged pursuant to art. 30.3 of Annex A to the ARERA resolution no. 664/2015/R/

Idr, with the aforementioned commissioner resolution no. 19/2016, within the following limits and subject to adjustment: year 2016 = 10%; year 2017 = 9%; year 2018 = 8%; year 2019 = 7.1%. The Application for the recognition of the actual cost of arrears for the years 2016 and 2017 and the statement relating to the request for the recognition of the actual cost of arrears for the years 2014 and 2015 prepared by the Manager pursuant to art. 30.3 of Annex A to the resolution of ARERA 643/2013/R/idr and submitted thereby with note no. 22169 of 18 May 2018 instead provided for the confirmation of the "recognition of a tariff component to cover arrears for the years 2014 and 2015 commensurate at least to a value of UR24 of 10%, unless proceeding directly with the final adjustment assigning the value of the unpaid amounts for 48 months and the recognition of a tariff component to cover default costs for the years 2016 and 2017 commensurate at least to a value of UR24 of 10%, unless proceeding with a final adjustment assigning the value of the unpaid amounts for 48 months;

- the RCappr adjustment component was valued at € 216.9 million;
- the updating of the regulatory framework in question does not include the approval of the new tariff structure drawn up in accordance with the provisions of Resolution 665/2017/R/idr containing the Integrated Text for Water Services Charges (TIC-SI). The adoption of the new fee structure, in compliance with the TICS provisions, took place with resolution no. 40/2018 of 17 July 2018 or with a specific provision separate from the approval of the 2016-2019 Regulatory Scheme update.

Still on the subject of tariffs, the Company appealed to the Campania Regional Administrative Court, Naples for the cancellation of some parts of resolution 19/2016 (which approved the 2016-2019 Regulatory Scheme proposal pursuant to ARERA resolution 664/2015/R/idr), considering that some of the methods envisaged by this provision for the restoration/maintenance of the financial balance of management are not suitable.

For reasons related above all to the increase in tariffs (in particular due to the presumed illegitimacy of the required acts like the Area Plan), some Municipalities of ATO 3 and Federalberghi Campania have also challenged Resolution no. 19/2016 before the Campania Regional Administrative Court, Naples. At present, the public hearing to discuss the merits of the appeal presented by the Municipalities has not yet been scheduled, while the regional administrative court, with sentence no. 2437 of 8 May 2017, declared the appeal of the Federazione Albergatori Penisola Sorrentina inadmissible ("due to lack of standing of the Federation, which cannot be recognised – in the absence of a specific statutory provision in this regard – to have the power of representation to protect the specific interests of the individual associates in this trial"). Against this sentence, the Federazione Albergatori Penisola Sorrentina presented an appeal to the Council of State which, with sentence no. 288/2019 of 14 January 2019, rejected it, confirming the decision of the lower court.

The revenues for the year 2018 have been quantified on the basis of resolution 39/2018 of the Extraordinary Commissioner and amounted to € 159.9 million (Group share € 75.1 million) with theta equal to 1.248, showing that in order to achieve equilibrium financial management of the Ato 3 in compliance with the restriction on the tariff increase within the maximum limit to the annual variation established by art. 3.2 of annex A to the resolution of ARERA 664/2015/R/idr and subsequent amendments, a remodulation of the VRG has been proposed through the regulatory postponement of the portion of the costs exceeding the maximum limit.

It should be noted that the Commission's resolution recognises, among other things, the following additional costs:

- $Opex_{QC}$  concerning the activities undertaken for the fulfil-

ment of the service quality standards defined by the ARERA in Resolution 655/2015/R/idr, with the recognition of that requested by the Operator in the request submitted to the Authority on 23 May 2015, drafted pursuant to art. 23.3 of Annex A to the resolution of ARERA 664/2015/R/idr for the recognition of the same costs;

- OpexQT relating to the costs for the activities carried out for the purpose of adapting to the technical quality standards of the service, defined by ARERA with resolution 917/17/R/idr, with the acknowledgement of what was requested by the Operator in the application submitted to the Body on 18 May 2018, drafted pursuant to art. 23-bis of Annex A to ARERA Resolution 664/2015/R/idr and subsequent amendments;
- OpSocial are intended to finance tariff reductions that are better than the minimum envisaged by the national regulation (so-called supplemental water bonus);
- Opnew relating to the systematic change in the scope of the activities of the Manager mainly following the start-up of the management of the infrastructure of the IWS still managed by the Campania Region (so-called "Regional Works") according to a transfer schedule.

The verification of the parameters for the identification of the regulatory quadrant and the presence of Opnew relating to systematic changes in the manager's activities in the "presence of the supply of a new service (e.g. treatment or sewerage for an operator whose management was previously limited to an aqueduct service, or, in other cases, in the presence of an expansion with a supply chain upstream)" pursuant to art. 23.5, letter d) of Annex A, ARERA Resolution 664/2015/R/idr and subsequent amendments and additions, determined the placement in the sixth regulatory quadrant. The OPnew taken into account in Commissioner resolution no. 39 of 17 July 2018 relate to the transfer of the Regional Works according to a transfer schedule starting from October 2016, and to the operating costs for the management of the water pumping plants called "Monaco Aiello" and "Vigna Caracciolo", already recognised and carried out within the scope of the previous tariff preparation pursuant to Commissioner resolution no. 15 of 30 June 2015 and the subsequent elaborations prepared also by the Manager, and, finally, subject to approval with resolution ARERA 104/2016/R/idr.

It should be noted that the aforementioned transfer schedule, the effects of which were included in full in the tariff proposal pursuant to Commissioner Resolution no. 39/18 was in fact overcome by the signing of the Operational Agreement of 8 November 2018 between GORI, Campania Region and EIC. This Agreement redefined, among other things, the timing of the transfer to the Infrastructure Manager of the IWS still managed by the Region.

At 31 December 2018 the Works transferred to the Manager were: Mercato Palazzo water tower with transfer in October 2016, the Boscotrecase and Cercola water stations with transfer in March 2018, the water plants related to the Nolan area with transfer in September 2018 and the Campitelli and Boccia a Mauro water stations to complete the Vesuvian Area with transfer in December 2018.

Therefore, the OPnews taken into account for the determination of the revenues pertaining to 31 December 2018 and that are therefore fully covered by the full cost recovery principle relate to the management costs of the Monaco Aiello and Vigna Caracciolo plants, the Campo Pozzi Mercato Palazzo, the water centres of Cercola and Boscotrecase, the water stations of the Water Area and the water plants of Campitelli and Boccia a Mauro, as well as the ex-Ausino feeder works and the former ARCADIS sewage pumping plants.

The VRG was also updated pursuant to art. 29.1 of Annex A of ARERA resolution no. 664/2015/R/idr and subsequent amendment. In fact, the aforementioned art. 29.1 envisages that, for the purposes of determining the VRG for the 2016-2019 regulatory period, some cost items (electricity cost, balance of payments and penalties, Authority contribution, cost of wholesale supplies, activity costs connected to the ISS due to systemic changes in the conditions of the service or to the occurrence of exceptional events) are subject to a final assessment, as adjustment components (Rc), relative to the year (a-2).

As regards the calculation in the Constraint for the costs for wholesale water services from the Campania Region for the year 2018, the official tariff determined by the Authority for the Campania Region, with resolution 338/2015/R/idr was determined to be € 0.1638954/m<sup>3</sup>.

The pertinent cost at 31 December 2018 on the COws relating to regional water supplies, according to the principle of full cost recovery, was approximately € 16.5 million, entered for the same amount in VRG and in the related costs.

As regards the COws of the collection and purification service, here again they were calculated starting from the quantification of the recognised costs.

To determine the relevant costs at 31 December 2018, according to the principle of full cost recovery, amounting to approximately € 13.7 million, reference was made to the tariff for wastewater collection and purification services, equal to € 0.310422/m<sup>3</sup>, as a result of the application of the ARERA 338/2015/R/idr resolution to the regional tariffs for wholesale services, recognised by the Parties within the minutes of the meeting of 4 March 2016 between the Campania Region, the Area Authority and GORI, applying it to volumes treated by regional plants.

### **Relations with Campania Region and the concessionary Acqua Campania**

The 2018 financial year was characterised by the definition and normalisation of relations between the Company and the Campania Region (as well as its concessionaire for collections, Acqua Campania S.p.A.) with regard to regional supplies of "wholesale water" and "wastewater collection and treatment services" for the period from 1 January 2013 to the second quarter of 2018. In particular, the Region, the EIC and GORI – in accordance with and based on the industrial plan envisaged by the 2016-2019 Regulatory Framework of ATO3, as updated with Commissioner resolution no. 39/2018 – reached an overall agreement aimed at the complete implementation of the Integrated Water Service in the Sarnese-Vesuvian District Area within a framework of economic-financial balance of the management for its entire remaining duration and the pursuit of the following related objectives: 1) GORI's assumption of the management of the service and acceptance, as a concession and according to the provisions of the current IWS Management Agreement of ATO 3, of the Regional Works and their consequent efficiency improvement, including the reallocation and efficient re-utilisation of the personnel involved in IWS activities, in accordance with and in the manner prescribed by the aforesaid Regulatory Scheme as well as by Regional Council Resolution 243/2016 and the relevant Framework Agreement signed between the Region and the Area Authority on 3 August 2016, implementation of the same resolution 243/2016; 2) the approval by the Campania Region of payments in instalments of the debt accrued by the Company for wholesale supplies disbursed from 2013 onwards, and the simultaneous overcoming of the complex legal dispute before the Civil Court of Naples between the concessionaire for regional collections Acqua Campania S.p.A. and GORI (RG No. 33575/2016) relating to regional supplies of "wholesale water", on the one hand and between the Region and



GORI (RG no. 3878/2017) regarding the regional services of “collections and treatment of waste water”, on the other hand; 3) the Company’s access to the credit market in order to implement these objectives; 4) the commitment of the parties to restore/maintain the economic-financial management of the IWS of ATO 3 were it to fail, also functionally to the satisfaction of the general bankability measures required to ensure the loans requested from the credit market, given the failure by ARERA until the end of 2018 to grant financing as an equalisation. In this latter regard, it should be noted that in the second half of 2018 the Company initiated a procedure to obtain total loans in the maximum amount of € 110 million from one or more banks.

With regard to tariff adjustments, it should be noted that the Extraordinary Commissioner of the Sarnese Vesuvian Area Authority, with Resolution no. 39 of 17 July 2018, approved the regulatory framework for the years 2018-2019, including, among other things, the general recovery of the regulatory adjustments accrued, including those before 2012, within the limits of the applicable tariff increases, starting from the 2018 financial year. In fact, in 2018 there was a recovery of adjustments equal to € 33.6 million. Therefore, as at 31 December 2018 the tariff adjustments totalled € 162.4 million, of which € 129.2 million based on the recovery forecasts envisaged by the aforementioned, expiring beyond the following year.

The 2018 financial year was characterised by the definition and normalisation of relations between the Company and the Campania Region (as well as its concessionaire for collections, Acqua Campania S.p.A.) with regard to regional supplies of “wholesale water” and “wastewater collection and treatment services” for the period from 1 January 2013 to the second quarter of 2018.

In particular, the Region, the EIC and GORI reached an overall agreement aimed at the complete implementation of the Integrated Water Service in the Sarnese-Vesuvian District Area within a framework of economic-financial management for its entire residual duration in pursuit of the objectives of social sustainability of the IWS tariff applied to users, realisation of the investments necessary for the improvement of the service, efficient management of the IWS infrastructure within the current scope, as well as the completion of the planned transfer programme of the feeders and treatment centres, with the related management.

In order to ensure the necessary resources for the realisation of the planned investments, the company has started a competitive procedure to obtain financing from one or more banks, also with related financing from the direct parent company of GORI, Sarnese Vesuviano S.r.l. and indirect Acea S.p.A.

In **financial terms**, on 23 April 2014 a contract was signed to re-schedule the loan which matured in June 2011 into a multi-year loan with maturity on 31 December 2021. The loan has an interest rate equal to the 6-month Euribor plus a spread of 5.5 percentage points maturing on 30 June and 31 December each year.

For the reasons stated above, due to the absence of the conditions that had originated it and due to the agreement with the Campania Region of 8 November, the Group believed that the write-down of the investment in the consolidated balance sheet no longer existed and therefore released the entire provision that had been established over the years.

### Campania – GESESA S.p.A. (Ato1 - Calore Irpino)

The Company operates in ATO1 Calore Irpino which promotes and develops the initiative for the management of the Integrated Water Service in Municipalities in the Province of Avellino and Benevento. The Company manages the Integrated Water Service of 22 Municipalities in the Province of Benevento with a resident population served of approximately 125,000 inhabitants over an area of

approximately 710 km<sup>2</sup> and 59,000 users. The sewerage service is provided to approximately 83% of users while the purification service to about 40%.

On 1 July 2018 the IWS of the Municipality of Morcone was acquired, a shareholder returning after a few years of economic management, with about 5,000 inhabitants and 2,200 users, while several contacts are under way with new Municipalities for the management of the related IWS.

From 17 July 2018 the company redefined the Management Agreement with the Municipality of Benevento by extending its management to the entire IWS, adding Sewerage and Water Treatment to the services provided. As far as the Municipality of Benevento is concerned, an important agreement was reached for the construction of sewerage treatment plants for the city, with agreements with the extraordinary national commissioner being stipulated that should entrust the design phase to the company.

Currently, the Authority – governed by the Extraordinary Commissioner referred to in DGR no. 813/2012 and merged into the regional EIC at the end of 2018 – has not yet assigned the management of the IWS.

Following the approval of Regional Law 15/2015 on the reorganisation of the Campania SII, GESESA is looking for opportunities to aggregate with other companies in the industry in order to create an entity that can be identified as the sole operator in the ATO1 area.

Pending the provisions of the competent bodies, the company undertook forms of aggregation with other managers in the area, and to this end it expanded its scope of management with the acquisition of the business unit of the Consorzio CA.B.I.B. acquiring the direct management of the IWS of 5 consortium municipalities and the wholesale supply of other 2 consortium municipalities, one of which (Tocco Caudio) in 2017 decided to entrust the management of the IWS directly to the company starting from June 2017. In addition, facilitated by the aforementioned rules aimed at introducing the principle of “unitarity” i.e. of a Single Manager in AATO1, numerous municipalities currently operating on their own have expressed their willingness to entrust the management of their IWS to the Company.

This new planning has a new temporal effect on the organisation and expectations of the Company even beyond the single expiry of the current concessions, and since the company is in all respects a “Protected Manager” within AATO Calore Irpino and “Managing Authority” recognised by the Entities and Authorities in charge at a local and national level, it identified the last expiry of the IWSs of 1 January 2032 as the minimum time projection for company management.

During 2018 all the data and documentation for updating the tariff for the 2016-2019 period were presented to the relevant Area Authority, which subsequently submitted them for consequent activities to the regional EIC, which has assumed control and management functions. The approval of the Entity and the transmission to ARERA of the consequent tariff update proposal for the 2018-2019 period is currently pending.

In August 2016, all of the documentation containing the figures and calculation tools as regards the tariff proposal for the period 2016-2019 was submitted to the ATO. The Tariff Proposal for 2016-2019, approved by AATO1 in Extraordinary Commissioner’s Resolution no. 8 dated 29 March 2017, envisages the following tariff multipliers:

- 6.10% for 2016;
- 6.30 % for 2017;
- **6.0 % for 2018;**
- 4.00 % for 2019.

Approval by the ARERA is awaited.

Finally, it should be noted that with Determination DSAI/26-2018

the ARERA has initiated a procedure for the adoption of a sanctioning and prescriptive provision on IWS tariff regulation. The Company submitted briefs on 7 June 2018 and also repaid the users for the improperly collected amount.

The results of the preliminary investigation are still pending. In the meantime, the Company has remedied some anomalies found by the Authority and in the 2018-2019 biennial tariff update proposal it has taken steps to incorporate and implement in 2016-2017 some indications and findings that emerged during the audit, contained in the body of the provision to initiate the sanctioning procedure, in order to reduce any economic impact resulting from the final outcome of the audit.

### Tuscany - Acque S.p.A. (Ato 2 - Basso Valdarno)

The management agreement, which came into force on 1 January 2002 with an initial twenty-year duration was signed on 28 December 2001, then in November 2018 it was extended to 2031. In accordance with said agreement, the Operator took over the exclusive integrated water service of ATO2, comprising all public water collection, abstraction and distribution services for civil use, sewage systems and the treatment of waste water. The Area includes 57 municipalities. In return for award of the concession, Acque pays a fee to all the municipalities, including accumulated liabilities incurred under previous concessions awarded.

With regard to the **tariffs**, with Resolution no. 32 of 5 October 2017, the AIT approved the 2016-2019 tariff preparation, submitting it to ARERA for its final approval. The main change compared to the previous tariff proposal (AIT resolution no. 28 of 5 October 2016) was the approval of the new OPEXQC request presented by Acque to replace the petition of PremioQC.

The proposal confirmed the previously approved tariff multipliers for the 2016-2019 four-year period; for the year 2018 the tariff multiplier was expected to be 6%.

With Resolution no. 6/2018 of 22 June 2018 concerning the "Update of the tariff structure 2018-2019 (resolution ARERA 918/2017/R/ldr): approval of the proposal of the territorial conference no. 2 Basso Valdarno to be submitted to ARERA", the Board of Directors of the Tuscany Water Authority again modified, with the same tariff multipliers, the composition of the 2016 and 2017 tariffs approved by resolution AIT no. 32/2017 of 5 October 2017 providing for a remodulation of the recovery of tariff adjustments for approximately € 9.7 million in the period 2022-2023.

With the same resolution the Board of Directors of the Tuscany Water Authority approved the 2018-2019 tariff proposal, the update of the works programme, the updating of the economic and financial plan and the extension of the duration of the concession of service from the previous deadline of 31 December 2026 to the new deadline of 31 December 2031.

The new 2018-2019 tariff proposal and the attached economic and financial plan have as objectives the sustainability of the forecast of greater investments that the manager will have to implement during the period of the concession, and, in parallel, the containment of the increase in tariffs to be applied to users by extending the duration of the concession a further 5 years.

Therefore, as a result of the new tariff proposal, the 2018 tariff multiplier is now equal to 5.39%, whereas in the previous AIT resolution 32/2017 it was equal to 6%.

The new 2018-2019 tariff proposal, as well as the updating of the 2016-2017 annual tariff and all the related documents (intervention programme, updating of the economic-financial plan, extension of the concession duration by a further 5 years) approved by the AIT with resolution 6/2018, were approved by the ARERA with resolution 502/2018/R/ldr of 9 October 2018 with modifi-

cation with respect to the AIT proposal of the OPEXqc recognised in the tariff but without changes to the tariff multiplier to be applied to the tariffs of the year.

The revenues for the period amount to a total, including the adjustment of passing items, of € 157.7 million (Group share € 71.0 million) and represent the best estimate made on the basis of the tariff proposal approved by the AIT in June 2018 and ARERA in November 2018.

It is also noted that on 24 January 2019, with the submission of the required documentation, with the termination of the previous loan and the related hedging contracts and with the stipulation of the new interest rate hedging contracts, the new loan agreement became effective. On the same date, upon completion of the operations, the Term line of € 200.0 million was requested and paid in full. The Company therefore fully extinguished the existing Debt of € 147.7 million for the Term line, and € 10.0 million for the Liquidity Line, in addition to accrued interest and the payment of the costs of early termination of existing hedges.

With reference to the main **disputes** of the Company, it should be noted that:

- the case before the Court of Florence (specialised section for companies) was concluded favourably, the Company being ordered to pay as a fee/compensation € 1.9 million for the use of water networks built by the plaintiff company in a Municipality of the area served, before the assignment of the concession of the service. With sentence no. 1447/18 the Judicial Authority did not accept the request of the plaintiff and ordered it to reimburse each of the defendants – including Acque S.p.A. – for the costs of litigation;
- with regard to the judgement pending before the Council of State, for which a hearing has not yet been set for the appeal against the sentence of the regional administrative court for the rejection of Acque's appeal against resolution no. 60 of 27 April 2011 of Co.N.Vi.Ri, referring to the review of the correct drafting of the Area Plan of AATO2 Tuscany - Basso Valdarno, the Company presented a motion to withdraw on 18 December 2018 in order to prevent the appeal from being quashed. With regard to the possible risks deriving from the outcome of the appeal, in previous years Acque has set aside an adequate sum in the provision for risks. However, in the event of a loss, the effect would be temporally limited; in fact, with the law of December 2011, the responsibilities of Co.N.Vi.Ri were transferred to ARERA, which introduced new criteria for the formation of the tariff, also destined to affect the issues under discussion.

### Tuscany - Publiacqua S.p.A. (Ato3 - Medio Valdarno)

The management agreement, which came into force on 1 January 2002 with a twenty-year duration, was signed on 20 December 2001. On the basis of this agreement, the Manager receives in exclusive custody the integrated water service of the ATO no. 3 made up of all the public services for the collection, supply and distribution of water for domestic uses, sewerage and waste water treatment. The Area includes 49 municipalities, of which 6 managed via agreements inherited from the previous operator, Fiorentinagas. In return for awarding the concession, the Operator pays a fee to all the Municipalities, including accumulated liabilities incurred prior to the awarding of the related contracts. In June 2006, Acea, via the vehicle Acque Blu Fiorentina S.p.A., completed the acquisition of an interest in the Company's capital.

With regard to the **tariffs**, with resolution no. 29/2016 of 5 Octo-

ber 2016 the AIT approved the tariffs for the second 2016-2019 regulatory period (MTI-2) pursuant to the ARERA resolution no. 664/2015.

With resolution 687/2017/R/idr ARERA approved the tariffs proposed by the Tuscany Water Authority on 12 October 2017. Following the approval of the new tariff structure envisaged by the ARERA Resolution no. 665/2017/R/idr (TICSI), Publiacqua has billed according to the new structure since August.

Finally, also note that with resolution no. 24 of 7 December 2018 the AIT approved the 2018-2019 tariffs.

Total revenues for the year, including adjustments to pass-through items, amounted to € 242.0 million (€ 96.8 million in the Group). Revenues also include the FoNI component for € 23.2 million (Group share € 9.3 million).

In terms of **funding sources**, on 30 April 2015 the Company took on a € 50 million loan with the European Investment Bank (EIB) which matures at the end of 2020. On 30 March 2016 a € 110 million loan agreement was signed, expiring on 30 June 2021, which was fully disbursed as at the date of preparation of this document; the use of the loan was partly intended to repay existing loans and mortgages. The repayment plans agreed to were scheduled on the basis of the cash flows available for repayment, according to the Economic and Financial Plan used for tariff purposes, and the instalments falling due on 31 December 2017 and 30 June 2018 were duly repaid.

#### **Tuscany - Acquedotto del Fiora S.p.A. (Ato 6 - Ombrone)**

Based on the agreement signed on 28 December 2001, the operator (Acquedotto del Fiora) is to supply integrated water services on an exclusive basis in ATO 6, consisting of public services covering the collection, abstraction and distribution of water for civil use, sewerage and waste water treatment. The concession term is twenty-five years from 1 January 2002.

In August 2004, Acea – via the vehicle Ombrone S.p.A. – completed its acquisition of an interest in the Company's capital.

With regard to the **tariffs**, on 5 October 2016, the AIT, in resolution no. 32, approved the tariff for 2016 and the remaining years in the second regulatory period, in addition to the 2016-2021 Plan of Interventions, the Economic-Financial Plan and the new awarding Agreement. The tariff calculations envisage the recognition of additional costs (Opexqc) for aspects concerning adjustment to the service quality standards, for € 0.8 million in 2016 and € 1.5 million for 2017-2018, and the FNI component for € 8.0 million for 2016 only. With resolution 687/2017/R/idr of 12 October 2017 ARERA ratified the proposal previously approved by the AIT.

Revenues for the period were determined based on the tariff update proposal 2018-2019 in the context of MTI-2, recently approved by the AIT Board of Directors with Resolution no. 17/2018 of 27 July 2018, and total, including adjustments for pass-through items, € 109.0 million (Group share € 43.6 million) and a share of FONI equal to € 8.7 million (Group share € 3.5 million). Current approval by the ARERA is awaited.

From a **financial viewpoint**, Acquedotto del Fiora signed a loan contract for € 143 million in June 2015 maturing at the end of 2025. The loan is a variable rate loan with guarantee on the Company's current accounts and receivables and upon pledge of Ombrone's shares in Acquedotto del Fiora.

In order to protect the Company from excessive market volatility, in

line with the term sheet, in consideration of the principles of economical convenience and financial risk, the Company contracted a plain vanilla type rate equal to 70% of the loan with some Lenders until final maturity, through Interest Rate Swap operations to transform the current variable rate into a fixed rate. Reimbursement of the capital portions started in December 2016, and the residual loan amounted to a total of € 122.6 million at the end of 2018.

#### **Umbria - Umbra Acque S.p.A. (Ato1 - Umbria 1)**

On 26 November 2007 Acea was definitively awarded the tender called by the Area Authority of Perugia ATO 1 for selection of the minority private business partner of Umbra Acque S.p.A. (concession expiry 31 December 2027). A stake in the company (40% of the shares) was acquired on 1 January 2008. The company performed its activities in all 38 Municipalities constituting ATOs 1 and 2.

As of 31 December 2018, the rate applied to users was determined by Resolution No. 489/2018/R/idr of 27 September 2018 with which ARERA approved the updating of tariff arrangements for the years 2018-2019, previously proposed by the Assembly of Mayors of the AURI with Resolution no. 9 of 27 July 2018, which envisaged a decrease of 0.09% for the year 2018 compared to 2017.

The additional rate equalisation components envisaged by ARERA resolution 6/2013/R/COM are also applied (later updated with Resolution 529/2013/R/COM), effective from 1 January 2013, and 918/2017/R/IDR, effective from 1 January 2018, subject to adjustment.

It should be noted that with Resolution of the Executive Council no.62 of 28 December 2018, AURI approved the new tariff structure, as defined by the Integrated Water Services Considerations (TICSI) approved by ARERA with Resolution no. 665/2017/R/idr on 28 September 2017. On the basis of the determinations of the ARERA, the revenues for the period were valorised, amounting to a total of € 74.7 million (Group share € 29.9 million) inclusive of the adjustment of passing items and include the FoNI component of € 7.0 million (Group share € 2.8 million).

With reference to the debt situation of Umbra Acque towards the Municipalities for the fee due under the Convention for the repayment of the loan instalments contracted by the same Municipalities for the realisation of IWS works, note that the Company has continued the virtuous course already started in the last three years, respecting the commitments included in the tariff proposal for the 2016-2019 four-year period approved by the relevant ATI1 and ATI2 on 30 June 2016 and by ARERA with Resolution no.764/2016/R/idr dated 15 December 2016 relating to the repayment plan lasting five years with fixed instalments to cover the residual debt owed to the Municipalities for charges past due, starting in 2017 and ending in 2021.

With regard to the appeal before the Umbria Regional Administrative Court arising from the disputes filed by the Umbrian Public Water Committee and concerning the appeal of the provision with which the Government of the Area (in this case the ATI Umbria sub-sector 1) resolved and then validated the recognition of tariff adjustments due to Umbra Acque for the past services of 2003-2011, before the advent of national regulation under ARERA. Rejection by the Judicial Authority involved continues to represent a step of significant importance for the Company. The desired rejection by the appropriate Judicial Authority continues to be of significant importance for the Company.

## PROGRESS OF THE PROCEDURE FOR APPROVING THE TARIFFS

The progress of the procedure for approving tariffs and the approval of the two-year update (2018 - 2019) of the IWS tariff provisions for the Group companies is shown below.

Company	Approval status (up to MT12 "2016 - 2019")	Biennial update status (2018 - 2019)
Acea Ato 2	On 27 July 2016, the EGA approved the tariff inclusive of the bonus as per art. 32.1, subsection a) of Resolution 664/2015/R/idr. The ARERA then approved them in Resolution 674/2016/R/idr, with some changes compared to the EGA proposal; quality bonus confirmed.	The Mayors' Conference approved the tariff update on 15 October 2018, and at the same time postponed the approval of the TICS (Integrated text on water fees) setting out the criteria for the rate structure to be applied. On 13 November 2018, the ARERA approved the 2018-2019 tariff update with Resolution 572.
Acea Ato 5	Tariff proposal submitted by the Operator on 30 May 2016, with request for recognition of the Opex <sub>qc</sub> . ARERA warned the EGA on 16 November 2016 and the EGA approved the tariff proposal on 13 December 2016, rejecting, among others, the request for recognition of the Opex <sub>qc</sub> . Approval by the ARERA is awaited.	The Conference of Mayors approved the 2018-2019 tariff update on 1 August 2018. Currently approval by the ARERA is awaited.
GORI	On 1 September 2016, the Extraordinary Commissioner of the EGA approved the tariff with Opex <sub>qc</sub> as of 2017. Approval by the ARERA is awaited.	On 17 July 2018 the Extraordinary Commissioner of the EGA approved the 2018-2019 tariff update.
Acque	On 05 October 2017, the AIT approved the tariff with recognition of the Opex <sub>qc</sub> .	On 22 June 2018 the AIT Board of Directors approved the 2018-2019 tariff update and, at the same time, the request to extend the duration of the 5-year contract, that is until 31 December 2031. With resolution 502 of 9 October 2018, the ARERA approved the 2018-2019 tariff update.
Publiacqua	On 5 October 2016, the AIT approved the tariff with recognition of the bonus as per art. 32.1, subsection a) of Resolution 664/2015/R/idr. With resolution 687/2017/R/idr, on 12 October 2017 ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT.	On 7 December 2018 the AIT approved the 2018-2019 tariffs with the extension of the 3-year concession. Currently approval by the ARERA is awaited.
Acquedotto del Fiora	On 05 October 2016, the AIT approved the tariff with recognition of the Opex <sub>qc</sub> . On 12 October 2017, with resolution 687/2017/R/idr ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT.	The AIT Board of Directors approved the 2018-2019 tariff update in the session of 27 July 2018. Currently approval by the ARERA is awaited.
Geal	On 22 July 2016, the AIT approved the tariff with recognition of the Opex <sub>qc</sub> . With resolution 726/2017/R/idr, on 26 October 2017 ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT.	On 12 July 2018 the ARERA approved the 2018-2019 tariff update proposed by the AIT.
Nuove Acque	On 22 June 2018, the AIT Board of Directors approved the rates	On 16 October 2018 with Resolution 520 the ARERA approved the 2018-2019 tariff update proposed by the AIT.
Crea Gestioni	Following Resolution 664/2015/R/idr, as neither the Municipalities where the service is provided nor the Area Authorities of reference had any tariff proposal for the 2016-2019 regulatory period, the Company submitted its own tariff proposals. Today approval by the ARERA is awaited.	The Company submitted the tariff update data to the competent/EGA parties, unless still in progress for the technical quality part. Considering the substantial inertia of the persons in charge, the Company submitted the request to the Municipalities on 21 December 2018, with a request sent to ARERA on 11 January 2019 and request for a warning to the EGA on 18 January 2019.
Gesesa	On 29 March 2017 with resolution no. 8 of the Extraordinary Commissioner the AATO1 approved the tariffs for the years 2016-2019. Today approval by the ARERA is awaited.	The Company sent the documentation relating to the 2018-2019 tariff review to the Area Authority and the preliminary investigation was initiated by the EGA with the expectation of reaching the approval of the tariffs by April 2019.
Umbra Acque	On 30 June 2016, the AIT approved the tariff with recognition of the Opex <sub>qc</sub> . The ARERA then approved them in Resolution 764/2016/R/idr	In its session of 27 July 2018, the AURI Meeting approved the 2018-2019 tariff update. The ARERA approved the 2018-2019 tariffs with resolution no. 489 of 27 September 2018

# RELATED PARTY TRANSACTIONS

## ACEA GROUP AND ROMA CAPITALE

Trading relations between Acea Group companies and Roma Capitale include the supply of electricity and water and provision of services to the Municipality.

Among the principal services are the management, maintenance and upgrading of public lighting facilities and, with regard to environmental–water services, the maintenance of fountains and drinking fountains and the additional water service, as well as contract work.

Such relations are governed by appropriate service contracts and the supply of water and electricity is conducted by applying the

tariffs in force on the market adjusted to the supply conditions.

Acea and Acea Ato 2, respectively, provide public lighting and integrated water services under the terms of two thirty-year concession agreements. Further details are provided in the section “Service concession arrangements”.

For further information regarding relations between the Acea Group and Roma Capitale, reference should be made to the disclosures regarding receivables and payables from and to the Parent Company in note 23 of this document.

The following table shows details of the main revenues and costs at 31 December 2018 of the Acea Group (compared to those of the previous year) deriving from the most significant financial relations.

€ thousand	REVENUES		COSTS	
	31-12-2018	31-12-2017	31-12-2018	31-12-2017
Supply of fresh water	36,250	37,005		
Supply of electricity	148	0		
Public lighting service contract	42,883	59,887		
Public lighting contract interest	4,233	4,560		
Water maintenance service contract	191	119		
Monumental fountain service contract	191	119		
Concession fee	0	0	25,968	25,765
Leasing fees	0	0	79	0
Taxes and duties	0	0	5,115	6,291

Reference should be made to note 22.b for details on the impact of these transactions, while the table below summarises the changes in receivables and payables.

€ thousand	31/12/2017	Collections / payments	Accruals 2018	31/12/2018
RECEIVABLES	187,291	(93,278)	61,980	155,993
PAYABLES	(129,064)	118,976	(97,976)	(108,063)

## ACEA GROUP AND ROMA CAPITALE GROUP

The Acea Group also maintains trading relations with other companies, special companies and entities owned by Roma Capitale, mainly concerning the supply of electricity and water.

The supply of services to entities owned by the Roma Capitale Group is also conducted by applying the tariffs in force on the

market adjusted to the supply conditions. The prices applied to sales of electricity to free market users are in line with the sales policies of Acea Energia.

The following table shows the most significant amounts of revenues, costs, receivables and payables deriving from relations between the Acea Group and entities owned by the Roma Capitale Group.

Roma Capitale Group	Trade payables	Costs	Trade receivables	Revenues
AMA S.P.A.	1,657	1,396	1,698	5,981
ATAC S.P.A.	270	216	5,730	1,766
ROMA MULTISERVIZI S.P.A.	138	70	0	0
<b>Total</b>	<b>2,065</b>	<b>1,682</b>	<b>7,427</b>	<b>7,747</b>

## ACEA GROUP AND MAIN CALTAGIRONE GROUP COMPANIES

The Acea Group companies maintain trading relations that mainly concern the supply of electricity and water.

The supply of services to entities owned by this company is con-

ducted by applying the tariffs in force on the market adjusted to the supply conditions. The prices applied to sales of electricity to free market users are in line with the sales policies of Acea Energia.

The following table shows the most significant amounts relating to financial relations between the Acea Group and the main entities owned by the Caltagirone Group at 31 December 2018.



€ thousand	Revenues	Costs	Receivables	Payables
Caltagirone Group	3,131	7,322	836	2,634

## ACEA GROUP AND SUEZ ENVIRONMENT COMPANY SA GROUP

There were no relations with companies in the Suez Group as at 31 December 2018.

It must also be noted that the financial balances described above do

not include relations with companies in the Group consolidated under the equity method, which are included in the financial statements.

### List of significant related party transactions

It should be noted that no non-recurring significant transactions with related parties were carried out during the period.

## IMPACT ON THE STATEMENT OF FINANCIAL POSITION

€ thousand	31.12.2018	of which with related parties	Incidence	31.12.2017	of which with related parties	Incidence
Financial assets	32,697	30,880	94.40%	38,375	35,637	92.90%
Trade receivables	965,697	83,982	8.70%	1,022,710	153,901	15.00%
Current Financial Assets	113,960	86,612	76.00%	237,671	121,137	51.00%
Payables to suppliers	1,524,876	124,499	8.20%	1,237,808	136,054	11.00%
Financial payables	408,675	627	0.20%	633,155	3,042	0.50%

## INCIDENCE ON THE INCOME STATEMENT

€ thousand	31.12.2018	of which with related parties	Incidence	31.12.2017	of which with related parties	Incidence
Consolidated net revenues	3,028,487	127,314	4.2%	2,796,983	104,081	3.7%
Consolidated operating costs	2,138,560	47,225	2.2%	1,983,853	50,023	2.5%
<b>Total Financial (costs)/income</b>	<b>(82,859)</b>	<b>13,303</b>	<b>(16.1%)</b>	<b>(71,955)</b>	<b>8,147</b>	<b>(11.3%)</b>

## IMPACT ON THE CASH FLOW STATEMENT

	31.12.2018	of which with related parties	Incidence	31.12.2017	of which with related parties	Incidence
Increase in current receivables included in the working capital	98,720	(69,302)	(70.2%)	(70,073)	29,465	(42.0%)
Increase/decrease in current payables included in the working capital	(15,544)	(11,555)	74.3%	10,752	(12,944)	(120.4%)
Collections/payments deriving from other financial investments	116,038	(39,283)	(33.9%)	(117,026)	13,827	(11.8%)
Collected dividends	8,612	8,612	100.0%	9,626	9,626	100.0%
Decrease / increase in other short-term financial debts	(233,453)	(2,415)	1.0%	481,614	(968)	(0.2%)
Dividends paid	(137,379)	(137,379)	100.0%	(136,110)	(136,110)	100.0%



# UPDATE ON MAJOR DISPUTES AND LITIGATION

## TAX ISSUES

### **Tax audit of SAO (now incorporated into Acea Ambiente)**

In October 2008, the Revenue Agency notified the company with two notices of assessment which reassessed, inter alia, the tax reports for the tax years 2003 and 2004 with regard to the IRES tax. The alleged irregularities arise from the application of Article 14, paragraph 4-bis of Law no. 537 of 24 December 1993.

The appeals filed by the Company were merged by the Tax Commission of Terni which, in the month of May 2009, upheld the application for suspension filed by SAO and in November 2009 stayed the proceedings by raising the issue of the constitutionality of Article 14, paragraph 4 bis of Law no. 537 of 24 December 1993, upon which the tax assessment was based.

By decision of March 2011 the Constitutional Court dismissed the constitutionality issue and remanded the proceedings to the Tax Commission of Terni. In January 2013, the Commission upheld the appeals filed by SAO and ordered the Agency Revenue to pay 50% of the legal costs incurred by the Company.

By judgement 419/04/14 issued on 24 February 2014, filed in July 2014, the Regional Tax Commission of Umbria rejected the appeal filed by the Revenue Agency, ordering it to pay the legal costs. On 21 September 2015, the company received from the State Attorney General the appeal lodged with the Supreme Court of Cassation by the Revenue Agency against the aforementioned ruling 419/04/14: SAO (now Acea Ambiente) filed its appearance with its defence statement and simultaneous conditional cross-appeal notified on 28 October 2015. Currently no date has been fixed for the hearing before the Supreme Court of Cassation.

In addition to the above, in November 2008, the Revenue Agency notified the company, and the former Parent Company EnerTAD S.p.A., with a notice of assessment that reassessed the IRES tax due for the 2004 tax period, establishing an additional tax charge of € 2.3 million for taxes, net of penalties, where applicable. The alleged irregularities arise from the application of Article 14, paragraph 4-bis of Law no. 537 of 24 December 1993.

The Company's defence arguments were upheld by both the Provincial and the Regional Tax Commission. In February 2013, the Revenue Agency appealed to the Supreme Court of Cassation and the company filed its appearance.

It is believed that the actions of the tax authorities mentioned above are illegitimate, and that the risk of having to pay the full amount is remote, which previous shareholder (Enertad, now Erg Renew) will be obliged to pay on the basis of the guarantees issued as part of the purchase/sale agreement regarding the shares of the direct parent company ARIA S.r.l. (today Acea Ambiente s.r.l.)

For the sake of completeness, we also mention that in January 2009, the company challenged the decision ref. no. 2008/27753 of 27 November 2008 by which the Revenue Agency suspended the payment of a VAT refund claimed by the Company for the 2003 tax year. This refund amounting to € 1.3 million was recognized by the tax authorities, but it was suspended as a precautionary measure due to the above mentioned tax assessments. The Tax Commission, with Ruling issued following the hearing held in March 2010, upheld the appeal lodged by the company, thus cancelling the cited measure against the aforementioned ruling. The Revenue Agency submitted an appeal in September 2010. The proceedings are in progress. It should be noted that the receivable concerning the above VAT refund was sold for valuable consideration in July 2010. The buyer lodged an appeal, simultaneously requesting discussion

at a public hearing for the cancellation of measure 73747/2011 by which the Terni Provincial Department of the Revenue Agency declared the sale of said VAT credit from SAO to said assignee to be unacceptable. By ruling no. 52/04/12 issued on 3 October 2011 and filed on 26 March 2012, the Perugia Regional Tax Commission rejected the appeal filed by the Tax Authorities, with reimbursement of costs. The Revenue Agency appealed to the Supreme Court of Cassation and the company filed its appearance.

### **Tax audit of areti**

In the Report on Findings (PVC) concerning the general inspection for 2010, an assessment was also made for the years from 2008 to 2012 on the taxation treatment of some items that were previously inspected and had a multi-annual validity.

On the basis of the report in the PVC, the Lazio DRE - Major Taxpayer's Office, notified on 23 December 2014 two separate notifications of assessment for 2009, once concerning the direct taxes (IRES and IRAP) and once concerning the indirect taxes (VAT). The Company filed a preventive request on 17 February 2015 and the Office recognised the validity of the reasons submitted by areti in relation to its own operations and ordered the complete annulment of the deed concerning the direct taxes. As regards the VAT inspection, the Office partially recognised the reasons put forward by the Company and consequently ordered the partial annulment of the deed of assessment, bringing the total request to € 129 thousand plus sanctions. The Company has deemed it opportune, as regards the VAT inspection, to undertake a tax-related lawsuit.

On the basis of the same presupposition of the notification made in the PVC, the Lazio DRE - Major Taxpayers' Office notified on 19 May 2016 two notifications of assessment concerning VAT for 2011 and 2012 for € 299 thousand plus sanctions and interest.

All the assessment notices received are pending at the Lazio CTR. Remember that the commission of first instance cancelled the notices of assessment for 2011 and 2012 and partially confirmed the notice for 2009.

With regard to the tariff concessions granted to employees and former employees for the year 2011 and 2012, the tax commission cancelled the notices and ordered the Office to pay the costs.

### **Tax disputes/lawsuits with ARSE**

In January 2016, ARSE, a company at the time already closed due to complete spin-off, was informed of a notification of liquidation of the complementary register fee concerning the requalification of the conferment transaction and subsequent transfer of the equity investment in Apollo S.r.l., a company in the photovoltaic segment. The tax demanded, including interest, amounts to € 672 thousand.

On 7 March 2017, the beneficiaries of the ARSE - Acea S.p.A., Acea Liquidation and Litigation (ex Elga Sud) and Acea Produzione - believe the notification of liquidation is groundless as regards both the obvious technicalities in terms of its form and as regards the dispute involved in the notification.

On 15 January 2018, the hearing for discussion was held before the Provincial Tax Commission of Rome. By judgement no. 1926/15/2018 deposited on 22 January 2018, the judges cancelled the notice of assessment challenged.

On 14 June 2012, the Company was delivered a Report on Findings from the Italian Financial Police - Rome Tax Police Department following its inspection to check the correct use of the tax suspension provisions under the VAT tax warehouse system pursu-

ant to article 50-bis of Italian Decree Law no 331 of 30 August 1993 ("VAT Deposits"), relating to certain assets imported by the Company in 2009, 2010 and 2011.

Based on the alleged abusive use of the aforementioned system by the company, the inspectors charged the company with failure to pay VAT on imports – for 2009, 2010 and 2011 – amounting to a total of € 16,198,714.87.

On 6 August 2012 the company submitted a defence brief pursuant to art. 12, paragraph 7, of Law no. 212 of 27 July 2000 concerning the findings contained in the aforementioned Report on Findings.

The issue relating to the concepts of simulated warehouses and the introduction of goods to the country is particularly well-known and debated, and has been the subject of numerous papers on practices issued by the Customs Authority and several cases of legal intervention. The company considers that all the factual and legal conditions envisaged in the regulation on the use of VAT Deposits, as interpreted by the relevant administrative bodies, were fully satisfied and therefore the aforementioned Report on Findings is without grounds.

### **Customs verification of Umbria Energy S.p.A.**

On 15 January 2016, the Perugia Customs Office notified a payment notice to Umbria Energy in relation to a report on findings which reported the failure to pay excise duties and surcharges on electricity for the period 2010-2013 for a total amount of € 860 thousand.

Against this measure, the Company is preparing an appeal before the relevant Tax Commission to obtain acknowledgement of its correct conduct. On 4 October 2017, the Commission rejected the appeal submitted by the Company arguing the substantive relevance of the conduct upheld in terms of the application of the sanction and declared that in the event of any billing adjustments, the procedure to be applied is that of submitting a formal request for reimbursement to the Office in accordance with Art. 14 of the Environment Act.

### **Tax audit of Acea ATO 5**

On 7 March 2018 the Guardia di Finanza – Economic and Financial Police Unit of Frosinone – Section for the Protection of Public Finance commenced a general tax audit of the Company. The audit was concluded on 25 October 2018 with the drafting of the PVC (Audit Report) that alleged substantial violations of income taxes and IRAP by the Company in the 2013 tax year.

It is also noted that on 21 December 2018 the Court of Frosinone – section of the judge for preliminary investigations notified the Company of a decree of preventive seizure (no. 3910/2018) of the financial resources present in the Company's current accounts up to the value of € 3.6 million, charging the Company with a crime under art. 4 of Italian Legislative Decree 74/2000.

On 24 December 2018 the Company produced and filed with protocol no. 77899 its own Observations regarding the PVC, drawn up according to article 12, paragraph 7 of Italian Law no. 212 dated 27 July 2000.

On 3 January 2019, the Inland Revenue – Provincial Department of Frosinone – Control office, notified the Company of assessment notice no. TKO0C6M02152/2018, with which the tax return was adjusted for IRAP for the 2013 tax period for an amount payable by the company of € 591 thousand for taxes, net of fines and interest. The findings ascertained derive from the application of art. 5 and 25 of Italian Legislative Decree no. 446/97 and in particular relate to an undue downward variation due to the use of a risk provision, the omitted accounting/declaration of positive income components as well as the undue deduction of negative income elements related to default interest.

It is hereby acknowledged that, as reported in the aforementioned notice, the findings for IRES purposes relating to the aforementioned PVC will be the subject of a separate assessment, which will

be issued in accordance with the law pursuant to art. 43 of Italian Presidential Decree 600/73 and of art. 57 of Italian Presidential Decree 633/72.

Finally, it is noted that on 1 February 2019, having examined the request for review pursuant to art. 324 of the Italian code of criminal procedure proposed by the Company, the Court of Frosinone, having heard the parties in the Council Chamber at the hearing and dissolved the reservation, annulled the decree of preventive seizure issued by the examining judge and ordered the restitution of the seized property to the party entitled.

### **Tax audit of Acea S.p.A.**

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 Ato 5 - 2016-2019 Tariffs**

On 9 February 2017, the Company filed an appeal at the Lazio Regional Administrative Court in Latina for the annulment of Resolution no. 6 dated 13 December 2016, in which the Conference of Mayors of AATO 5 approved the tariff proposal for the IWS for the regulatory period 2016-2019, envisaging period adjustments less than those envisaged in the Operator's proposal (€ 77 million compared to about € 35 million), as a consequence of the different quantification by the Operational Technical Secretariat, essentially on four regulatory items: 1) the amount of the FNI (psi coefficient of 0.4 rather than 0.8 proposed by the Company); 2) the recognition of arrearage costs (3.8% of the returns rather than 7.1%); 3) the recognition of quality costs (opex qc), zeroed and not recognised by the Operational Technical Secretariat; 4) fines for approximately € 11 million.

On 22 March 2018 sentence no. 135/2018 was published with which the Latina administrative court rejected the appeal brought by Acea Ato 5 against the aforementioned resolution of the Conference of the Mayors no. 6 of 13 December 2016. With this ruling, now final, the administrative court did not enter into the merits of the complaints raised by the Company, but confined itself to

stating the inadmissibility of the appeal, on the assumption that the resolution of the Conference of Mayors would be a mere end-procedural act. The terms for appeal are pending. The Company has decided not to lodge an appeal.

For accounting matters, reference is made to the information given in the section entitled "Service concession arrangements".

Acea Ato 5 - Injunction Order requested for credit collection on the settlement agreement of 2007 with AATO5.

With regard to the € 10,700,000 receivables for higher costs incurred in the 2003-2005 period, pursuant to the Settlement agreement of 27 February 2007, on 14 March 2012, Acea Ato 5 lodged an appeal for an injunction order concerning the receivables recognised by the AATO to the company.

Accepting the appeal, the Court of Frosinone issued Injunction Order no. 222/2012, enforceable immediately, notice of which was served to the Area Authority on 12 April 2012.

By notice dated 22 May 2012, the AATO sent notice of its opposition to the injunction order, requesting the cancellation of the order and, as a precautionary measure, the suspension of its provisional enforcement. Moreover, as a counter-claim, it submitted a claim for the payment of concession fees totalling € 28,699,699.48.

Acea Ato 5 appeared before the court in the proceedings against the injunction order, challenging the adversary's demands and in turn formulating a counter-claim for the payment of the entire amount of higher costs incurred by the Operator and originally requested, totalling € 21,481,000.00.

Following the hearing on 17 July 2012, the Judge – in an Order filed on 24 July – suspended the temporary enforcement of the injunction order, and postponed to a later date the discussion of the merits of the issue.

The judge also rejected the request for an order of payment of the concession fees submitted by the AATO.

During the hearing on 21 November 2014, the judge withdrew the reservations on the motions for admission of evidence filed by the parties and fixed the hearing for the final statements on 15 November 2016. During the hearing, the judge granted the terms for the conclusions and replies and deferred the decision on the case. In sentence 304/2017, published on 28 February 2017, the civil judge revoked the injunction decree issued in 2012, rejected the subordinate re-conventional request by Acea Ato 5 and ordered the deferral of the case in the preliminary proceedings concerning the re-conventional request by the AATO as regards the payment of the concession fees.

At the hearing of 17 November 2017, the Judge, having acknowledged the counterparty request, postponed the hearing to 27 February 2018. At the outcome of the aforementioned hearing, the new Judge who took charge of the case, having noted the discrepancies that emerged in the respective accounts of Acea Ato 5 and AATO, granted a postponement to 4 May 2018, inviting the parties to clarify the reasons for such discrepancies and specifying that if they could not the court would appoint an expert to do so. At this hearing there was a further postponement until 21 September 2018.

At this meeting, in light of the Conciliation Panel established on 11 September 2018 with AATO5 – pursuant to art. 36 of the Management Agreement to which the question concerning the determination of concession fees was also referred, among others – the Parties asked the judge for a postponement, the hearing being scheduled for 15 February 2019, then postponed to 17 September 2019.

Linked to this judgement must be considered the appeal against the sentence of the Court of Frosinone that revoked the injunction order of € 10,700,000 initially issued by the same Court.

The first hearing was automatically postponed to 11 May 2018. On this occasion the Court, having heard the respective positions of the parties, postponed the case to 20 November 2020 for the oral

discussion and the ruling of the sentence pursuant to art. 281 sexies of the Code of Civil Procedure.

The additions to be made regarding the existence of a receivable are currently being defined. The Company believes – also based on the authoritative opinion of its lawyers – that the affirmed nullity of the transaction will not result in the loss of the Manager's right to obtain remuneration for the higher costs incurred in its operations and not covered by the tariff.

### **Acea Ato 5 - Contractual termination Management Agreement**

The Company filed an appeal (no. 316/2016) against resolution no. 2 taken by the Mayors' Conference on 18 February 2016 with which the process of termination of the contract was initiated and the subsequent formal notice was sent to the Company in March 2016. It also challenged resolution no. 7 of 13 December 2016 with which the resolution was decided, presenting reasons added to appeal no. 316 and with a concurrent claim for damages. Following the public hearing on 23 November 2017, the administrative court of Latina upheld the appeal filed by the Company and with sentence no. 638/2017 published on 27 December 2017 vacated the contested measures. On 26-27 June 2018 the appeals filed by the Area Authority, the Municipality of Ceccano and other Municipalities of ATO 5 were respectively served, challenging the aforementioned ruling no. 638/2017 of the Lazio Regional Administrative Court - Latina section.

The aforementioned appeals do not present any arguments of particular novelty or relevance with respect to what has already been submitted for the examination of the Court of First Instance, nor have the appellants proposed an application for interim relief. In any case, the Company filed the formal documents for both disputes, for which as of today there is no information regarding the scheduling of the hearing.

For more details on the contents of the proceedings mentioned, see the paragraph entitled "Information on concession arrangements".

### **Acea Ato 5 - ASI Consortium**

The ASI Consortium filed two injunction decrees for the reimbursement of the portion of the treatment service carried out on behalf of Acea Ato 5 (case value € 14,181,770.45). The two decrees were opposed by the Company which, in turn, submitted an application for the supply of water for industrial use provided to the Consortium. Specifically:

- with reference to the judgement established following appeal 3895/2013 (judgement value € 7,710,946.06), the parties involved initiated a series of meetings, at the end of which, in the month of March 2018, a settlement agreement was reached (which also includes Acea Ato 2 as a party), whose effectiveness was subject to prior approval by the respective boards of directors. The Board of Directors of each of the Parties approved the aforementioned settlement and on 15 May 2018 the final settlement agreement was signed by Consorzio ASI, Acea Ato 2 and Acea Ato 5. The parties subsequently signed an addendum to the outline of the settlement agreement - an agreement previously approved by the respective Boards of Directors - in order to settle the reciprocal relationships according to the definitive decisions of the Area Authority in relation to the reciprocal tariffs and/or costs and/or remuneration methods;
- with reference to the judgement following appeal no. 3371/2016 (judgement value € 6,470,824.39), the Judge, granted the terms pursuant to article 183, paragraph 4 of Italian Code of Civil Procedure set the hearing to be held on 15 May 2018. On this occasion, in view of the parties' express in-

tention to achieve an amicable settlement of the dispute - in relation to their reciprocal credit/debit positions also for the following period 2012-2015 - through the activation of a settlement discussion the Judge ordered the postponement of the hearing to 25 September 2018, further postponed to 30 November 2018. Also on that occasion, due to the expressed intent of the parties to seek an amicable settlement of the dispute, the judge ordered the postponement to 8 February 2019. On that occasion, as negotiations are still in progress between the parties for the settlement of the case, a further postponement was ordered to 25 June 2019;

- at the same time, during the aforementioned settlement discussion, the opportunity emerged to transactively define reciprocal debit/credit positions for the 2016-2017 period, as well as the opportunity to reach the settlement of a framework agreement aimed at regulating - starting from 2018 and for the future - the water supply service provided by Acea Ato 5 S.p.A. to ASI, as well as the sewerage and treatment service rendered by ASI for Acea Ato 5. With regard to this last aspect, on 9 January 2019 an agreement was signed by the Parties.

### **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 Judge, 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. - 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., 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 subtenion indemnity (i.e. compensation for damages due to illegitimate subtenion), 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 subtenion", 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. - 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 to € 23 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. – 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 and 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 sentences concerning the validity of the claim, the workers who won their cases (those in favour of whom subordinate employment relations with Acea were recognised) then started cases for the quantification of their claims, in which it was demanded that Acea pay the remuneration due as a result of the employment relations started. 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 ARMO-SIA MP S.r.l.)**

This is a challenge to the injunction issued by the Court of Rome - General Docket (RG) no. 58515/14 against areti 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.

In the hearing on 17 February 2016, the Judge adjourned this case with the other pending and filed under RG no. 30056/2014 before the Court of Rome, taken by Acea and areti (transferee of the lease contract) in order to obtain the termination of the lease contract.

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 areti. At the hearing of 17 February 2016 both Acea and areti 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 areti, 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 *areti* 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. - 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 AA-TO2 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. 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 no. 36/2003 - allegedly due for the conferment of waste occurred during the period of contractual validity in 1985 - 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.

### **Acea Ato 2 S.p.A. - Hydraulic interference**

On 29 July 2016 Acea Ato 2 filed an appeal before the Lazio Regional Administrative Court in Rome against Lazio Region, to obtain the annulment of Regional Government Resolution no. 263 dated 17 May 2016, concerning the approval of the new obligatory Draft Agreement for managing hydraulic interference with the Peschiera - Le Capore aqueduct system.

In particular, the Company has objected to the part of the Resolution that determines in a completely arbitrary manner the amounts that the Authority of Ato 2 will be required to pay to ATO3.

The Metropolitan City of Rome Capital intervened in the proceedings *ad adiuvandum*, while among the resisting and counter-interested parties, Lazio Region and the Province of Rieti appeared in the capacity of Authority Responsible for the coordination of the entities in ATO3.

Also as a consequence of the aforementioned legal proceedings being taken, Lazio Region began a procedure for the review of the

aforementioned Resolution, subsequently issuing Resolution no. 360 dated 20 June 2017, which substantially confirms the contents of the previous measure.

The aforementioned Resolution was challenged for additional reasons. Subsequently, on 9 January 2018 the Company filed a second document with additional reasons, concerning the annulment of the note with protocol 038786 of the Director of the Regional Directorate for Water Resources, Soil Protection and Waste, bearing the report concerning the assessment and calculation of the ATO-ATO3 contribution and the note of the Committee for Legislation of the Lazio Region protocol 306024 of 15 June 2017 (both coming to light following acceptance of the request for access to documents on 17 October 2017). By this deed of additional grounds, the requests of Lazio was also asked to annul the Resolution of the Regional Council no. 661 of 17 October 2017, concerning the exercise of powers of substitution by means of the appointment of a special Commissioner, thereafter appointed on 5 December 2017. Finally, note that with Resolution no. 30 of 25 January 2018, the Regional Council of Lazio approved the updated scheme of the mandatory Convention for the management of hydraulic interference, which acknowledges the recent agreements between Ato 2 and Ato 3 and the mayors' conferences of both the local authorities approved the scheme and on 2 February 2018 signed the agreement for the management of hydraulic interference of the Peschiera - Le Capore aqueduct system.

### **Acea Ato 2 S.p.A. - Regulation of the hydrometric level of Lake Bracciano**

The Ordinances issued by the Director of the Regional Directorate for Water Resources, Soil Protection and Waste no. 0375916 of 20 July 2017 and no. 0392583 of 28 July 2017 concerning the Regulation of the hydrometric level of Lake Bracciano were both challenged by Acea Ato 2 before the Superior Court of Public Waters (TSAP) with separate appeals.

At the hearing before the Investigating Judge held on 24 January 2018, it was requested that the matter of the dispute be dismissed, in consideration of the subsequent Determination of the Regional Director for Water Resources, Soil Protection and Waste no. G18901 of 29 December 2017 concerning "Supply of the basin of Lake Bracciano as a strategic water reserve and seasonal compensation for drinking water. Taking note of the will of Acea Ato 2 not to activate the derivation of the Lake of Bracciano". The hearing before the Court for the declaration of the dismissal of the dispute is scheduled for 28 November 2018 and as a result of the same the TSAP declared, for both judgements, the impossibility to proceed with the appeal due to supervening lack of interest.

The same for the aforementioned regional provision no. G18901 dated 29 December 2017, Acea Ato 2 proposed an appeal, with a request for suspension, before the TSAP. At the hearing to discuss the injunction with a ruling dated 27 July 2018, the Managing Director, cancelling the previous conditions established at the hearing, rejected the precautionary petition submitted by Acea Ato 2 and set the hearing for 7 November 2018. At this hearing the case was postponed to the panel hearing of 3 July 2019.

### **Acea Ato 2 S.p.A. - Challenge to Regional deliberations concerning the identification of the Optimal Territorial Areas of the Hydrographic Basin**

With an appeal lodged before the Superior Court of Public Waters of Rome, Acea Ato 2 challenged the regional resolutions concerning the identification of the Optimal Territorial Areas of the Hydrographic Basin (GRL resolution no. 56 of 6 February 2018, GRL resolution no. 129 of 20 February 2018, GRL resolution no. 152 of 2 March 2018). A similar appeal was also proposed by the Optimal Territorial Area Authority no. 2 Central Lazio. With resolution no. 218



of 8 May 2018, the Lazio Region suspended the effectiveness of the challenged resolutions, delegating to the Regional Director of Water Resources and Soil Defense any activity useful for achieving a new governance model for the IWS during the following six months. Therefore, at the hearing of 11 July 2018 the case was postponed to 6 February 2019, pending the new assessments of the Region on the matter, announced in the provision that suspended the contested acts. Subsequently, the Region issued resolution no. 682 of 20 November 2018 with which it has extended the deadline for the definition of the new IWS model, confirming the suspension of the effectiveness of the challenged resolutions. Finally, the first hearing was automatically postponed to 3 March 2019.

#### **areti S.p.A. - GALA S.p.A.**

In November 2015, areti S.p.A. (formerly Acea Distribuzione), in its capacity of manager of the electricity distribution network, entered into a transport contract with GALA, which operates in the sale of electricity to end users.

Starting March 2017, GALA has suspended all payment of prices billed and due to areti and, the following 3 April, submitted a request for Agreements with Creditors pursuant to Art. 161, 6th paragraph of the Bankruptcy Law (termed agreements “with reservation” or “blank”) entered with Companies House on 11 April 2017. With a press release dated 30 May 2018, GALA announced “that on 3 May 2018 the Shareholders’ Meeting, specifically convened, confirmed the impossibility of pursuing the corporate purpose previously ascertained by the board of directors, and consequently has resolved the liquidation of the Company, modifying its company name with the addition of the expression “in liquidation”; furthermore, with this press release Gala announced “that it had revoked the proposal for an arrangement with creditors and renounced the related application, with a deed dated 6 March 2018. The Bankruptcy Court reserved the right to decide on the Company’s requests following the hearing held on 23 May 2018”.

Subsequently, in a statement dated 31 August 2018, GALA S.p.A. in liquidation announced that the Bankruptcy Section of the Court of Rome had declared no need to proceed with a decision on the request for a preventive arrangement.

Given this situation, it should be noted that areti, in defence of its creditors, on 7 April 2017 started the enforcement of part of the guarantees issued by GALA, and then, challenging the non-fulfilment of the obligations arising from the contract both by GALA and the guarantors, availed itself of the termination clauses contained therein.

The pending disputes generated by the complex matter are summarised below.

#### **Precautionary measures**

Against the enforcement of guarantees issued, on 12 April 2017 GALA filed a cautionary appeal as per art. 700 of the Italian Code of Civil Procedure against the collection on 12 April, obtaining a decree *inaudita altera parte*, which initially prevented areti from exercising its right to collect the guarantees. This decree was thereafter revoked by court order of 30 May 2017, which fully recognised the rights of areti.

On 1 June 2017, given the continuation of the serious breach of contract, areti notified the termination of the transport contract and also the collection of the additional contractual guarantees.

On 6 June, GALA appealed against the cautionary ordinance of 30 May and, again, on 9 June, submitted a second independent appeal for urgent measures before the Court of Rome, requesting a declaration of invalidity of the termination ordered on 1 June 2017 and initially obtaining the issuing of a decree *inaudita altera parte* in its favour.

On completion of both legal proceedings, the reasoning of areti was again completely recognised, with the issuing on 12 July of a

board ordinance rejecting the appeal, following which the judge, called upon to decide on the second appeal as per art. 700 of the Italian Code of Civil Procedure, asked the parties not to appear at the hearing, declaring that the appeal could not continue by ordinance of 13 July 2017.

The first judgement filed by the guarantor Euroins Insurance plc and the injunction issued in favour of GSE S.p.A.

In July 2017, Euroins Insurance plc, guarantor of GALA, independently introduced assessment proceedings to have declared the non-existence of its guarantee obligation; areti requested right from the first hearing of appearance of 28 December 2017 to have that judgement consolidated with the ordinary judgement of opposition to the injunction order of the GSE (see below): the next hearing of first appearance is set for March 2019.

GSE S.p.A., after notifying areti to pay the general system charges due by Gala, even if it has not been paid, requested and obtained from the Court of Rome an injunction, not immediately enforceable, against areti for payment of part of these charges. The injunction was promptly opposed by areti with a writ of summons served to GSE and inscribed in the rolls in December 2017, with the simultaneous summons, as a guarantee, of GALA and its guarantors (China Taiping Insurance (UK) Co. Ltd and Insurance Company Nadejda), with the first hearing set for March 2019, for the reasons set out below.

Both judgements are pending before Section XVII of the Court of Rome, the same designated judge, who set the hearing for the decision concerning the request for consolidation to be held on 5 July 2018: on that occasion, the Judge decided to order a postponement, for the same parties, to March 2019, ordering – for the judgement of opposition to the injunction of GSE – the renewal of notifications to Gala and its guarantors by areti.

GALA’s citation to areti, Acea Energia S.p.A. and Acea S.p.A.

By means of a summons served in March 2018, GALA requested the Court of Rome to declare the invalidity of some clauses of the transport contract stipulated with areti in November 2015 and the consequent invalidity/ineffectiveness of the termination of the contract by areti, ordering the latter to pay the corresponding damage, for a total of about € 200,000,000.00.

GALA also requested that the behaviour of areti and other defendant companies - Acea S.p.A. and Acea Energia S.p.A. - be declared acts of unfair competition, condemning them to pay the corresponding damages.

The companies of the Acea Group that were sued acted within the terms of the law, denying the opposing claims and requesting their rejection.

In addition, as a counter-claim, areti has requested to declare the contract legitimately terminated, as well as to ascertain and declare the non-fulfilment of GALA of the payment and guarantee obligations assumed under the transport contract with consequent order to pay the related amount, plus interest and without prejudice to the additional amounts being accrued.

The judgement is currently pending before the 17th civil section of the Court of Rome and on 5 November 2018 the Designated Judge assigned to the Parties the terms for the presentation of their briefs pursuant to art. 183, paragraph 6 of the Code of Civil Procedure starting from 9 December 2018 and set the hearing for 12 May 2021 for the clarification of the conclusions, without prejudice to any preliminary investigation to be carried out.

#### **Appeal for Cassation against sentence no. 5619/2017 of the Council of State on System Charges.**

It should also be noted that with sentence no. 5619/2017, the Council of State pronounced itself on general system charges,

general ARERA regulation and traders' obligations; this sentence was challenged by areti with recourse to the United Sections of the Supreme Court of Cassation in January 2018, pursuant to articles 111, paragraph 8 of the Italian Constitution, 362 and 382 of the Italian Code of Civil Procedure and 110 of the Italian Code of Administrative Procedure, for overriding the jurisdictional function. A hearing date has yet to be set.

### **GORI S.p.A. – ABC**

On 21 December 2018, a settlement was signed between GORI and ABC for the purpose of defining and regulating reciprocal relations and overcoming disputes arising as a result of divergent positions assumed by the parties regarding the tariff applied by ABC on water sub-supplies. The sums to be paid to ABC were therefore settled with a lump sum amounting to € 8,270,736.93 for the fees invoiced throughout 31 December 2015 and an amount of € 1,262,138.79 for the period from 1 January 2016 to the end of the third quarter 2018 on the basis of the tariff pursuant to the Ato 2 Commissioner resolutions no. 27 of 17 October 2017 and no. 28 of 24 October 2017.

### **GORI S.p.A. - Campania Region and the regional concessionaire Acqua Campania S.p.A. for wholesale supplies**

The 2018 financial year was characterised by the definition and normalisation of relations between the Company and the Campania Region (as well as its concessionaire for collections, Acqua Campania S.p.A.) with regard to regional supplies of "wholesale water" and "wastewater collection and treatment services" for the period from 1 January 2013 to the second quarter of 2018. In particular, the Region, the EIC and GORI – in accordance with and based on the industrial plan envisaged by the 2016-2019 Regulatory Framework of ATO 3, as updated with Commissioner resolution no. 39 of 17 July 2018 noted above – reached an overall agreement aimed at the complete implementation of the Integrated Water Service in the Sarnese-Vesuvian District Area within a framework of economic-financial balance of the management for its entire remaining duration and the pursuit of the following related objectives: 1) GORI's assumption of the management of the service and acceptance, as a concession and according to the provisions of the current IWS Management Agreement of ATO 3, of the Regional Works and their consequent efficiency improvement, including the reallocation and efficient re-utilisation of the personnel involved in IWS activities, in accordance with and in the manner prescribed by the aforesaid Regulatory Scheme as well as by Regional Council Resolution 243/2016 and the relevant Framework Agreement signed between the Region and the Area Authority on 3 August 2016, implementation of the same resolution 243/2016; 2) the approval by the Campania Region of payments in instalments of the debt accrued by the Company for wholesale supplies disbursed from 2013 onwards, and the simultaneous overcoming of the complex legal dispute before the Civil Court of Naples be-

tween the concessionaire for regional collections Acqua Campania S.p.A. and GORI (RG No. 33575/2016) relating to regional supplies of "wholesale water", on the one hand and between the Region and GORI (RG no. 3878/2017) regarding the regional services of "collections and treatment of waste water", on the other hand; 3) the GORI's access to the credit market in order to implement these objectives; (iv) the commitment of the parties to restore/maintain the economic-financial management of the IWS of ATO 3 were it to fail, also functionally to the satisfaction of the general bankability measures required to ensure the loans requested from the credit market, given the failure by ARERA until the end of 2018 to grant financing as an equalisation. In this latter regard, it should be noted that in the second half of 2018 the Company initiated a procedure to obtain total loans in the maximum amount of € 110 million from one or more banks.

### **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. The Directors consider that the settlement of the ongoing dispute and other potential disputes should not create any additional charges for Group companies, with respect to the amounts set aside (note 26 a on the Provision for risks and charges).

These allocations represent the best estimate possible based on the elements available today.

# 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.

	FVTPL	FVTOCI	Amortised cost	Balance sheet value	Explanatory Notes
<b>Non-current fixed assets</b>	<b>35,311</b>			<b>35,311</b>	
Other equity investments	2,614	0	0	2,614	18
Financial assets	32,697	0	0	32,697	20
<b>Current assets</b>	<b>3,870</b>	<b>4,680</b>	<b>1,304,798</b>	<b>1,313,349</b>	
Trade receivables	0	0	965,697	965,697	22
Other current assets: fair value evaluation of differential and swap contracts on commodities with effect on the shareholders' equity	3,870	4,680	0	8,550	22
Current financial assets	0	0	113,960	113,960	22
Other current assets			225,142	225,142	22
<b>Non-current liabilities</b>					
Bonds	0	21,787	2,656,605	2,678,392	27
Payables to banks	2,061	0	688,599	690,661	27
<b>Current liabilities</b>					
Payables to banks	0	0	351,815	351,815	29
Financial debt			56,860	56,860	29
Other current liabilities: fair value evaluation of differential and swap contracts on commodities	4,299				29
Trade payables			1,524,876		29
Other liabilities			308,128		28

## 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 assets and liabilities is calculated on the basis of the risk less and the risk less adjusted interest rate curves.

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

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

### Market risk

The Group is exposed to market risk, represented by the risk that the fair value or future cash flows of a financial instrument fluctuate as a result of market price movements, above all in relation to the risk of movements in the prices of commodities in which the Group trades.

Through the activities carried out by the Commodity Risk Control Unit within the Administration, Finance and Control department, Acea S.p.A. ensures the analysis and measurement of exposure to market risks, interacting with the Energy Management Unit of Acea Energia S.p.A., verifying compliance with the limits and criteria adopted by the General Risk Management of the Commercial and Trading Industrial Segment and by the Administration, Finance and Control Department in line with the Acea S.p.A.'s "Guidelines for the Internal Control and Risk Management System".

The analysis and of the risks is carried out according to a level two control process by the Commodity Risk Control Unit which involves the execution of activities throughout the entire year, on the basis of different frequencies (annual, monthly and daily). The execution of the management and analyses is assured by the Commodity Risk Control Unit and by the Risk Owners.

In particular: the measures of the risk indicators or the limits in force, which must be respected in the management of risks, must be reviewed annually; every day, the Commodity Risk Control Unit is responsible for verifying the exposure to market risks of the companies in the Commercial and Trading Industrial Segment and for verifying compliance with the defined limits.

Reporting relative to the Top Management has daily and monthly frequency. When required by the Internal Control System, Finance ensures the sending to the Internal Audit Unit of Acea S.p.A. of the information required, as available from the system.

The risk limits of the Industrial Commercial and Trading Segment are defined in such a way as to minimise the overall risk of the entire area, guarantee the necessary operational flexibility in the procurement of commodities and hedging, reduce the possibilities of over-hedging deriving from variations in the volumes envisaged for the definition of the hedges.

Market risk can be distinguished between the "price risk", i.e. the risk connected with changes in the prices of commodities, and the "volume risk", i.e. the risk connected with changes in the volumes effectively sold with respect to those envisaged by contracts of sale to end customers (sales profiles).

The aims of the risk management and analysis are, generally, to ensure that the financial objectives of the Acea Group are achieved. In particular: safeguarding the primary gross margin through the reduction of volatility; protect the primary gross margin against unforeseen and unfavourable short-term shocks in the energy market that impact on revenues or costs, identify, measure, manage and represent risk exposure; reduce risks by preparing and applying adequate internal controls, procedures, information systems and skills; delegate to the risk owners the task of proposing the appropriate strategies for hedging individual risks within the set minimum and maximum levels.

The assessment of risk exposure includes the following activities: recording all of the transactions related to physical quantities carried out in suitable books (called Commodity Books), differentiated by commodity (e.g. Electricity, Gas, CO<sub>2</sub>), purpose of the activity (Trading, Sourcing on wholesale markets, Portfolio Management, Sale to end customers inside and outside the Acea Group) and nature of operations (physical, financial); punctual analysis of the hourly purchases and sales containing the open positions, i.e. the exposure of the physical positions of purchase and sale of the single commodities within predetermined volumetric limits; creation of scenarios of reference (prices, indices); calculation of risk indicators/metrics (Volumetric exposure, VAR, portfolio PAR, price range); verification of compliance with the current risk limits.

The activities of the Commodity Risk Control Unit also include daily and "per event" codified checks on the respect of the procedures and risk limits, also in order to respect current legislation: Italian Law 262/05. The Finance Department reports to the Managers on any discrepancies noted during controls, so that all measures suitable to limiting/eliminating the risk connected with exceeding this limit, can be adopted.

Transactions in financial instruments are entered into for the purpose of hedging the risk of fluctuations in commodity prices and in compliance with the provisions of the Risk Management Guidelines for the Energy Segment. In this regard, Acea, through the Commodity Risk Control Unit, ensures the analysis and measurement of exposure to market risks, interacting with the Energy Management Unit of Acea Energia, in line with the guidelines of Acea's Internal Control and Risk Management System.

With regard to the commitments made by the Group to stabilize the cash flows of electricity purchases and sales for next year, it should be noted that all the hedges in place can be accounted for as cash flow hedges as the effectiveness of the hedge can be proved. The financial instruments used are of the swap and contracts for difference (CFD) type.

The objectives and policies for market risk, counterparty credit risk and regulatory risk management are detailed in the relevant section of the Report on Operations, to which reference is made.

It should be noted that the hedges effected on the purchases and sales portfolio were conducted with leading operators in the electricity market and the financial sector. Below, in accordance with former article 2427-bis of the Italian Civil Code, is the information necessary for the description of transactions carried out, aggregated by hedged index, effective as of 1 January 2017:

Swaps	Purposes	Purchases/Sales	Fair Value in € thousand	Portion recognised to shareholders' equity	Portion recognised in the income statement
GM_PUN_c	Hedge power portfolio	Electricity purchases and sales	4,681	4,681	0

The Group determines the classification of financial instruments at fair value, in accordance with the provisions of IFRS 13. The fair value of the assets and liabilities is classified in a fair value hierarchy that envisages three different levels, defined as follows, according to the inputs and valuation techniques used to measure fair value:

- level 1: prices listed (not adjusted) on a market for identical assets and liabilities;
- level 2: inputs other than listed prices pursuant to level 1, which can be observed for the asset or liability, both directly and indirectly;
- level 3 - inputs not based on observable market data. This note provides some detailed information on the valuation techniques and inputs used to prepare these valuations.

It should be noted that, with regard to the types of commodities whose fair value is determined: for single commodity derivatives (PUN standard base load products, Peak/Off Peak) the level of fair value is 1 as they are quoted on markets active, for complex indices (ITRemix, PUN profiled products, etc.) the level of fair value is 2 as these derivatives are the result of formulas containing a mix of commodities listed on active markets.

Finally, it should be noted that, as of 2014, the Group has applied the rules laid down in EC regulations 148 and 149/2013 (jointly and together with Regulation 648/2012, EMIR) and is currently defined as NFC - (Not Financial Counterparty).

### Liquidity risk

Acea's liquidity risk management policy is based on ensuring the

availability of significant bank lines of credit. Such lines exceed the average requirement necessary to fund planned expenditure and enable the Group to minimise the risk of extraordinary outflows. In order to minimise liquidity risk, the Group has adopted a centralised treasury management system, which includes the most important Group companies, and provides financial assistance to the companies (subsidiaries and associates) not covered by a centralised finance contract.

At 31 December 2018 the Parent Company has uncommitted credit lines of € 529 million. No guarantees were issued to obtain these credit lines. In the event of the drawdown of these types of facilities, Acea would pay an interest rate equal to the Euribor at one, two, three or six months (depending on the chosen period of use), in addition to a spread that, in some cases, may vary according to the rating assigned to the parent company.

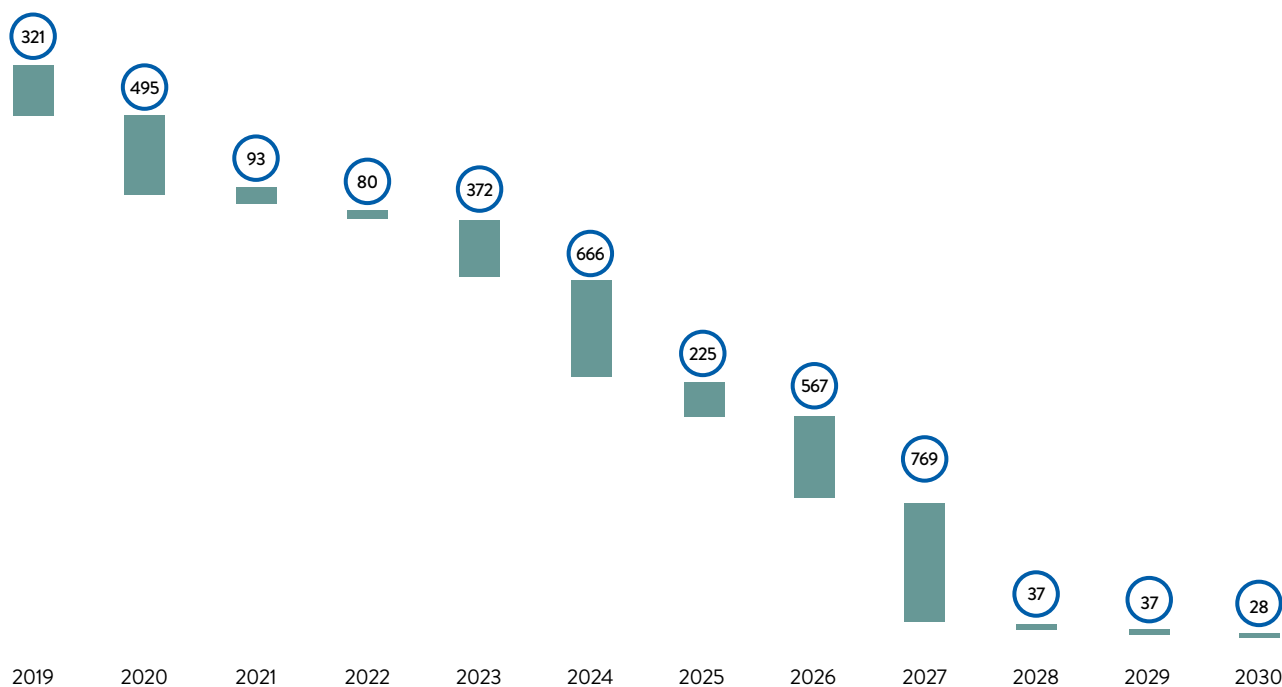
Furthermore, at 31 December 2018 there were outstanding lines of credit of a committed type for a total of € 250 million.

At the end of the year Acea did not have any investments in short-term deposit transactions.

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.

The graph below depicts the future development of all debt maturities, forecast based on the situation at the end of the year.

€/million



Regarding the trade payables (€ 1,413.9 million) it should be noted that the portion which is due to expire in the next twelve months amounted to € 1,217.1 million.

The amount already expired of € 196.8 million will be paid by the first quarter of 2019.

### 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%) 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).

The Group currently uses derivative instruments to hedge interest rate risk exposure for Acea which:

swapped the € 100 million loan obtained on 27 December 2007 at a fixed rate. The plain vanilla IRS, was entered into on 24 April 2008, effective as of 31 March 2008 (date of drawdown of the underlying loan) and expires on 21 December 2021 and completed a cross currency swap plain vanilla transaction to transform the Private Placement (Yen) currency and the Yen rate applied in a fixed rate in Euros.

All the derivative instruments taken out by Acea and listed above are non-speculative and the fair values, calculated according to the bilateral method, of the same are respectively:

- negative for € 2.1 million (negative for € 3.4 million at 31 December 2017),
- negative for € 21.8 million (negative for € 38.3 million at 31 December 2017),

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

	Amortised cost	RISK-FREE FV	Delta	RISK ADJUSTED FV	Delta
Bank Loans:	(A)	(B)	(A)-(B)	(C)	(A)-(C)
Bonds	2,678,392	2,902,670	(224,279)	2,801,487	(123,095)
fixed rate	496,405	554,347	(57,943)	544,702	(48,297)
floating rate	488,380	499,568	(11,187)	498,034	(9,653)
floating rate to fixed rate	27,054	27,378	(324)	27,103	(49)
<b>Total</b>	<b>3,690,231</b>	<b>3,983,963</b>	<b>(293,733)</b>	<b>3,871,325</b>	<b>(181,095)</b>

This analysis was also carried out using the "risk-adjusted" yield curve, i.e. a curve adjusted to take account of the level of risk and of Acea's sector of activity. 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



As regards the type of hedges for which the fair value is calculated and with reference to the hierarchies required by the IASB, given they are composite instruments, they are categorised as level 2 in the fair value hierarchy.

### Credit risks

Some time ago Acea drew up the guidelines of the credit policy, currently being revised, which established different credit management strategies depending on the various types of customers and receivables. Through flexibility criteria and on the strength of the activities managed, as well as customer segmentation, credit risk is managed by taking into account both the customer type (public and private) and the non-uniform behaviour of individual customers (behavioural scores).

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

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

The Corporate Credit Unit, whose main responsibilities are to develop credit management policies, provides guidance on actions to be taken and analyse and continuously monitor the progress of loan related activities for any corrective action.

The Corporate Credit Unit monitors the performance of receivables on an ongoing basis and provides periodic management reports (monthly) by segment and by company.

As for the distribution of electricity activities, credit risk is associated with relations with wholesalers: billing to them relates to the transport of energy in the distribution network and the services rendered to the end customers. The services are strictly regulated by ARERA resolutions.

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

- homogeneous management of sellers' receivables, deemed of equal risk;
- uniformity of standard criteria for the application of default interest;
- credit risk mitigation through guarantees provided by the sellers; on this aspect of the new network code, Resolution 268/2015 and annexes A, B and C, allows sellers to submit a public rating, in place of the guarantee, provided it exceeds certain thresholds and is issued by certified bodies;
- adequate monitoring through credit ageing reports;
- training of dedicated staff.

Credit management starts with the "behavioural score" or knowledge of the individual reseller through the constant analysis of payment attitudes/habits and is subsequently broken down into a series of targeted actions ranging from phone collection activities carried out in-house, reminders sent electronically, sending of notice letters via registered post, as provided under Resolution ARG/elt 4/08 and subsequent resolution 258/2015/R/COM (TIMOE), to termination of the transportation contract.

As regards the supply of electricity and gas on the deregulated market, preventive credit risk assessment is performed using the credit scoring system (business decisions), with automatic results for mass market and small business customers and with a timely analysis with reference to sales of gas and electricity made to industrial and business customers. The integration is currently underway between the BD system and the SAS platform and with the Siebel system.

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

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

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

Credit management for private sector end users, which represent approximately 70% of past due receivables, starts with behavioural scores or "knowledge in terms of the probability of default of each individual customer through the constant analysis of payment attitudes/habits", and is subsequently implemented through a series of targeted actions ranging from reminder letters, assignment to specialised companies for credit recovery via phone collection, to disconnection of defaulting end users and receivable factoring transactions. Finally, by decree of the Minister of Economy and Finance of 16 September 2015, published in the Official Gazette of 30 September 2015, no. 227, Acea Ato 2 was authorised to make collections through enforcement procedures (through Equitalia) and to preliminary rely on tax injunctions, which replace the injunction orders pursuant to art. 17, paragraphs 3-bis and 3-ter of Legislative Decree no. 46/1999. On one hand, the public relevance of receivables arising from the integrated water service was acknowledged; on the other hand this will enable the company to be even more effective in the recovery of payments from delinquent customers, as it is now able to rely on a tool typically used for the collection of taxes. Thereafter, Acea Ato 5 and GORI were also authorised to collect by means of roll, respectively by Decree no. 58 of the Minister of Economy and Finance of 22 February 2016, published in the Official Journal of 10 March 2016 and Decree no. 235 of 22 September 2016, published in the Official Journal of 7 October 2016.

### Customer evaluation

In Acea Energia, the first step in credit management is the prior assessment of the client. Corporate Credit has the task, amongst others, of implementing and managing the preventive scoring system, which enables real time assessment of the credit rating of the potential customer, when acquiring it.

The system is directly usable by Acea Energia and by the commercial agencies mandated by Acea Energia. Specific scorecards were defined to refine the prior assessment of small business and retail customers; in parallel, also the preliminary analysis of large business customers was implemented on the same platform; in this respect, specific workflows were defined that support the timely analysis of prospective customers, also using updated accounting and commercial information.

To support credit management activities the parent company issued guidelines: “Scoring and credit to customers”, “Payments by instalment”, “Repayment plans and Settlement agreements” and “Cancellations”.

Acea Energia uses the “Collection Strategy” SAP module to manage credit relating to utilities operative on the protected market and “Credit Care” for the management of credit of customers operating on the deregulated market and ceased customers. In recent years, in-court and out-of-court recovery was strengthened, with specific reference to legal litigation activities and using the services offered by market operators for the bulk recovery of receivables.

On the management side, activities successfully continued for the collection matching process, acting both on the collection channels and the application systems, and with regard to the number of dedicated employees.

The ageing of the Trade Receivables is as follows, gross of the allowance for doubtful accounts, detailed in Note 23.

- Total trade receivables, gross of Provision for Impairment of Receivables: € 1,956 million;
- Trade receivables expiring: € 974 million;
- Outstanding trade receivables: € 982 million of which € 223 million within twelve months and € 759 million.

# ANNEXES

**A. LIST OF CONSOLIDATED COMPANIES**

**C. PUBLIC DISBURSEMENT INFORMATION PURSUANT TO ART. 1, PARAGRAPH 125, LAW 124/2017**

**B. REMUNERATION OF DIRECTORS, STATUTORY AUDITORS AND KEY MANAGERS**

**D. SEGMENT INFORMATION: STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT**

## A. LIST OF CONSOLIDATED COMPANIES

Name	Registered Office	Share Capital (in €)	Shareholding	Group consolidation quota	Consolidation method
<b>Environment Sector</b>					
Acea Ambiente Srl	Via G. Bruno 7- Terni	2,224,992	100.00%	100.00%	Whole
Aquaser Srl	P.le Ostiense, 2 - Roma	3,900,000	93.06%	100.00%	Whole
Bioecologia S.r.l.	Via Simone Martini, 57 - 53100 Siena	2,382,428	100.00%	100.00%	Whole
Iseco SpA	Loc. Surpian n. 10 - 11020 Saint-Marcel (AO)	110,000	80.00%	100.00%	Whole
Acque Industriali Srl	Via Bellatalla,1 - Ospedaletto (Pisa)	100,000	73.05%	100.00%	Whole
<b>Commercial and Trading Sector</b>					
Acea Energia SpA	P.le Ostiense, 2 - Roma	10,000,000	100.00%	100.00%	Whole
Acea8cento Srl	P.le Ostiense, 2 - Roma	10,000	100.00%	100.00%	Whole
Cesap Vendita Gas Srl	Via del Teatro, 9 - Bastia Umbra (PG)	10,000	100.00%	100.00%	Whole
Umbria Energy SpA	Via B. Capponi, 100 - Terni	1,000,000	50.00%	100.00%	Whole
Acea Energy Management Srl	P.le Ostiense, 2 Roma	50,000	100.00%	100.00%	Whole
Parco della Mistica Srl	P.le Ostiense, 2 Roma	10,000	100.00%	100.00%	Whole
<b>Overseas Sector</b>					
Acea Dominicana SA	Avenida Las Americas - Esquina Mazoneria, Ensanche Ozama -Santo Domingo	644,937	100.00%	100.00%	Whole
Aguas de San Pedro SA	Las Palmas, 3 Avenida, 20y 27 calle - 21104 San Pedro, Honduras	6,457,345	60.65%	100.00%	Whole
Acea International SA	Avenida Las Americas - Esquina Mazoneria, Ensanche Ozama - 11501 Santo Domingo	8,850,604	99.99%	100.00%	Whole
Acea Perú S.A.C.	Cal. Amador Merino Reyna , 307 MIRAFLORES - LIMA	1,000	100.00%	100.00%	Whole
Consorcio Acea-Acea Dominicana	Av. Las Americas - Esq. Mazoneria - Ens. Ozama	67,253	100.00%	100.00%	Whole
Consorcio Servicios Sur	Calle Amador Merino Reyna - San Isidro	233,566	51.00%	100.00%	Whole
<b>Water Sector</b>					
Acea Ato 2 SpA	P.le Ostiense, 2 - Roma	362,834,320	96.46%	100.00%	Whole
Acea Ato 5 SpA	Viale Roma snc - Frosinone	10,330,000	98.45%	100.00%	Whole
Acque Blu Arno Basso SpA	P.le Ostiense, 2 - Roma	8,000,000	76.67%	100.00%	Whole
Acque Blu Fiorentina SpA	P.le Ostiense, 2 - Roma	15,153,400	75.01%	100.00%	Whole
Crea Gestioni Srl	P.le Ostiense, 2 - Roma	100,000	100.00%	100.00%	Whole
CREA SpA (in liquidation)	P.le Ostiense, 2 - Roma	2,678,958	100.00%	100.00%	Whole
Gesesa SpA	Corso Garibaldi, 8 - Benevento	534,991	57.93%	100.00%	Whole
GORI S.p.A.	Via Trentola, 211 - Ercolano (NA)	44,999,971	37.05%	100.00%	Whole
Lunigiana SpA (in liquidation)	Via Nazionale 173/175 - Massa Carrara	750,000	95.79%	100.00%	Whole
Ombrone SpA	P.le Ostiense, 2 - Roma	6,500,000	99.51%	100.00%	Whole
Sarnese Vesuviano Srl	P.le Ostiense, 2 - Roma	100,000	99.16%	100.00%	Whole
Umbriadue Servizi Idrici Scarl	Strada Sabbione zona ind. A72 - Terni	100,000	99.20%	100.00%	Whole
<b>Energy Infrastructure Sector</b>					
areti SpA	P.le Ostiense, 2 - Roma	345,000,000	100.00%	100.00%	Whole
Acea Illuminazione Pubblica SpA	P.le Ostiense, 2 - Roma	1,120,000	100.00%	100.00%	Whole
Acea Produzione SpA	P.le Ostiense, 2 - Roma	5,000,000	100.00%	100.00%	Whole
Acea Liquidation and Litigation s.r.l.	P.le Ostiense, 2 - Roma	10,000	100.00%	100.00%	Whole

(follows)

Name	Registered Office	Share Capital (in €)	Shareholding	Group consolidation quota	Consolidation method
Ecogena Srl	P.le Ostiense, 2 Roma	1,669,457	100.00%	100.00%	Whole
<b>Engineering and Services Sector</b>					
Acea Elabiori SpA	Via Vitorchiano – Roma	2,444,000	100.00%	100.00%	Whole
Technologies For Water Services SPA	Via Ticino, 9 -25015 Desenzano Del Garda (BS)	11,164,000	100.00%	100.00%	Whole

## COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD AS FROM 1 JANUARY 2014 IN ACCORDANCE WITH IFRS 11

Name	Registered Office	Share Capital (in €)	Shareholding	Group consolidation quota	Consolidation method	Value 31.12.2018
<b>Environment Sector</b>						
Ecomed Srl	P.le Ostiense, 2 - Roma	10,000	50.00%	50.00%	Shareholders' Equity	0
<b>Overseas Sector</b>						
Consorcio Agua Azul SA	Calle Amador Merino Reina 307 - Lima - Perù	17,371,834	25.50%	25.50%	Shareholders' Equity	7,442,762
<b>Water Sector</b>						
Acque SpA	Via Garigliano,1- Empoli	9,953,116	45.00%	45.00%	Shareholders' Equity	68,417,840
Acque Servizi Srl	Via Bellatalla,1 - Ospedaletto (Pisa)	400,000	100.00%	45.00%	Shareholders' Equity	4,424,966
Acquedotto del Fiora SpA	Via Mameli,10 Grosseto	1,730,520	40.00%	40.00%	Shareholders' Equity	37,212,090
Geal S.p.A.	Viale Luperini, 1348 - Lucca	1,450,000	48.00%	48.00%	Shareholders' Equity	7,450,014
Intesa Aretina Scarl	Via B.Crespi, 57 - Milano	18,112,000	35.00%	35.00%	Shareholders' Equity	1,586,235
Nuove Acque SpA	Patrignone Loc. Cuculo - Arezzo	34,450,389	46.16%	16.16%	Shareholders' Equity	10,916,357
Publiacqua SpA	Via Villamagna - Firenze	150,280,057	40.00%	40.00%	Shareholders' Equity	107,272,666
Umbra Acque SpA	Via G. Benucci, 162 - Ponte San Giovanni (PG)	15,549,889	40.00%	40.00%	Shareholders' Equity	14,855,173
<b>Engineering and Services Sector</b>						
Ingegnerie Toscane Srl	Via Francesco de Sanctis, 49 - Firenze	100,000	42.52%	42.52%	Shareholders' Equity	10,125,945
Visano Scarl	Via Lamarmora, 230 -25124 Brescia	25,000	40.00%	40.00%	Shareholders' Equity	10,329

The following companies are also consolidated using the equity method:

Name	Registered Office	Share Capital (in €)	Shareholding	Group consolidation quota	Consolidation method	Value 31.12.2018
<b>Environment Sector</b>						
Amea SpA	Via San Francesco d'Assisi 15C - Paliano (FR)	1,689,000	33.00%	33.00%	Shareholders' Equity	0
Coema	P.le Ostiense, 2 - Roma	10,000	33.50%	33.50%	Shareholders' Equity	0
<b>Overseas Sector</b>						
Aguaazul Bogotá SA	Calle 82 n. 19°-34 - Bogotá - Colombia	1,162,872	51.00%	51.00%	Shareholders' Equity	1,151,353
<b>Water Sector</b>						
Azga Nord SpA (in liquidation)	Piazza Repubblica Palazzo Comunale - Pontremoli (MS)	217,500	49.00%	49.00%	Shareholders' Equity	0
Sogea SpA	Via Mercatanti, 8 - Rieti	260,000	49.00%	49.00%	Shareholders' Equity	587,836
Le Soluzioni Scarl	Via Garigliano, 1 - Empoli	250,678	34.32%	24.62%	Shareholders' Equity	83,727
Servizi idrici Integrati ScPA	Via I maggio, 65 Terni	19,536,000	25.00%	24.80%	Shareholders' Equity	7,062,268
<b>Energy Infrastructure Sector</b>						
Citelum Napoli Pubblica Illuminazione Scarl	Via Monteverdi Claudio, 11 - Milano	90,000	32.18%	32.18%	Shareholders' Equity	0
Sienergia SpA (in liquidation)	Via Fratelli Cairoli, 24 - Perugia	132,000	42.08%	42.08%	Shareholders' Equity	0
Umbria Distribuzione Gas SpA	Via Bruno Capponi 100 - Terni	2,120,000	15.00%	15.00%	Shareholders' Equity	471,409
<b>Other</b>						
Marco Polo Srl (in liquidation)	Via delle Cave Ardeatine, 40 - Roma	10,000	33.00%	33.00%	Shareholders' Equity	0



## B. REMUNERATION OF DIRECTORS, STATUTORY AUDITORS AND KEY MANAGERS

### Board of Directors and Board of Statutory Auditors

€ thousand	Remuneration due				Total
	Remuneration for the office	Non-monetary benefits	Bonuses and other incentives	Other compensation	
Board of Directors	220	77	360	466	1,123
Board of Statutory Auditors	364	0	0	0	364

### Key Managers

Fees due to executives with strategic responsibilities for 2018 amounted to:

- salaries and bonuses € 1,651 thousand,
- non-monetary benefits € 97 thousand.

Remuneration paid to key managers is established by the Remuner-

ation Committee based on average levels of pay in the labour market.

### Auditing Firm

In accordance with Article 149 duodecies of CONSOB Issuers' Regulations, the fees accrued by the independent auditors PWC in 2018 are provided in the table below.

€ thousand	Audit Related Service	Audit Services	Non Audit Services	Total
Acea S.p.A.	190	338	124	652
Acea Group	166	1,096	116	1,378
<b>Total Acea S.p.A. and Group</b>	<b>356</b>	<b>1,434</b>	<b>240</b>	<b>2,030</b>

Moreover, in accordance with Art. 10 of Regulation (EU) 537/2014, please note the services other than auditing, provided for the parent company or its subsidiaries during 2018:

- assistance with tests 262/05 identified by the Acea Group;
- benchmark analysis of some services provided between related parties.

## C. PUBLIC DISBURSEMENT INFORMATION PURSUANT TO ART. 1, PARAGRAPH 125, LAW 124/2017

Based on recent developments regarding transparency in the public payment system pursuant to art. 1, paragraph 125 of Italian law 124/2017, we declare that during 2018 no contributions have been received that fall within the legislation of reference. In particular, it is specified that the 2018 collections deriving from green certificates, white certificates and energy accounts are not specified since they constitute a payment for supplies and services rendered.

It should be noted that the company areti has two loans granted by Cassa Depositi e Prestiti S.p.A. and UBI Banca S.p.A. pursuant to Italian Law no. 311, art. 1, paragraphs 354 to 361 of 30 December 2004 and subsequent amendments and additions and of Italian Law no. 46 of 17 February 1982, granted for the implementation of an investment programme permitted by the Ministry of Economic Development for the allowances envisaged by the aforementioned laws (Smart Network Management System Project). The loan is

made up of a subsidised amount paid by Cassa Depositi e Prestiti and UBI Banca at a fixed rate of 0.5% and a non-subsidised bank loan provided by UBI Banca at a variable rate equal to the Euribor six-month rate plus a spread of 4%, both to be repaid according to an amortisation plan that will end in 2022. The debt relating to the subsidised loan as at 31 December 2018 is equal to € 6,784 thousand (€ 8,459 thousand at 31 December 2017) while the non-subsidised bank loan at 31 December 2018 is equal to € 940 thousand (€ 940 thousand also at 31 December 2017) as no repayment of the principal amount is envisaged in the first few years.

Finally, it should be noted that in 2018 the company Acea Ambiente received the second tranche of the contribution from the Tuscany Region relating to the Territorial Development Pact of the Maremma Grossetana for a total amount of € 688 thousand.

Finally, it is useful to recall that the rules contained in article 1, paragraphs 125-129 of Italian law no. 124/2017 still present many critical issues that lead to believe that further regulatory action is desirable.

Therefore the above represents the best interpretation of the law.

## D. SEGMENT INFORMATION: STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT

Please note the following for a better understanding of the breakdown provided in this section:

- sales refer to the Commercial and Trading Segment which, from an organisational standpoint, is responsible for Acea Energia, Acea8cento, AEMA, Umbria Energy, Parco della Misticca and Cesap Vendita Gas,
- distribution and public lighting refer to the Networks segment which, from an organisational standpoint, is responsible for Acea Produzione, Ecogena, Acea Liquidation and Liquidation, areti and Acea Illuminazione Pubblica,
- analysis and research services refer to the Engineering and

Services Segment, which, from an organisational standpoint, is responsible for Acea Elabiori and TWS,

- Overseas refers to the Industrial Segment of the same name which, from an organisational standpoint, is responsible for operations overseas,
- Water refers to the Industrial Segment of the same name, which, from an organisational standpoint, is responsible for the water companies operating in Lazio, Campania, Tuscany and Umbria,
- Environment refers to the Industrial Segment of the same name which, from an organizational standpoint, is responsible for Acea Ambiente, Aquaser, Acque Industriali, Iseco and Bioecologia.

## BALANCE SHEET ASSETS 2017

€ thousand	Environment	Commercial & Trading	Overseas	Water	Electricity generation	Distribution
Capex	15,366	19,367	5,183	271,435	23,106	185,665
Tangible Fixed Assets	226,750	4,932	32,097	62,530	208,030	1,623,324
Intangible Fixed Assets	14,524	143,941	13,497	2,184,695	460	104,490
Non-current financial assets measured at equity	-	-	-	-	-	-
Financial assets	-	-	-	-	-	-
Other non-current trading assets	-	-	-	-	-	-
Other non-current financial assets	-	-	-	-	-	-
Inventories	5,639	0	777	7,016	1,775	20,248
Trade receivables from third parties	74,524	334,014	7,961	373,466	19,820	181,385
Trade receivables from Parent Company	268	17,232	-	44,877	3,891	4,908
Receivables from subsidiaries and associates	14	365	4	11,776	0	0
Other current trading assets	-	-	-	-	-	-
Other current financial assets	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-
Non-current assets held for sale	-	-	-	-	183	-
<b>Total Assets</b>						

Amounts in € thousand

## BALANCE SHEET LIABILITIES 2017

€ thousand	Environment	Commercial & Trading	Overseas	Water	Electricity generation	Distribution
Segment liabilities						
Trade payables to third parties	47,032	391,485	2,319	312,309	23,345	343,229
Trade payables to Parent Company	914	26,063	285	156,089	576	22,706
Trade payables to subsidiaries and associates	-	3,331	539	70	-	-
Other current trading liabilities	-	-	-	-	-	-
Other current financial liabilities	-	-	-	-	-	-
Employee severance indemnity and other defined benefit plans	6,478	4,861	258	28,262	2,445	36,501
Other provisions	19,747	25,812	-	55,576	12,285	23,568
Other non-current trading liabilities						
Other non-current financial liabilities						
Liabilities directly associated with assets held for sale	-	-	-	-	37	-
Shareholders' Equity						
<b>Total liabilities and shareholders' equity</b>						

Amounts in € thousand

€ thousand	Public lighting	Engineering and Services	Corporate	Group total	Total consolidation adjustments	Consolidated Total
Capex	641	826	10,663	532,252	-	532,252
Tangible Fixed Assets	1,682	2,937	99,827	2,262,110	(6,652)	2,255,457
Intangible Fixed Assets	1,126	1,060	11,748	2,524,077	(410,578)	2,064,964
Non-current financial assets measured at equity	-	-	-	-	-	280,853
Financial assets	-	-	-	-	-	2,614
Other non-current trading assets	-	-	-	-	-	384,742
Other non-current financial assets	-	-	-	-	-	66,099
Inventories	0	4,747	0	40,201	0	40,201
Trade receivables from third parties	1,547	44,409	312	1,037,439	(136,128)	901,311
Trade receivables from Parent Company	5,754	5,477	93	82,499	(30,001)	47,651
Receivables from subsidiaries and associates	767	11,023	92,923	116,871	(80,368)	36,503
Other current trading assets	-	-	-	-	-	210,085
Other current financial assets	-	-	-	-	-	237,671
Cash and cash equivalents	-	-	-	-	-	680,641
Non-current assets held for sale	-	-	-	183	-	183
<b>Total Assets</b>						<b>7,208,974</b>

€ thousand	Public lighting	Engineering and Services	Corporate	Group Total	Total consolidation adjustments	Consolidated Total
Segment liabilities						
Trade payables to third parties	12,245	18,043	93,297	1,243,305	(136,623)	1,106,681
Trade payables to Parent Company	1,306	475	24	208,438	(82,310)	126,128
Trade payables to subsidiaries and associates	13,840	80	14,340	32,199	(27,201)	4,999
Other current trading liabilities	-	-	-	-	-	284,262
Other current financial liabilities	-	-	-	-	-	633,155
Employee severance indemnity and other defined benefit plans	-	5,160	24,464	108,430	-	108,430
Other provisions	-	12,011	31,955	234,336	23,818	204,772
Other non-current trading liabilities	-	-	-	-	-	184,270
Other non-current financial liabilities	-	-	-	-	-	2,745,035
Liabilities directly associated with assets held for sale	-	-	-	37	-	37
Shareholders' Equity						1,811,206
<b>Total liabilities and shareholders' equity</b>						<b>7,208,974</b>

## INCOME STATEMENT 2017

€ thousand	Environment	Commercial and Trading	Overseas	Water	Electricity generation	Distribution
Revenues	161,117	1,576,724	35,154	707,038	69,966	528,335
Personnel costs	18,171	23,005	7,976	72,175	4,895	26,690
Purchase of electricity	2,134	1,367,652	-	5,023	5,952	143,085
Sundry costs of materials and overheads	76,360	108,482	13,746	304,331	17,809	71,251
Costs	96,665	1,499,140	21,722	381,528	28,656	241,026
Income/(Costs) from equity investments of a non-financial nature	(32)	-	1,002	24,108	-	-
<b>EBITDA</b>	<b>64,452</b>	<b>77,584</b>	<b>14,433</b>	<b>349,619</b>	<b>41,310</b>	<b>287,309</b>
Depreciation/amortisation	39,375	59,978	6,172	158,364	23,585	140,713
<b>Operating profit/loss</b>	<b>25,077</b>	<b>17,606</b>	<b>8,261</b>	<b>191,255</b>	<b>17,725</b>	<b>146,596</b>
Financial (costs)/income						
(Costs)/Income from Equity Investments						
Profit/(loss) before tax						
Taxes						
<b>Net result</b>						

€ thousand	Public Lighting	Engineering	Corporate	Group total	Consolidation adjustments	Group total
Revenues	61,880	82,604	120,457	3,343,308	(546,325)	2,796,983
Personnel costs	7,316	32,448	49,676	242,352	(27,121)	215,231
Purchase of electricity	648	94	388	1,524,977	(212,526)	1,312,451
Sundry costs of materials and overheads	49,475	37,307	84,089	762,849	(306,678)	456,171
Costs	57,439	69,849	134,153	2,530,178	(546,325)	1,983,853
Income/(Costs) from equity investments of a non-financial nature	-	1,786	-	26,864	-	26,864
<b>EBITDA</b>	<b>4,442</b>	<b>14,541</b>	<b>(13,696)</b>	<b>839,994</b>	<b>-</b>	<b>839,994</b>
Depreciation/amortisation	972	3,064	47,878	480,102	-	480,102
<b>Operating profit/loss</b>	<b>3,470</b>	<b>11,477</b>	<b>(61,575)</b>	<b>359,892</b>	<b>-</b>	<b>359,892</b>
Financial (costs)/income						(71,955)
(Costs)/Income from Equity Investments				259		259
Profit/(loss) before tax						288,196
Taxes						95,992
<b>Net result</b>						<b>192,203</b>



## BALANCE SHEET ASSETS 2018

€ thousand	Environment	Commercial & Trading	Overseas	Water	Electricity generation	Distribution
Capex	19,987	24,639	6,588	342,120	15,503	218,413
Tangible Fixed Assets	233,026	(3,267)	34,533	52,193	209,623	1,735,371
Intangible Fixed Assets	14,780	152,986	11,191	2,560,968	290	84,076
Non-current financial assets measured at equity	-	-	-	-	-	-
Financial assets	-	-	-	-	-	-
Other non-current trading assets	-	-	-	-	-	-
Other non-current financial assets	-	-	-	-	-	-
Inventories	5,608	401	945	9,217	440	29,853
Trade receivables from third parties	95,554	238,263	8,238	458,875	20,149	157,280
Trade receivables from Parent Company	124	11,709	-	42,881	4,519	(12,079)
Receivables from subsidiaries and associates	4	1,544	26	4,016	-	-
Other current trading assets	-	-	-	-	-	-
Other current financial assets	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-
Non-current assets held for sale	-	-	-	-	183	-
<b>Total Assets</b>						

Amounts in € thousand

## BALANCE SHEET LIABILITIES 2018

€ thousand	Environment	Commercial and Trading	Overseas	Water	Generation	Distribution
Segment liabilities						
Trade payables to third parties	47.930	392.419	2.950	647.353	17.329	336.159
Trade payables to Parent Company	2.011	26.188	892	136.005	1.597	26.329
Trade payables to subsidiaries and associates	-	3.968	-	59	-	-
Other current trading liabilities	-	-	-	-	-	-
Other current financial liabilities	-	-	-	-	-	-
Employee severance indemnity and other defined benefit plans	6.837	4.744	340	29.970	2.247	33.032
Other provisions	19.266	19.308	1	38.966	19.025	20.312
Provision for deferred taxes						
Other non-current trading liabilities						
Other non-current financial liabilities						
Liabilities directly associated with assets held for sale	-	-	-	-	37	-
Shareholders' Equity						
<b>Total liabilities and shareholders' equity</b>						

Amounts in € thousand

€ thousand	Public lighting	Engineering and Services	Corporate	Group total	Total consolidation adjustments	Consolidated Total
Capex	4,419	1,573	10,030	643,272	(12,442)	630,831
Tangible Fixed Assets	5,116	3,394	97,978	2,367,969	(461)	2,367,508
Intangible Fixed Assets	(895)	(2)	11,887	2,835,281	(412,045)	2,423,236
Non-current financial assets measured at equity	-	-	-	-		
Financial assets	-	-	-	-		2,614
Other non-current trading assets	-	-	-	-		607,240
Other non-current financial assets	-	-	-	-		55,831
Inventories	-	2,325	(0)	48,789	-	48,789
Trade receivables from third parties	782	25,642	534	1,037,715	(142,116)	863,200
Trade receivables from Parent Company	15,187	60	28	67,893	(9,917)	52,513
Receivables from subsidiaries and associates	420	6,971	87,729	100,711	(88,589)	12,122
Other current trading assets	-	-	-	-		262,643
<b>Other current financial assets</b>	-	-	-	-		113,960
Cash and cash equivalents	-	-	-	-		1,068,138
Non-current assets held for sale	-	-	-	183	-	183
<b>Total Assets</b>						<b>8,157,061</b>

€ thousand	Public lighting	Engineering and Services	Corporate	Group Total	Total consolidation adjustments	Consolidated Total
Segment liabilities						
Trade payables to third parties	4.610	12.259	95.322	1.556.331	(142.403)	1.413.928
Trade payables to Parent Company	637	461	2	194.123	(86.480)	107.644
Trade payables to subsidiaries and associates	3.031	120	6.770	13.949	(10.644)	3.305
Other current trading liabilities	-	-	-	-		357.119
Other current financial liabilities	-	-	-	-		408.675
Employee severance indemnity and other defined benefit plans	-	3.246	23.512	103.930	-	103.930
Other provisions	12	2.513	(6.570)	118.298	23.818	136.651
Provision for deferred taxes						-
Other non-current trading liabilities						348.148
Other non-current financial liabilities						3.374.134
Liabilities directly associated with assets held for sale	-	-	-	37	-	37
Shareholders' Equity						1.903.491
<b>Total liabilities and shareholders' equity</b>						<b>8.157.061</b>

## INCOME STATEMENT 2018

€ thousand	Environment	Commercial and Trading	Overseas	Water	Electricity generation	Distribution
Revenues	173,910	1,693,218	37,460	801,100	81,241	559,267
Personnel costs	19,601	24,338	8,943	71,431	5,050	32,380
Purchase of electricity	3,539	1,465,572	-	28,166	9,715	132,941
Sundry costs of materials and overheads	85,180	127,186	14,832	308,438	17,498	76,833
Costs	108,319	1,617,096	23,775	408,035	32,263	242,153
Income/(Costs) from equity investments of a non-financial nature	(6)	-	1,120	39,888	-	-
<b>EBITDA</b>	<b>65,585</b>	<b>76,122</b>	<b>14,805</b>	<b>432,953</b>	<b>48,978</b>	<b>317,113</b>
Depreciation/amortisation	27,155	72,456	6,956	211,994	24,279	129,088
<b>Operating profit/loss</b>	<b>38,429</b>	<b>3,666</b>	<b>7,849</b>	<b>220,960</b>	<b>24,699</b>	<b>188,025</b>
Financial (costs)/income						
(Costs)/Income from Equity Investments						
Profit/(loss) before tax						
Taxes						
<b>Net result</b>						

€ thousand	Public Lighting	Engineering	Corporate	Group total	Consolidation adjustments	Group total
Revenues	48,481	74,151	129,486	3,598,314	(569,827)	3,028,487
Personnel costs	5,768	28,808	57,196	253,514	(33,891)	219,624
Purchase of electricity	6,046	86	1,093	1,647,158	(247,378)	1,399,780
Sundry costs of materials and overheads	42,056	27,158	106,139	805,320	(286,164)	519,156
Costs	53,870	56,052	164,429	2,705,992	(567,432)	2,138,560
Income/(Costs) from equity investments of a non-financial nature	-	2,318	-	43,320	-	43,320
<b>EBITDA</b>	<b>(5,389)</b>	<b>20,418</b>	<b>(34,943)</b>	<b>935,642</b>	<b>(2,395)</b>	<b>933,247</b>
Depreciation/amortisation	8,528	2,544	(31,512)	451,487	3,200	454,687
<b>Operating profit/loss</b>	<b>(13,917)</b>	<b>17,874</b>	<b>(3,431)</b>	<b>484,155</b>	<b>(5,595)</b>	<b>478,560</b>
Financial (costs)/income						(82,859)
(Costs)/Income from Equity Investments				13,332		13,332
Profit/(loss) before tax						409,033
Taxes						124,334
<b>Net result</b>						<b>284,699</b>



**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**

**CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018**



## **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 Consolidated Financial Statements**

#### **Opinion**

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group 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 Consolidated Financial Statements* section of this report. We are independent of Acea SpA (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 segments – Water segment" of the report on operations which describes:

#### **PricewaterhouseCoopers SpA**

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027783240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: Ancona 60131 Via Sandro Totti 1 Tel. 0712132311 - Bari 70122 Via Abate Gimma 72 Tel. 0805640211 - Bologna 40126 Via Angelo Finelli 8 Tel. 0516186211 - Brescia 25123 Via Borgo Pietro Wulher 23 Tel. 0303697501 - Catania 95129 Corso Italia 302 Tel. 0957332311 - Firenze 50121 Viale Gramsci 15 Tel. 0552482811 - Genova 16121 Piazza Pierapetra 9 Tel. 01029041 - Napoli 80121 Via dei Mille 16 Tel. 08136181 - Padova 35138 Via Vicenza 4 Tel. 049873481 - Palermo 90141 Via Marchese Ugo 60 Tel. 091349737 - Parma 43121 Viale Tanara 20/A Tel. 0521275911 - Pescara 66127 Piazza Ettore Troilo 8 Tel. 0854545711 - Roma 00154 Largo Fochetti 29 Tel. 06570251 - Torino 10122 Corso Palestro 10 Tel. 011556771 - Trento 38122 Viale della Costituzione 33 Tel. 0461237004 - Treviso 31100 Viale Felissent 90 Tel. 0422696911 - Trieste 34125 Via Cesare Battisti 18 Tel. 0403480781 - Udine 33100 Via Pascolle 43 Tel. 043223789 - Varese 21100 Via Albuzzi 43 Tel. 0332285039 - Verona 37135 Via Francia 21/C Tel. 0458263001 - Vicenza 36100 Piazza Pontelandolfo 9 Tel. 0444393311

[www.pwc.com/it](http://www.pwc.com/it)





- 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 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Key Audit Matters</b>	<b>Auditing procedures performed in response to key audit matters</b>
<p><b>Determination of revenue from sales and services and receivables for invoices to be issued</b></p> <p><i>Note 1 “Revenue from sales and services” and note 22.b “Trade receivables” to the consolidated financial statements</i></p> <p>The Group recognised in the consolidated financial statements as of 31 December 2018 receivables from users for invoices to be issued for an amount equal to Euro 411 million compared to revenue from sales and services amounting to Euro 2,837 million.</p>	<p>We addressed our audit procedures in order to comprehend, evaluate and validate the internal control system with reference to the revenue cycle. In particular, we obtained an understanding and verified the relevant controls, both manual and automatic, underlying the billing system with particular, but not exclusive, reference to the customer database, the recognition of meter reading, the consumption estimate, the calculation of</p>

The Group recognises revenue from sales and services when control of the good is actually transferred or when a service is rendered and measures it at the fair value of the consideration received or receivable. In particular:

- i) Revenues from the sale and transport of electricity and gas are recognised at the time the service is supplied or provided, even if they are not invoiced, and are determined by adding estimates on the volumes supplied/transported to revenues that are calculated on the basis of pre-established meter reading calendars.
- ii) Revenues from distribution of electricity take into account the tariffs and the restriction on revenue established by the Italian Regulatory Authority for Energy, Networks and the Environment (“ARERA” formerly “AEEGSI”). Moreover, if the admission of investments in tariffs that establishes the operator’s right to payment is virtually certain, the corresponding revenues are recognised as determined by the ARERA resolution 654/2015 (the so-called regulatory lag).
- iii) Revenues from integrated water service are determined on the basis of the updated 2018-2019 tariffs as per the Water Pricing Method applied for the calculation of the 2016-2019 tariffs and of the estimates of the consumption for the period. Furthermore, the Group recognises under revenues for the year the adjustments related to the so-called pass-through entries, as well as the adjustments, if any, related to costs for the Integrated Water Service incurred due to the occurrence of exceptional

tariffs and the valuation of invoices and receipts.

In addition to what set out above, our audit work was focused on the analysis of the impacts deriving from the introduction of the new accounting standard IFRS15 “*Revenue from Contracts with Customers*”.

Moreover, we performed the following specific verifications for each type of revenue.

- 1) *For revenues from the sale and transport of electricity and gas*
  - reconciliation of the electricity and gas quantities communicated by distributors with the quantities included in the billing system used to determine revenues for invoices to be issued at the year-end;
  - reconciliation of the electricity and gas quantities sold with those acquired and analysis of differences, if any, in order to confirm the accruals for invoices to issue carried in the financial statements;
  - verification of the correct valuation of the electricity and gas quantities not invoiced on the basis of the tariffs in force in the period under analysis.
- 2) *For revenues from electricity distribution*
  - Reconciliation of the electricity quantities used by the Group to determine receivables for invoices to issue with the data communicated by the dispatcher adjusted to reflect grid losses recorded in the period, calculated on a historical basis as the difference between energy introduced into the grid and that distributed;



---

events (i.e. water and environmental emergencies), if the preliminary investigation for their recognition has given positive result.

The methods to determine allocations for invoices to be issued are based on the use of complex algorithms and include significant estimates. Therefore, we paid particular attention to the risk of wrong calculation of revenues from sales and services and of the related receivables from users for invoices to be issued.

- Verification of the correct valuation of the quantities of electricity not invoiced on the basis of the tariffs in force in the period under analysis;
  - Verification of the correct calculation of receivables/payables for the electricity equalisation by comparing revenues recorded and the regulatory revenues attributable to the year and established by the ARERA;
  - Verification of the consistency of the methods followed by the Company to determine the accruals for the “regulatory lag”.
- 3) *For revenues from integrated water service*
- Reconciliation of the sales revenue with the guaranteed revenue restriction limits (*vincolo dei ricavi garantiti*, “VRG”) envisaged by the updated 2018-2019 tariff plan related to the second regulatory period 2016-2019 approved by the relevant authorities;
  - Verification of the correct determination of receivables for invoices to be issued through comparison between bills issued/to issue and the VRG limits;
  - Verification of the correct determination of bills issued/to issue through the validation of the invoicing system on the basis of the verification on a sample basis carried out on the recognition of the meter readings and on the correct charging of tariffs.

---

#### **Investments and disinvestments of non-current assets**

---



*Note 13 “Tangible fixed assets”, note 16.a “Concessions and rights on infrastructure” and note 16.b “Other intangible fixed assets” to the consolidated financial statements*

The Group recognised in the consolidated financial statements as of 31 December 2018 non-current assets equal to Euro 4,638 million, of which Euro 2,365 million related to property, plant and equipment and Euro 2,273 million related to intangible assets.

The Group investments in the period totalled Euro 631 million, of which Euro 249 million related to tangible assets and Euro 382 million to intangible assets (including concessions).

In this respect, we highlight that for regulated activities (in particular the integrated water service and the electricity distribution), the tariffs and, accordingly, the Group’s revenues are directly influenced by the amount of the invested capital and therefore by the changes in non-current assets. As a result, the overestimate or underestimate of the abovementioned non-current assets could increase or decrease the tariffs applied to final users under the performance of the integrated water service and the transport of electricity. For this reason and for the complexity related to the numerous maintenance works, in our audit we paid particular attention to the changes in non-current assets related to the regulated sectors.

We addressed our audit procedures in order to comprehend, evaluate and validate the internal control system with reference to the corporate processes related to the management of non-current assets.

We focused our activities on the verification (on a sample basis) of the investments and disinvestments in non-current tangible and intangible assets of the water and electricity distribution segments. In particular, we carried out the reconciliation of the asset book with changes in non-current assets in the year, and on the basis of the significance of the amounts and of our professional judgement, we examined the changes selected paying special attention to the increases recognised. With reference to the latter, we verified if the requirements for the capitalization of internal and external costs provided for by IAS 16 and IAS 38 had been complied with and also the existence of the services capitalised, that is if the service or assets being verified had been actually rendered or delivered/installed and correctly recognised.

#### **Recoverability of non-current assets**

*Note 13 “Tangible fixed assets”, note 15 “Goodwill”, note 16.a “Concessions and rights on infrastructure” and note 17 “Equity investments in unconsolidated subsidiaries and associates” to the consolidated financial statements*

We addressed our audit procedures in order to:

- evaluate if the estimate method used by the Group was consistent with what



The Group recognised in the consolidated financial statements as of 31 December 2018 non-current assets for an amount equal to Euro 5,735 million, of which property, plant and equipment of Euro 2,365 million, Goodwill of Euro 150 million, Concessions and rights on infrastructure of Euro 2,126 million and Equity investments in unconsolidated subsidiaries and associates of Euro 279 million. Annually, the Group, on the basis of its internal procedures, performs the impairment test pursuant to IAS 36 using the Discounted Cash Flow method to determine the recoverable amount of assets. The impairment test is based on a two-level approach. A first level concerns the estimate of the recoverable amount of intangible assets with an indefinite life (goodwill) and a second level relates to the estimate of the recoverable amount of equity investments in unconsolidated subsidiaries and associates and to other non-current assets. In particular, the impairment test of goodwill is performed at least annually, and with the same frequency the impairment test of the main equity investments in unconsolidated subsidiaries and associates is carried out, also without any impairment indicators, while the verification on the recoverability of the value of the other non-current assets is performed solely when the Group identifies specific impairment indicators.

As part of our audit activities, we paid particular attention to the risk of existence of impairment losses, if any, related to non-current assets (and to the existence of any impairment indicators, when applicable) as the estimate of the recoverable amount of the abovementioned assets is particularly complex and based on valuation assumptions affected by economic, financial and market conditions which are hard to forecast.

envisaged by IAS 36 and the evaluation practice (analysis of the evaluation model used);

- verify the process of identification of the Cash Generating Units (CGU) on the basis of the current organizational structure, which remained unchanged during the year;
- 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, which in case of significant events occurred in the period were specifically updated; and
- verify the correct quantification of the recoverable amounts (mathematical accuracy) and of the carrying amounts.

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 changing the main evaluation assumptions used.

As part of our audit activities, we availed ourselves, where necessary, of the support of the PwC network experts in evaluations.

---

#### **Determination of the allowance for**

---



---

#### **doubtful accounts – trade receivables**

*Note 22.b to the consolidated financial statements “Trade receivables”*

The Group recognised in the consolidated financial statements as of 31 December 2018 an allowance for doubtful accounts for an amount equal to Euro 694 million.

At the reporting date the Group estimates the irrecoverable amount of trade receivables based on complex calculation models which rely upon the requirements in the new accounting standard IFRS 9 “Financial Instruments”.

The estimate of the recoverability of trade receivables is characterised by a specific complexity related to the high number of customers and to the fragmentary nature of the amounts. Furthermore, the evaluations are affected by different socio-economic variables related to the different categories of customers. Therefore, as part of our audit activities we paid particular attention to the risk of a wrong quantification of the estimate under examination.

We addressed our audit procedures in order to verify the correctness of the reports generated by the information systems and used by the directors in order to determine the Expected Credit Losses that can be attributed to the balance of receivables from specific customers or customer clusters. We also tested the reasonableness of the assumptions underlying the calculation model.

Through inquiries of the credit managers, of the group and of individual companies, we evaluated, on a sample basis, certain specific positions by analysing the lawyers’ replies to the requests for information, by examining the guarantees given by the various customers and by assessing any other piece of information gathered after the reporting date.

Finally, we verified the consistency of the method used by the Company with the provisions of IFRS 9 and the accuracy of the mathematical calculation for the determination of the expected credit losses.

---

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

The directors are responsible for the preparation of consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group’s ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend





to liquidate the parent company Acea SpA 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 Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- We identified and assessed the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern;



- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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 consolidated 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 the 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 consolidated 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 the Acea Group as of 31 December 2018, including their consistency with the relevant consolidated 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 consolidated financial statements of the Acea Group 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 consolidated financial statements of the Acea Group 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.

#### ***Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016***

The directors of Acea SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.  
We have verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

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 consolidate 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 consolidated financial statements at 31 December 2018.

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

3. It is also certified that:

3.1 the consolidated 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 and the overall of companies included in the consolidation,

3.2 the report on operations includes a reliable analysis of the operational performance and result, as well as the situation of the issuer and the companies included in the scope of consolidation, 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

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





