



2018

FINANCIAL STATEMENTS
OF ACEA SPA

ACEA GROUP CONSOLIDATED FINANCIAL STATEMENTS

acea



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LETTER TO SHAREHOLDERS



DEAR SHAREHOLDERS,

The fiscal year that ended 31 December 2018 consisted of a series of events that make it possible to see 2018 as a tangible turning point. First of all at an industrial level thanks to the impetus given by the operating areas and based on values like innovation, technological development and sustainability, which have long since become essential, cutting across all processes at a Group level. A plan that is in line with the multi-utility model with a strong industrial orientation that the Acea Group intended to relaunch starting from the elaboration of the new and demanding 2018-2022 Business Plan in the second half of 2017.

The plan turned out not only to be possible but even revised upwards in terms of its objectives, as demonstrated both by the repeated revisions in the guidance given during 2018 and the need to present the financial community with a substantial update of this plan well ahead of schedule, with goals that are even more challenging.

This result was made possible by the expertise and commitment of management and each employee, together with the Chairwoman Michaela Castelli and the Board of Directors, with the support of Shareholders and Stakeholders.

Building on this foundation the economic and financial side of the business saw extraordinarily positive financial statements with a Group net profit that is 50% higher than 2017 and distribution of a € 0.71 dividend, and the crucial customer service side saw considerable improvement even in historically critical areas.

2018 also stood out for the acceleration of the construction of the Peschiera Aqueduct's second line in order to meet Rome's water needs, pursued by Acea with determination and attention to maintain a harmonious relationship with local communities.

Focusing on the results achieved by the Group in 2018, the figure for consolidated net revenues is detailed, which, amounting to € 3,028 million, shows an increase of € 231 million (+ 8%) compared to 2017, and particularly worthy of note is the growth of consolidated EBITDA which amounted to € 933 million (+ 11%), mainly due to the contribution of the water and electricity distribution and generation sectors and, to a lesser extent, by the Environment, Engineering and Services and Overseas segments. More in detail, the performance of the Water segment was influenced by the results of Acea Ato 2 and Acea Ato 5, which recorded increases of € 50 million and € 4 million respectively, in addition to the greater contribution of the consolidated water companies to shareholders' equity for € 16 million, specifying that Gori was fully consolidated on 8 November 2018 and contributed € 12 million to EBITDA.

The Group's net result amounted to € 271 million (+ 50% compared

to 2017). Investments recorded a significant increase (+ 19%) compared to 2017 of € 631 million (€ 532 million in 2017), of which approximately 88% focused on regulated activities. The breakdown shows the Water sector with € 330 million and the Energy Infrastructures segment with € 238 million. The other segments and the Parent Company followed with substantially lower numbers.

The Group's net financial debt recorded an overall increase mainly due to investments of € 147 million, the overall total going from € 2,421 million at the end of 2017 to € 2,568 million at 31 December 2018, and was reduced by € 63 million compared to 30 September 2018 due to an increase in working capital. The ratio between net financial debt and EBITDA is 2.8x, an improvement compared to 2.9x in 2017.

To verify continuity and consistency in the management of your Company in the early months of 2019, we note that 2019 guidance forecasts further growth compared to 2018, indicating that with the same range of activities EBITDA will increase between 5% and 6%, investments more than 10% and net financial debt at the end of the year will be between € 2.85 billion and € 2.95 billion.

As mentioned, 2018 was the year we launched a particularly challenging Business Plan that generated an acceleration in Acea Group's most strategic projects and processes, in constant alignment with both the more general scenario of reference and with more specific scenarios linked to the core business. But it was also a year of consolidation and building on what was started in the second half of 2017 in order to pursue levels of excellence both in terms of overall compliance to ensure the engagement of all employees, and with respect to the main issues that a multi-utility like Acea is called to manage, like innovation, sustainability, the market, the public and the local community – and of course its own people. It is important to underline the impetus given to the two pillars of Innovation and Sustainability referenced in the 2018-2022 Business Plan, both critical for all of the Group's industrial and non-industrial activities.

With regard to Sustainability, we remind you that from 2018 it is mandatory for major listed companies to produce a Non-Financial Statement relating to the previous year, which for the Acea Group is essentially the Sustainability Report, this year in its 21st edition. So once again in 2018 a tool has been made available to provide a significant amount of information relating to the activities carried out by the Group's Companies and their impacts, classified according to GRI (the most common reporting standard) to ensure understanding.



Some significant events took place in 2018 that are worth noting here. These include the agreement stipulated by Acea and Open Fiber for the development of a broadband communications network and the implementation of innovative services for the city of Rome; the placement of bond issues for € 1 billion exclusively for institutional investors of the Euromarket, which received requests equal to more than 2.5 times the amount of the Bonds offered (Fitch Ratings and Moody's assigned a rating BBB+ and Baa2 respectively, in line with Acea); the Memorandum of Understanding (MoU) signed by Acea and Huawei Italia for the definition of high value technological projects; the 100% acquisition of Bioecologia S.r.l. involved in the purification, treatment and intermediation of liquid waste, with treatment plants located in the municipalities of Chiusi, Buonconvento and Colle Val d'Elsa; Acea's entry into the gas distribution sector through the stipulation of an agreement for the acquisition of 51% of the capital of the company Pescara Distribuzione Gas S.r.l., involved in the distribution of methane gas in the Municipality of Pescara; Moody's confirmation of Acea's Baa2 rating and stable outlook; establishment of a long-term industrial agreement between Gori (manager of the IWS in the Sarnese-Vesuvian District of the Campania Region, 37% owned by Acea through its subsidiary Sarnese Vesuviano), the Campania Region and the Campania Water Authority to complete the takeover of the plants and the management of the IWS in that area.

With regard to events after the close of 2018, we note the notification of an order served to the Acea Group by the Italian Antitrust Authority bearing a pecuniary administrative fine of € 16,199,879.09

levied jointly and severally against Acea, Acea Energia and areti for abuse of a dominant position in the electricity market, which the Acea Group will challenge with all legal remedies available to it.

Considering that in 2018 the Acea Group beat all forecasts as presented here, one can envisage a continuation of this same success in 2019.

The Group will continue to make major investments in infrastructure, generating an immediate positive impact on performance, EBITDA and invoicing and collection processes without affecting the soundness of the financial structure.

Indeed, the Group's financial structure will remain solid for many years to come. In fact, at 31 December 2018 79% of debt had fixed interest rates in order to ensure protection against any increases in interest rates as well as any financial or credit volatility. Furthermore, at the end of 2018 the average duration of medium-long term debt stood at 5.8 years, and the average cost dropped from 2.6% at 31 December 2017 to 2.2% at 31 December 2018.

All the elements illustrated above allow us to define the current year as highly challenging yet with ample guarantees of solidity. The update of the 2018-2022 Business Plan clearly defines the new objectives to be achieved, thus requiring management and each person of the Acea Group to continue to work together with that same diligence that allowed the Group to achieve these results.

Once again, the Board of Directors is grateful to everybody for their efforts and encourages them to always do their best, as the results are visible and rewarding, further boosting the pride of being part of an increasingly strong and cohesive Group.

The Chief Executive Officer
Stefano Antonio Donnarumma

The Chairman
Michaela Castelli

ACEA YESTERDAY, TODAY AND TOMORROW

AEM, Azienda Elettrica Municipale [Municipal Electrical Company], of the Municipality of Rome, was founded with the aim of supplying energy for public and private lighting. In 1912, the Power Station on Via Ostiense, later named after the Councillor for Technology, Nathan, Giovanni Montemartini.

THE ACQUISITION OF THE WATER SERVICE

Due to the growing demand for electricity owing to the significant increase in population and the building of the city, in 1931-1933, Aeg increased the output of the Montemartini power station. On 2 September 1937, with entry into effect as of 1 January that same year, the Governorate of Rome entrusted the management of the municipal aqueducts, as well as the construction and management of the Peschiera aqueduct, to Aeg, which changed its name to Agea, Azienda governatoriale elettricità e acque [gubernatorial electricity and water company].

THE COMPANY'S PLANS FOR THE CITY

On 30 March 1953, Rome's City Council approved Acea's plan for electrical self-sufficiency and to improve the city's water system, including: new power stations and substations, water plants, completion of the Peschiera aqueduct, the surveying of new groundwater sources and the construction of new aqueducts. In preparation for the 1960 Rome Olympics, Acea modernised the city's public lighting systems.

1909
1919

1920
1929

1930
1939

1940
1949

1950
1959

1960
1969

POWER STATIONS

In 1926, Aem changed its name to Aeg, Azienda elettrica del Governatorato of Rome. There were almost 18,000 street lamps in the city, approximately 13,000 more than in 1915 and the Castel Madama power station was increased. One year later, in Mandela, another hydroelectric power station became operational, the Galileo Ferraris.

MUNICIPAL ELECTRICITY AND WATER COMPANY

On 8 May 1940, the Salisano hydroelectric power station, built into a cave along the route of the Peschiera aqueduct, was inaugurated. During the war, the power stations suffered major damage, but company technicians managed to reactivate them within a short period of time. By the end of 1945, former Agea, now Acea - Azienda comunale dell'elettricità e delle acque [Municipal electricity and water company] - guaranteed a regular supply of electricity. In 1949, the Peschiera aqueduct entered into service.

WATER SERVICE MANAGEMENT CONSOLIDATION

In 1962, the Company transferred its headquarters to Piazzale Ostiense. It continued to upgrade public lighting throughout the city of Rome. Following the expiry of the licence held by the water company Società Acqua Pia Antica Marcia, Rome's City Council entrusted the management of the Marcio aqueduct to Acea. On 7 November, the Water Court confirmed Acea as the capital's of drinking-water service manager.

THE RESTORATION OF THE SUBURBAN AREAS OF ROME

Acea continued to optimise the distribution system: constructing substations, transformers and launching the remote control of the electricity network. The company strengthened its commitment to the water system and reclaimed the suburbs. In September 1976, Acea's plan to upgrade the water and sanitary system, as well as street lighting for 82 suburbs of Rome was approved. In 1979, the Peschiera-Capore aqueduct system was founded, one of the largest in Europe.

LISTING ON THE STOCK EXCHANGE

In 1991, the Municipal Authority made Acea a Special Company and, on 1 January 1998, the company became a joint-stock company (SpA). Acea S.p.A. was listed on the Italian Stock Exchange as of 19 July 1999 and launched an intense spin-off process. In 1993, the Eur water system entered into operation. With the implementation of the "Galli" Law, Acea was nominated operator of the Ato 2 integrated water service in Lazio. In 1996, the new Tor di Valle combined cycle plant became operational.

NEW IDENTITY

In March 2017, the company renewed its logo, transforming the A in Acea into a geolocation pin icon, a pointer that unites the physical and digital worlds. The new brand is dynamic and smart. Identification logos have been created for all the Group's business areas, each with its own colour. In November the 2018-2022 Business Plan was presented, tracing Acea's growth path for the coming years: resilient technology and innovation with a particular focus on sustainable development for the environment and people.

1970
1979

1980
1989

1990
1999

2000
2009

2010
2017

2018

PURIFICATION AND COGENERATION

In 1985, Acea took over the management of the capital's wastewater purification service. In 1984, the Tor di Valle cogeneration plant became operational, generating thermal energy for domestic district heating in the Torrino Sud district. In 1989, it took over the management of public lighting. In 1989, Acea changed its name to Azienda comunale dell'energia e dell'ambiente [Municipal Energy and Environment Company].

NEW WATER MANAGEMENT BUSINESS ACQUISITION

In 2001, Acea took over Enel's electricity distribution network in Rome. In 2001, Acea, at the head of a joint venture, was awarded a contract for managing the Ato 3 Sarnese-Vesuviano integrated water service in Campania and the Ato 2 (Pisa) and Ato 6 (Grosseto-Siena) in Tuscany. In 2002, it won the call for tenders for Ato 3 (Florence), as well as that for managing Ato 5, Lazio Meridionale - Frosinone.

INNOVATION, TECHNOLOGICAL EVOLUTION AND SUSTAINABILITY

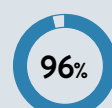
2018 was a turning point for industry. Innovation, technological evolution and sustainability are the values that allowed us to achieve clearly positive financial results. On 12 January 2018 an agreement was signed between Acea and Open Fiber for the development of an ultra-wideband communication network in the city of Rome. An innovative service for the whole city. On 11 October 2018 Acea entered the gas distribution sector. The next objective will be the construction of the second line of the Peschiera aqueduct, which will secure the capital's water requirements for at least the next 100 years. An important year for Acea has come to an end, the best ever.

GROUP STRUCTURE

THE GROUP'S STRUCTURE, BROKEN DOWN BY BUSINESS AREA, COMPRISES THE FOLLOWING MAIN COMPANIES:



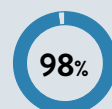
WATER



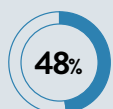
ACEA ATO 2



GESESA



ACEA ATO 5



G.E.A.L.



SARNESI VESUVIANO
(37% GORI)



UMBRA
ACQUE



CREA
GESTIONI



INTESA
ARETINA
(46% NUOVE ACQUE)



UMBRIADUE
SERVIZI
IDRICI
(25% SERVIZI IDRICI
INTEGRATI)



OMBRONE
(40% ACQUED.
DEL FIORA)



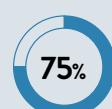
ENERGY INFRASTRUCTURES



ACQUE BLU
ARNO BASSO
(45% ACQUE)



ARETI



ACQUE BLU
FIORENTINE
(40% PUBLIACQUA)



ACEA
ILLUMINAZIONE
PUBBLICA (IN LIQUID.)



ACEA
PRODUZIONE
(100% ECOGENA)



ENVIRONMENT



ACEA
AMBIENTE
(100% BIOECOLOGIA)



AQUASER



ISECO



ACQUE
INDUSTRIALI



ECOMED



COMMERCIAL AND TRADING



ACEA ENERGIA
(50% UMBRIA
ENERGY)



ACEA8CENTO



ACEA ENERGY
MANAGEMENT



OVERSEAS



ACEA
INTERNATIONAL
(100% ACEA
DOMINICANA
61% AGUAS DE
SAN PEDRO
25% CONSORCIO
AGUA AZUL
100% ACEA PERÙ
51% CONSORCIO
SERVICIO SUR)



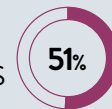
ENGINEERING AND SERVICES



ACEA
ELABORI



TECHNOLOGIES
WATER
SERVICES



AGUAZUL
BOGOTÀ

INVESTOR RELATIONS

AS AT 31 DECEMBER 2018, ACEA S.P.A. SHARE CAPITAL
WAS COMPOSED AS FOLLOWS:

51%

Roma Capitale

23.33%

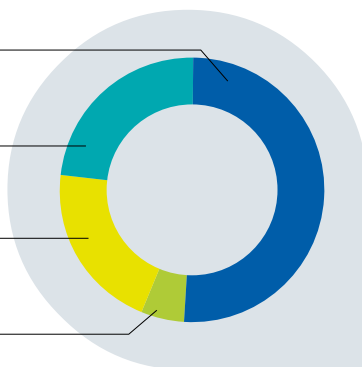
Suez

20.66%

Market

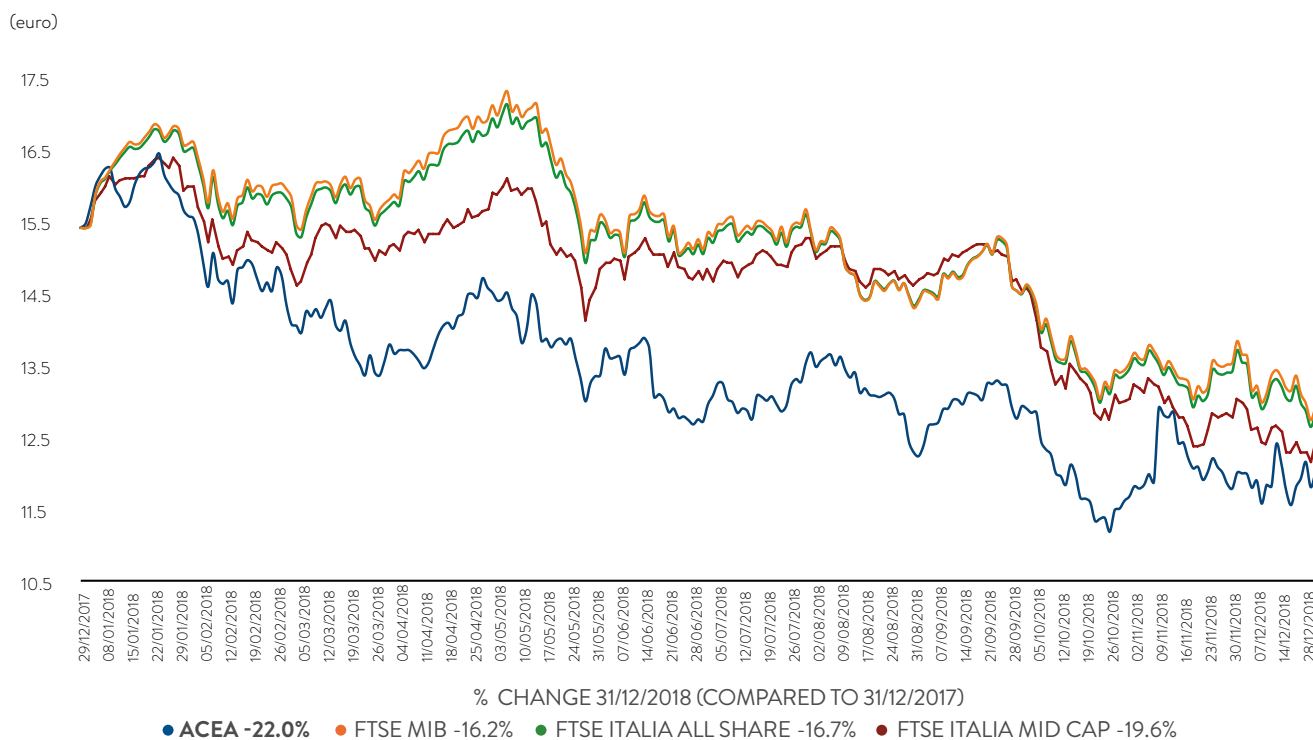
5.01%

Caltagirone



The above chart only shows equity investments of more than 3%, as confirmed by CONSOB data.

ACEA STOCK PERFORMANCE IN 2018



(Source: Bloomberg)

CORPORATE HIGHLIGHTS



WATER

LEADING OPERATOR

in Italy in water services

With **9 million**

inhabitants served in Lazio, Tuscany, Umbria and Campania



ENERGY INFRASTRUCTURES

ONE OF THE MAIN

operators in Italy in energy distribution

With **10 TWh**

of electricity distributed



COMMERCIAL AND TRADING

ONE OF THE MAIN

national operators in the energy market

With **6 TWh**

of electricity sold



ENVIRONMENT

MAJOR OPERATOR

in Italy in Waste Management

With **1.1 million tonnes**

of waste disposed of and treated



OVERSEAS

PRESENT WITH

4 companies operating in water services

4 million inhabitants served in Latin America



ENGINEERING AND SERVICES

TWO DEDICATED COMPANIES

458,252 analyses of drinking water

179,197 analyses of wastewater

FINANCIAL HIGHLIGHTS

MONETARY FIGURES IN MILLION OF EUROS

CONSOLIDATED REVENUES



EBITDA



EBIT



INCOME BEFORE TAXES



NET RESULT OF THE GROUP



GROUP INVESTMENTS



*Gori consolidation effect for the last two months of 2018: 12 million euros.

THE ORGANISATIONAL MODEL

Acea has adopted an operational model based on an organisational layout in line with the Strategic Business Plan consolidating its role to govern, guide and control the Holding not only with the current business portfolio focused on areas of greater value, but also on the strategic development of the Group in new business segments and territories. Acea's macro structure is organised in corporate functions and six operating segments: Water, Energy Infrastructure, Commercial and Trading, Overseas and Engineering and Services. The activities of each business segment are described below.

EBITDA 2018
€ **933** mln

77%

FROM REGULATED
ACTIVITIES

23%

FROM UNREGULATED
ACTIVITIES



WATER

The Acea Group is the top Italian operator in the water sector serving 9 million people. The Group manages the integrated water service in Rome and Frosinone and in their respective provinces, as well as in other parts of Lazio, in Tuscany, Umbria and Campania.

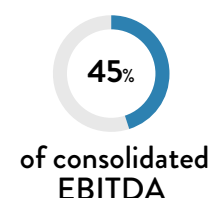
LEADING NATIONAL OPERATOR

- Customers: around 9 million
- Planning, development, construction and management of integrated water services.

EBITDA +23.9%



INVESTMENTS +21.5%



ENERGY INFRASTRUCTURES

The Acea Group is a major operator in Italy with over 10 TWh of electricity distributed in Rome, while abroad it serves 3 million people. The Group also manages the public and artistic lighting of the capital for a total of 224,000 light bulbs. The Acea Group is committed to energy efficiency projects and the development of new technologies such as smart grids and electric mobility through particularly innovative pilot projects.

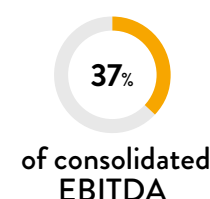
ONE OF THE MAIN OPERATORS IN ITALY

- Electricity distributed: 9,792 TWh in the city of Rome
- Energy generation: 550 GWh
- Rome public and artistic lighting management: over 224,000 fixtures
- Energy efficiency projects
- Hydroelectric power stations: 121 MW
- Thermoelectric plants: 97 MW
- Photovoltaic plants: ~ 9 MWp

EBITDA +8.3%



INVESTMENTS +13.8%





COMMERCIAL AND TRADING

The Acea Group is one of the key national players in the sale of electricity and offers innovative and flexible solutions for supplying electricity and natural gas, with the aim of consolidating its position as a dual fuel operator. Acea operates in the market segments of medium-sized businesses and families, striving to improve the quality of its services in particular as far as web and social channels are concerned. It supervises the Group's energy management policies.

ONE OF THE MAIN OPERATORS IN ITALY

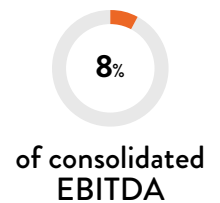
- Electricity sold: 6.0 TWh

- Free market customers: 0.3 mln
- Protected market customers: 0.8 mln
- Gas customers: 0.2 mln

EBITDA -1.9%



INVESTMENTS +26.8%



OVERSEAS

With this Segment, the Acea Group manages water activities in Latin America and its objective is to make the most of development opportunities in other businesses related to those already held in Italy.

It is present in Honduras, Dominican Republic, Colombia and Peru, serving approximately 4 million people.

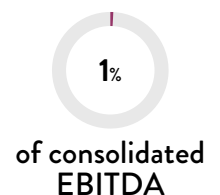
The activities are carried out in partnership with local and international partners, including through staff training and the transfer of know-how to local entrepreneurs.

- Water management in Latin America

EBITDA +2.6%



INVESTMENTS +27.1%



ENVIRONMENT

The Acea Group is one of the leading national players with more than 1 million tonnes of waste processed each year.

It manages the main waste-to-energy plant and the largest composting plant in Lazio. In particular, the Group develops investments in the waste to energy business, considered high potential, in accordance with the strategic goal of producing energy from waste and protecting the environment.

MAJOR OPERATOR IN ITALY

Umbria, Lazio and Tuscany

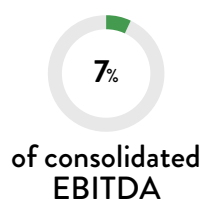
- Waste treated: 1.1 million tonnes

- Electricity generated (WTE): 355 GWh

EBITDA +1.7%



INVESTMENTS +30.5%



ENGINEERING AND SERVICES

The Acea Group has developed know how at the forefront in the design, construction and management of integrated water systems: from the source to the aqueducts, from distribution to the sewer network, and treatment. It develops applied research projects aimed at technological innovation in the water, environmental and energy sectors. Laboratory services are of particular importance.

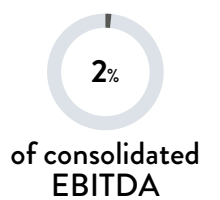
- Analyses of water intended for human consumption: 458,252 drinking water, mainly Acea Ato 2 and Acea Ato 5

- Laboratory analyses of wastewater: 179,197 wastewater, mainly Acea Ato 2 and Acea Ato 5
- Number of on-site inspections: 11,270

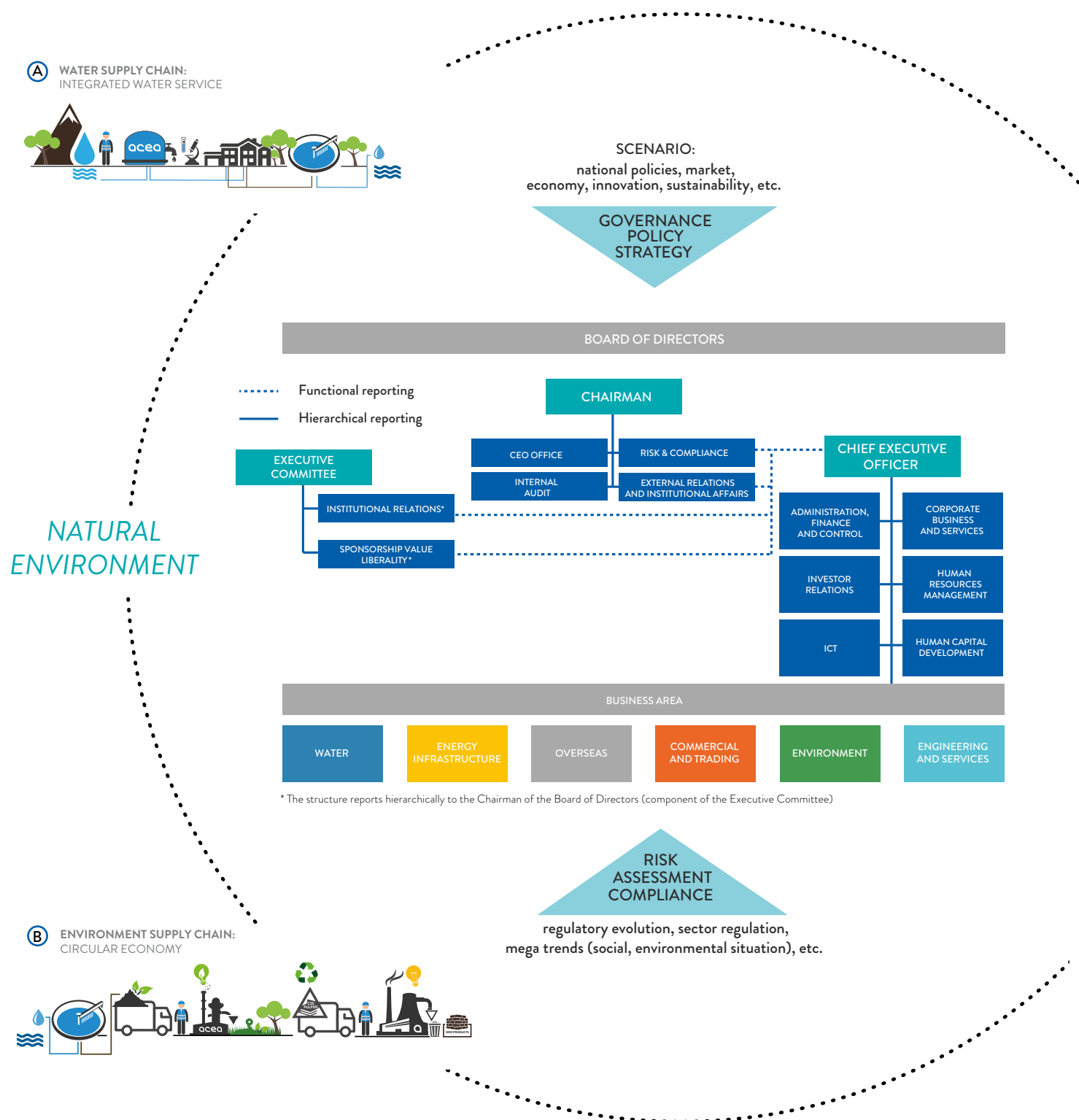
EBITDA +24.1%



INVESTMENTS



THE ACEA BUSINESS MODEL



C ENERGY SUPPLY CHAIN: TRADING AND SALES



STAKEHOLDERS

D ENERGY SUPPLY CHAIN: PRODUCTION AND DISTRIBUTION INFRASTRUCTURE



A WATER SUPPLY CHAIN: INTEGRATED WATER SERVICE

The water supply chain begins with the resource capture phase: the water required by the network serving the communities is drawn from streams and water tables in the territory. The quality of the water resource is tested and guaranteed by Acea, throughout its journey, in observance of the normative standards envisaged for end uses. Thereafter the wastewater and treatment phase is activated to recycle and return the resource to the environment in the best possible conditions for its natural cycle to resume.

B ENVIRONMENT SUPPLY CHAIN: CIRCULAR ECONOMY

Waste valorisation and circular economy: the environmental supply chain has as its objective the valorisation of waste through the reduction of volumes, conversion into biogas and transformation into compost for agriculture and floriculture. In particular, with a view to circular economy, Acea exploits the integration into water activities to recover sludge from water purification and send it for treatment to become compost.

C ENERGY SUPPLY CHAIN: TRADING AND SALES

Sale of energy and gas: the purchase of commodities (energy and gas) takes place by means of trading on market platforms (power exchange) where resellers such as Acea Energia procure energy in order to supply customers according to their respective commercial policies. Market demand in Italy is separated into two large sectors, the protected market that will cease in 2020 and the free market, where each customer can choose a supplier and related services. Sales companies develop relations with the customers based on their type, by means of increasingly innovative and digital contact channels, while also retaining traditional tools such as the telephone and branches open to the public. In order to promote their products, the sales companies avail themselves of selected trained sales agencies that are monitored in their commercial practices.

D ENERGY SUPPLY CHAIN: PRODUCTION AND DISTRIBUTION INFRASTRUCTURE

Production and distribution of electricity: Acea produces energy at hydroelectric plants, waste-to-energy plants, thermoelectric plants (high-efficiency cogeneration), anaerobic digestion plants (biogas) and photovoltaic plants, for a total generation from renewable sources of about 72%. Users receive electricity thanks to the distribution grid managed and developed by Acea. The digital and innovative development of the services, stimulated and required by a constantly evolving market, commits the Distributor to tend towards smart city solutions. This is accompanied by a resilient management of the networks by which it is possible to support a future shift and increase in the uses of the electrical vector.



The background image shows an industrial facility with large stainless steel tanks and pipes. A blue semi-transparent circle is centered over the image, and a larger blue semi-transparent circle is positioned to its left. The top right corner features a pattern of white dots of varying sizes. The text "REPORT ON OPERATIONS" is written in white, bold, sans-serif capital letters, centered within the blue circle.

REPORT ON OPERATIONS

CORPORATE BODIES

Board of Directors

Michaela Castelli	Chairman ¹
Stefano Antonio Donnarumma	CEO
Luca Alfredo Lanzalone	Director ²
Alessandro Caltagirone	Director
Massimiliano Capece Minutolo del Sasso	Director
Gabriella Chiellino	Director
Giovanni Giani	Director
Liliana Godino	Director
Fabrice Rossignol	Director

Board of Statutory Auditors

Enrico Laghi	Chairman
Rosina Cichello	Statutory Auditor
Corrado Gatti	Statutory Auditor
Lucia Di Giuseppe	Alternate Auditor
Carlo Schiavone	Alternate Auditor

Executive Responsible for Financial Reporting

Giuseppe Gola

Auditing Firm

PricewaterhouseCoopers S.p.A.

¹ Appointed Chairman of the Board of Directors on 21 June 2018

² Resigned as Chairman of the Board of Directors on 14 June 2018 and resigned as director on 15 March 2019

SUMMARY OF RESULTS

Income Statement Data

€ million	2018	2017	Change	% Change
Consolidated revenues	3,028.5	2,797.0	231.5	8.3%
Consolidated operating costs	2,138.6	1,983.9	154.7	7.8 %
Income/(Costs) from equity investments of a non-financial nature	43.3	26.9	16.5	61.3 %
- of which: EBITDA	143.4	149.6	(6.1)	(4.1%)
- of which: Amortisation, depreciation, impairment charges and provisions	(79.8)	(100.9)	21.1	(20.9 %)
- of which: Financing activities	(5.9)	(6.8)	0.9	(13.2 %)
- of which: Taxes	(17.4)	(15.1)	(2.4)	15.6 %
EBITDA	933.2	840.0	93.3	11.1 %
EBIT	478.6	359.9	118.7	33.0 %
Net profit/(loss)	284.7	192.2	92.5	48.1 %
Profit/(loss) attributable to minority interests	13.7	11.5	2.2	18.9 %
Net profit/(loss) attributable to the Group	271.0	180.7	90.3	50.0 %

EBITDA per operating segment

€ million	2018	2017	Change	% Change
ENVIRONMENT	65.6	64.5	1.1	1.8 %
COMMERCIAL AND TRADING	76.1	77.6	(1.5)	(1.9%)
OVERSEAS	14.8	14.4	0.4	2.6 %
WATER	433.0	349.6	83.3	23.8 %
Integrated water service	432.0	349.2	82.8	23.7 %
Lazio - Campania	396.3	327.6	68.6	21.0 %
Tuscany - Umbria	35.7	21.5	14.2	65.8 %
Others	1.0	0.5	0.5	111.2 %
ENERGY INFRASTRUCTURES	360.7	333.1	27.6	8.3%
Distribution	317.1	287.3	29.8	10.4 %
Generation	49.0	41.3	7.7	18.6 %
Public Lighting	(5.4)	4.4	(9.8)	n.s.
ENGINEERING AND SERVICES	18.0	14.5	3.5	23.9 %
ACEA (CORPORATE)	(34.9)	(13.7)	(21.2)	155.1 %
Total EBITDA	933.2	840.0	93.3	11.1 %

Consolidated balance sheet data

€ million	31/12/18	31/12/17	Change	% Change
Net Invested Capital	4,471.5	4,232.7	238.8	5.6 %
Net Debt	(2,568.0)	(2,421.5)	(146.5)	6.0 %
Consolidated Shareholders' Equity	(1,903.5)	(1,811.2)	(92.3)	5.1 %

Net debt per Operating Segment

€ million	31/12/2018	31/12/17	Change	% Change
ENVIRONMENT	203.6	195.3	8.3	4.2 %
COMMERCIAL AND TRADING	(23.7)	(8.7)	(15.1)	173.8 %
OVERSEAS	4.1	7.4	(3.2)	(43.9%)
WATER	1,039.0	921.2	117.8	12.8 %
<i>Integrated water service</i>	1,048.4	930.1	118.3	12.7 %
Lazio - Campania	1,058.7	939.3	119.4	12.7 %
Tuscany - Umbria	(10.3)	(9.2)	(1.1)	11.9 %
Others	(9.3)	(8.9)	(0.5)	5.2 %
ENERGY INFRASTRUCTURES	1,121.9	1,036.6	85.2	8.2 %
Distribution	1,010.3	905.4	104.9	11.6 %
Generation	112.4	125.5	(13.1)	(10.4%)
Public Lighting	(0.8)	5.8	(6.6)	(113.6%)
ENGINEERING AND SERVICES	(13.3)	12.3	(25.6)	n.s.
Acea (Corporate)	236.4	257.3	(20.9)	(8.1%)
TOTAL	2,568.0	2,421.5	146.5	6.1 %

Investments per operating segment

€ million	31/12/2018	31/12/17	Change	% Change
ENVIRONMENT	20.1	15.4	4.8	31.1 %
COMMERCIAL AND TRADING	24.6	19.4	5.3	27.2 %
OVERSEAS	6.6	5.2	1.4	27.1 %
WATER	329.7	271.4	58.2	21.5 %
<i>Integrated water service</i>	329.5	271.4	58.1	21.4 %
Lazio - Campania	329.5	271.4	58.1	21.4 %
Tuscany - Umbria	0.0	0.0	0.0	0 %
Others	0.2	0.0	0.2	n.s.
ENERGY INFRASTRUCTURES	238.3	209.4	28.9	13.8 %
Distribution	218.4	185.7	32.7	17.6 %
Generation	15.5	23.1	(7.6)	(32.9%)
Public Lighting	4.4	0.6	3.8	n.s.
ENGINEERING AND SERVICES	1.6	0.8	0.7	90.5 %
Acea (Corporate)	10.0	10.7	(0.6)	(5.9%)
TOTAL	631.0	532.3	98.7	18.6 %

SUMMARY OF OPERATIONS AND INCOME, EQUITY AND FINANCIAL PERFORMANCE OF THE GROUP

Definition of 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*.

SUMMARY OF RESULTS: PERFORMANCE OF ECONOMIC RESULTS

Income Statement Data

€ million	2018	Of which Gori	2017	Change	% Change
Revenue from sales and services	2,836.9	22.3	2,669.9	167.0	6.3 %
Other revenue and proceeds	191.6	7.4	127.1	64.5	50.7 %
Costs of materials and overheads	1,918.9	11.0	1,768.6	150.3	8.5 %
Personnel costs	219.6	7.0	215.2	4.4	2.0 %
Net income/(costs) from commodity risk management	0.0	0.0	0.0	0.0	0 %
Income/(Costs) from equity investments of a non-financial nature	43.3	0.0	26.9	16.5	61.3 %
Gross Operating Profit	933.2	11.7	840.0	93.3	11.1 %
Amortisation, depreciation, provisions and impairment charges	454.7	12.2	480.1	(25.4)	(5.3)%
Operating profit/(loss)	478.6	(0.5)	359.9	118.7	33.0 %
Financial items	(82.9)	2.9	(72.0)	(10.9)	15.2 %
Equity investments	13.3	0.0	0.3	13.1	n.s.
Profit/(loss) before tax	409.0	2.3	288.2	120.8	41.9 %
Taxes	124.3	1.3	96.0	28.3	29.5 %
Net profit/(loss)	284.7	1.0	192.2	92.5	48.1 %
Profit/(loss) attributable to minority interests	13.7	(1.6)	11.5	2.2	18.9 %
Net profit/(loss) attributable to the Group	271.0	(0.1)	180.7	90.3	50.0 %

At 31 December 2018, changes in the scope of consolidation took place compared to 2017. Specifically:

- on 28 June 2018 the company Acea Perù S.A.C. was established, whose shares are 90% owned by Acea International S.p.A. and 10% by Acea Dominicana S.A.;
- with effect from 8 November 2018, GORI was fully consolidated following the amendment of the agreements with the Campania Area Authority, which allowed Acea to exercise control over the company pursuant to IFRS 10; we also note

the merger by incorporation of Gori Servizi S.r.l. into GORI S.p.A. effective 1 January 2018;

- on 29 November 2018 Acea Ambiente purchased 100% of the shares of Bioecologia S.r.l. from Siena Ambiente S.p.A.

For more details, see the paragraph "Criteria, procedures and area of consolidation".

The table below represents the impacts of the change to the consolidation scope and shows the contribution of each company net of intercompany adjustments.

€ million	Gori	BIO ECOLOGIA srl	Consorzio Servizio Sur	ACEA PERÙ
Revenues	29.7	0.3	1.0	0.0
EBITDA	11.7	0.0	(0.2)	(0.1)
EBIT	(0.5)	0.0	(0.2)	(0.1)
EBT	(0.3)	0.0	(0.3)	(0.1)
NP	3.4	0.0	(0.3)	(0.1)
NFP	0.0	0.0	(0.1)	(0.1)

Revenue from sales and services amounted to € 2.8 billion, an increase of € 167.0 million

At 31 December 2018 revenues from sales and services amounted to € 2,836.9 million, up € 167.0 million (6.3%) compared to the first half of 2017: the main change is due to the increase in revenues from the sale and performance of electrical energy (+ € 108.2 million). The following contribute to the variation: 1) Acea Energia (+ € 71.4 million) due to the increase in prices and higher volumes relating to the optimisation of energy flows and the purchasing portfolio that was only partially mitigated by the decrease in the quantities sold to market customers of the protected and free market; 2) areti (+ € 30.9 million) and 3) Umbria Energy (+ € 4.9 million).

The increase in revenues from the integrated water service (+ € 55.0 million) and revenues from the sale of gas (+ € 10.8 million) is mitigated by the reduction in revenues from services to clients (- € 18.0 million) recorded by the parent company as a consequence

of the reduction in the number of lighting bodies replaced with LEDs under the scope of the public lighting service provided in the municipality of Rome.

Revenues from the integrated water service include the best estimate of the premium for both commercial and technical quality recognised to Acea Ato 2 (€ 33.6 million); it contributes to the increase the full consolidation of GORI (+ € 22.0 million). The positive change in revenues from the transfer of waste and landfill management depends directly on the greater contributions and the increase in the quantity of waste treated in the Aprilia plant.

Other revenues amounting to € 191.6 million

An increase of € 64.5 million is highlighted, mainly due to the following effects:

- from the posting of € 14.8 million deriving from the update of

the criteria for determining the margin IFRIC 12 (+ € 12.6 million) with reference to Acea Ato 2 and Acea Ato 5;

- from line-by-line consolidation of GORI for € 7.4 million;
- from the posting in Acea Energia of € 26.0 million relating to pass-through extraordinary items as well as the assessment of energy items from previous years;
- from the € 16.6 million increase in contingent assets recorded in the companies in the Water Segment. Of these, worthy of note are: 1) € 10.3 million of Acea Ato 2 related to the recovery of tariff adjustments for the 2014-2017 period; 2) € 2.4 million refers to Acea Ato 5 and relates to the settlement agreement of 15 May 2018 signed with the Consortium for Industrial Development for the period 2005-2011 for the management of water treatment plants and supply to some municipalities of the Province of Frosinone.

External costs for € 1,918.9 million, up € 150.3 million on 2017

This item shows an overall increase of € 150.3 million (+ 8.5%) compared to 31 December 2017. The change is due for € 11.0 million from the full consolidation of GORI and for the remaining part from opposite effects, and mainly:

- higher costs related to the supply of electricity for both the protected market and the free market (+ € 138.3 million), partly offset by lower transport costs (- € 56.5 million);

- from the increase in other operating expenses of + € 47.0 million deriving from pass-through extraordinary items and verification of energy items from previous years, from the recognition of costs not recorded in previous years and from the sanction imposed by the Antitrust Authority on the Acea Group (€ 16 million) for the abuse of a dominant position in the protected markets for the sale of electricity;
- the increase in the mandatory management costs for the costs related to the mandatory Agreement for the water management of the Peschiera - Le Capore aqueduct system (ATO3 interference);
- from the decrease in costs for raw material in areti (- € 5.1 million) mainly regarding the LED Plan which is now starting to be completed as required by the contract and subsequent agreements.

Personnel costs, net of the change in the scope of consolidation, decreased by € 2.7 million

Labour costs increased by € 4.4 million compared to the previous year. The change in the scope of consolidation mainly refers to GORI and contributed an increase of € 7.0 million.

The average number of employees was 6,471 and increased by 916 compared to the previous year, mainly due to the change in the scope of consolidation.

€ million	31/12/18	31/12/17	Change	% Change
Staff costs including capitalised costs	342.6	327.8	14.8	4.5 %
Costs capitalised	(122.9)	(112.5)	(10.4)	9.3 %
Personnel costs	219.6	215.2	4.4	2.0 %

Non-financial investment income increased by € 16.5 million

The income from non-financial equity investments represent the consolidated result according to the equity method included among the components forming the consolidated Gross Opera-

ting Profit of the companies previously consolidated using the proportional method.

The following table also includes the results of GORI until 7 November 2018.

€ million	31/12/18	31/12/17	Change	% Change
EBITDA	161.4	149.6	11.7	7.8%
Amortisation, depreciation, impairment charges and provisions	(94.5)	(100.9)	6.3	(6.3%)
Total profit/(loss) on equity investments	(0.0)	0.0	(0.0)	n.s.
Financial items	(5.9)	(6.8)	0.8	(12.2%)
Taxes	(17.5)	(15.1)	(2.4)	16.0%
Income from equity investments of a non-financial nature	43.3	26.9	16.5	61.2%

EBITDA at € 933.2 million, up 11.1%

EBITDA rose from € 840.0 million in 2017 to € 933.2 million in 2018, recording an increase of € 93.3 million or 11.1%. The change in the area of consolidation accounts positively for € 9.7 thousand. The increase mainly derives from the tariff dynamics of the water sector (+ € 81.3 million), followed by a significant increase in margins in the distribution and generation sectors (+ € 37.5 million) due to the tariff updates of the fifth regulatory cycle and the increase in quantities produced by hydroelectric plants. Furthermore, the Engineering and Services Segment recorded a growth of € 3.5 million mainly due to the constant growth in services in the engineering, research and innovation performed primarily for the Water segment. The Environment, Overseas and Commercial and Trading Segments were substantially aligned in the two years compared. The Parent Company reported a decrease in EBITDA of € 21.2 million due to the reduction in margins on service contracts,

the registration of the fine imposed by the Antitrust Authority, partially offset by the contribution to the results of the margin originating from the management of the Facility Management service acquired on 1 January 2018 as a result of the transfer of the Facility Management branch from Acea Elabori. The Public Lighting division also showed a decrease of € 9.8 million mainly deriving from the conclusion of the activities related to the LED Plan.

EBIT of € 478.6 million (+33.0%)

EBIT grows by € 118.7 million compared to last year. The items that influence this marginality indicator are mainly affected by the release of the risk provision set aside for GORI (- € 44.2 million) due to the absence of the conditions that had led to its establishment, the lower provisions for doubtful accounts, also due to the effect of the write-down made in 2017 of a part of the receivables recorded in areti and claimed from GALA.

€ million	31/12/18	31/12/17	Change	% Change
Amortisation and depreciation	366.8	328.9	37.9	11.5 %
Provision for doubtful accounts	75.1	90.4	(15.3)	(16.9%)
Provision for risks and charges	12.8	60.8	(48.1)	(79.0%)
Amortisation, depreciation, impairment charges and provisions	454.7	480.1	(25.4)	(5.3%)

The increase change in depreciation is mainly linked to investments during the year in all areas of business and also takes account of technological developments related to the technological platform common to the Acea Group. It should also be noted that following the first application of the new IFRS 15 international standard, the costs incurred by the energy trading company for the acquisition of the customer base were capitalised. These costs are defined as incremental costs for obtaining the contract, the amortisation of which is consistent with the estimate of expected renewals.

Provisions, net of the release relating to GORI overall are in line with the previous year due to the combined effect: 1) of the increase in tax and regulatory provisions for a total of € 5.0 million; 2) an increase of € 7.7 million in other risks and charges concerning in particular the energy items of Acea Energia; 3) the increase of € 2.2 million relating to provisions aimed at meeting the personnel reduction programme through the adoption of voluntary mobility programmes and facilitated exit of Group personnel, 4) the decrease in provisions aimed at dealing with risks of a legal nature (- € 3.3 million) and risks on tenders and supplies (- € 2.8 million) and 5) the decrease in provisions (- € 9.1 million) deriving from the reduction in the provision for restoration charges.

The decrease in the item doubtful accounts relates mainly to the companies of the Energy Infrastructure Segment (- € 11.1 million): last year the receivables from Gala were written down for a total of

€ 15.7 million. The Water Segment compensates partially for this decrease with higher provisions for € 4.8 million.

Financial items increased by € 10.9 million

The result of financial operations shows net charges of € 82.9 million and an increase of € 10.9 million compared to 2017. The change is mainly due to the charges on two newly issued bond loans under the Euro Medium Term Notes (EMTN) programme. Note that as at 31 December 2018, the average all-in global cost of the Acea Group's debt stood at 2.21% compared to 2.59% for the previous year. The discounting of the post mortem provision for the Orvieto disposal site was also carried out last year for € 4.6 million.

Tax rate at 30.4% down by 2.9 p.p

The estimate of the fiscal charges amounted to € 124.3 million, compared to € 96.0 million for last year. The overall increase recorded in 2018, equal to € 28.3 million, derived mainly from the effects of the recalculation of deferred taxes and from the higher pre-tax profit. The tax rate for 2018 was 30.4% (33.3% at 31 December 2017).

Net result up by 50.0%

The Group's net income amounted to € 271.0 million, marking an increase of € 90.3 million compared to 2017.

SUMMARY OF RESULTS: TRENDS IN FINANCIAL POSITION AND CASH FLOWS

Consolidated balance sheet data

€ million	31/12/18	31/12/17	Change	% Change
NON-CURRENT ASSETS AND LIABILITIES	5,114.2	4,519.0	595.2	13.2 %
NET WORKING CAPITAL	(642.7)	(286.3)	(356.4)	124.5 %
INVESTED CAPITAL	4,471.5	4,232.7	238.8	5.6 %
NET DEBT	(2,568.0)	(2,421.5)	(146.5)	6.0 %
Total shareholders' equity	(1,903.5)	(1,811.2)	(92.3)	5.1 %
Total sources of financing	4,471.5	4,232.7	238.8	5.6 %

The non-current assets and liabilities increased by € 595.2 million (+ 13.2%) compared to 31 December 2017, mainly due to the increase in intangible fixed assets (+ € 474.5 million).

The non-current assets and liabilities increased by 13.2 % thanks to the investments in the period (+18.5%)

€ million	31/12/18	31/12/17	Change	% Change
Tangible/intangible fixed assets	4,790.7	4,320.4	470.3	10.9%
Equity investments	281.7	283.5	(1.8)	(0.6%)
Other non-current assets	630.5	412.6	217.9	52.8%
Employee severance indemnity and other defined benefit plans	(103.9)	(108.4)	4.5	(4.2%)
Provisions for risks and charges	(136.7)	(204.8)	68.1	(33.3%)
Other non-current liabilities	(348.2)	(184.3)	(163.9)	88.9%
Non-current assets and liabilities	5,114.2	4,519.0	595.2	13.2%

The change in intangible fixed assets is mainly due to the investments, which reached € 630.8 million, and amortisations and value reductions, totalling € 366.8 million.

See the following table as regards the investments made in each Operating Segment.

Investments per operating segment

€ million	31/12/18	31/12/17	Change	% Change
ENVIRONMENT	20.0	15.4	4.6	30.1 %
COMMERCIAL AND TRADING	24.6	19.4	5.3	27.2 %
OVERSEAS	6.6	5.2	1.4	27.1 %
WATER	329.7	271.4	58.2	21.5 %
<i>Integrated water service</i>	329.5	271.4	58.1	21.4 %
Lazio - Campania	329.5	271.4	58.1	21.4 %
Tuscany - Umbria	0.0	0.0	0.0	0 %
Others	0.2	0.0	0.2	n.s.
ENERGY INFRASTRUCTURES	238.3	209.4	28.9	13.8 %
Distribution	218.4	185.7	32.7	17.6 %
Generation	15.5	23.1	(7.6)	(32.9%)
Public Lighting	4.4	0.6	3.8	n.s.
ENGINEERING AND SERVICES	1.6	0.8	0.7	90.5 %
ACEA (CORPORATE)	10.0	10.7	(0.6)	(5.9%)
TOTAL	630.8	532.3	98.6	18.5 %

Investments increased by € 98.6 million (+ 18.5 %)

Investments in the **Environment Segment** mainly refer to the investments made by Acea Ambiente relating to the expansion of the Monterotondo Marittimo plant, the works carried out in the WTE plants of Terni and San Vittore, the work on the waste treatment plant and biogas production site in Orvieto and the acquisition of industrial land near Chiusi.

The **Commercial and Trading Segment** recorded an increase of € 5.3 million to be attributed to Acea Energia, mainly due to the costs for agents for the acquisition of the customer base and in line with the provisions of the new IFRS 15 international standard (+ € 9.5 million).

The **Overseas Segment** showed an increase of € 1.4 million, mainly due to the company Aguas de San Pedro.

The **Water Segment** made total investments of € 329.7 million, up € 58.2 million compared to 31 December 2017. The main investments in the year include those relating to the work carried out for the reclamation and expansion of the water and sewage pipes of the various municipalities, the extraordinary maintenance of the water centres, the interventions on the treatment plants, works to reduce water leaks and improve relationships with users and the local region and on IT applications.

The **Energy Infrastructure Segment** recorded an increase in investments of € 28.9 million as a result of works on the HV, MV and LV network, as well as a series of projects for the expansion of the MV networks and extraordinary maintenance on the overhead lines, mainly relating to areti. The investments made by Acea Produzione, on the other hand, refer mostly to the revamping works of the Man-

dela hydroelectric plant and for the extension works of the district heating network in the Mezzocammino area in the south of Rome.

The **Engineering and Services Segment** recorded investments of € 1.6 million, mainly due to the purchase of industrial and trade equipment by Acea Elabori.

Corporate carried out investments of € 10.0 million, which mainly relate to IT developments and investments in offices used for company activities.

Group investments concerning shared IT infrastructure totalled € 31.6 million.

Equity investments increased by € 1.8 million compared to 31 December 2017. The change is due to negative values.

Among these we note:

- the valuation of companies consolidated using the equity method in accordance with the application of IFRS 11 for € 44.1 million;
- change in the scope of consolidation for - € 47.4 million due to the full consolidation of GORI (previously consolidated under shareholders' equity);
- the effect deriving from the first application of the new international standards IFRS 15 and IFRS 9 equal to - € 2.1 million;
- other changes for € 3.5 million.

The stock of the **employee severance indemnity and other defined benefit plans** recorded a decrease of € 4.5 million, mainly due to the drop of the rate used (from 1.30% at 31 December 2017 to 1.57% in 31 December 2018).

Provisions for risks and charges decreased by 33.3 % compared to the previous year

€ million	31/12/17	Uses	Provisions	Payment of Redundancy Funds	Reclassifications/ Other changes	31/12/18
Legal	11.7	(1.8)	2.6	(0.4)	1.0	13.2
Tax Office	9.3	(3.7)	5.4	0.0	(0.2)	10.7
Regulatory risks	61.0	(1.6)	11.4	(44.2)	0.0	26.6
Investees	10.8	0.0	1.0	(0.7)	(3.3)	7.7
Contributory risks	2.6	(0.1)	0.3	(1.5)	(0.2)	1.1
Insurance excess	2.1	(2.1)	2.5	(0.2)	7.2	9.6

(follows)

€ million	31/12/17	Uses	Provisions	Payment of Redundancy Funds	Reclassifications / Other changes	31/12/18
Other risks and charges	14.8	(8.1)	12.6	(2.5)	6.7	23.5
Total Provision for Risks	112.3	(17.4)	35.9	(49.6)	11.2	92.3
Early retirements and redundancies	18.2	(18.9)	28.2	(1.8)	0.0	25.7
VAT Variation Notes	26.7	0.0	0.0	0.0	(26.7)	0.0
Post mortem	17.3	0.0	0.0	(1.0)	0.4	16.7
Provision for Settlement Charges	0.2	(0.2)	0.2	0.0	0.1	0.3
Provision for Charges of others	0.4	0.0	1.7	0.0	(0.3)	1.7
Provisions for restoration charges	29.7	0.0	0.0	(0.5)	(29.2)	0.0
Total Provision for Charges	92.4	(19.1)	30.1	(3.4)	(55.8)	44.3
Total Provisions for Risks and Charges	204.8	(36.5)	65.9	(53.0)	(44.0)	136.7

The main changes in the period include:

- the release of the risk provision relating to GORI for € 44.2 million following the disappearance of the conditions for its establishment due to the effects linked to the agreements stipulated with the Campania Region;
- the reclassification of provisions for the coverage of any refund of VAT to the tax authorities reclassified to the provision for impairment of receivables (- € 26.7 million);
- the release of the provision allocated following the recording – according to the acquisition method – of the first consolidation of the TWS group (€ 8.9 million) at the closure of the Business Combination. For more details, please refer to the 2017 Consolidated Financial Statements;
- the increase of € 7.5 million net of releases and uses of the provision allocated to cover the charges deriving from the voluntary redundancy and early retirement plan;
- There was a € 5.3 million increase in the Investee provision to account for the impairments in previous years of certain equity investments in associated companies previously carried out as a reduction of the item “Equity Investments”.
- the decrease in the provision for restoration charges following the change in the methods of application of the criteria for estimating IFRIC 12 adopted by the group.

€ million	31/12/2018	31/12/17	Change
Current receivables	927.8	985.5	(57.6)
- due from end users/customers	863.2	901.3	(38.1)
- due to Roma Capitale	52.5	47.7	4.9
Inventories	48.8	40.2	8.6
Other current assets	262.6	210.1	52.6
Current payables	(1,524.9)	(1,237.8)	(287.1)
- due to Suppliers	(1,413.9)	(1,106.7)	(307.2)
- due to Roma Capitale	(107.6)	(126.1)	18.5
Other current liabilities	(357.1)	(284.3)	(72.9)
Net working capital	(642.7)	(286.3)	(356.4)

The net working capital is negative for € 642.7 million and increased € 356.4 million compared to the end of 2017.

The change in net working capital with respect to 31 December 2017 is mainly attributable to:

- a decrease in receivables from users and customers (- € 38.1 million) due to the combined effect of higher receivables for € 252.5 million and a higher provision for bad debts for € 290.6 million. The increase in receivables is mainly attributable to the consolidation of GORI (+ € 211.6 million), while the substantial increase in the provisions for impairment of € 193.3 million derived from the first application of IFRS 9 starting from 1 January 2018, which, as noted in the Measurement Criteria and Accounting Principles of the Notes to the Financial Statements, replaced the previous IAS 39 accounting standard. The determination of the first application of IFRS 9 was revised with respect to the interim year-end closings due to a revision of the recovery estimates relating to receivables prior to 31 December 2017. Furthermore, it should be noted that the provision for impairment of receivables at 31 December 2017 did not include the amounts relating to the VAT

Change Note (€ 26.7 million) included in the previous year with- in the specific item of the provision for risks.

- to the increase in trade payables (+ € 307.2 million) mainly due to the consolidation of GORI (+ € 306.8 million).

Receivables from users and customers, including the provision and the consolidation of GORI, recorded an increase of approximately € 55.6 million. Please note: 1) a decrease in receivables of the Energy Infrastructure Segment which refers to the combined effect deriving on the one hand from the regulatory changes that led to the recognition of the income deriving from the elimination of so-called regulatory lag, whose amount at the end of 2018 was € 75.4 million (+ € 22 million compared to the end of 2017), on the other hand by the improvement in collection performance; the non-current portion relating to regulatory accounting, amounting to € 80.0 million, is included in fixed assets; and 2) a decrease in Commercial and Trading Segment receivables due to the effects deriving on the one hand from the reduction in turnover and an improvement in the collection performance and on the other by greater sales and write-offs. Receivables totalling € 1,375.8 million were transferred with-

out recourse during 2018, of which € 203.9 million to the Public Administration.

Roma Capitale: net balance is positive for € 47.9 million

As regards the **relations with Roma Capitale**, the net balance at 31 December 2018 was € 47.9 million receivable by the Group, an increase compared to 31 December 2017. The change in receivables and payables was mainly due to the accrual of the year and the effects of compensations and receipts. In 2018, collections and adjustments were recognised for a total of € 93.2 million, including € 56.2 million for receivables related to the public lighting contract and € 25.8 million for receivables for water utilities. 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. Receivables are expressed net of the related provision for doubtful accounts which at 31 December 2018 amounts to € 51.5 million (€ 23.1 million at 31 December 2017). During the year, € 9.5 million was written down for receivables arising during the year (of which € 4.2 million for default interest) and for € 15.7 million the valuation at 1 January 2018 was updated as the first application of accounting principle IFRS 9.

Amounts due from Roma Capitale

€ million	31/12/18	31/12/17	Change
Utility receivables	55.6	43.1	12.6
Provision for write-downs	(9.3)	(5.0)	(4.3)
Total receivables from users	46.3	38.1	8.3
Receivables for water works and services	3.3	4.6	(1.3)
Receivables for water works and services to be invoiced	1.5	1.3	0.2
Contributions	0.0	2.4	(2.4)
Provision for write-downs	(1.9)	0.0	(1.9)
Receivables for electrical works and services	3.6	1.2	2.4
Provision for write-downs	(0.3)	0.0	(0.3)
Total receivables for works	6.2	9.5	(3.3)
Total trade receivables	52.5	47.6	4.9
Financial receivables for Public lighting services billed	99.1	118.3	(19.2)
Provision for write-downs	(30.2)	(12.5)	(17.7)
Financial receivables for Public lighting services to be billed	25.7	17.3	8.4
Provision for write-downs	(9.8)	(5.6)	(4.2)
M/L term financial receivables for Public lighting services	18.7	22.2	(3.5)
Total public lighting receivables	103.5	139.7	(36.2)
Total Receivables	156.0	187.3	(31.3)

Payables due to Roma Capitale

€ million	31/12/18	31/12/17	Change
Electricity surtax payable	(15.3)	(15.3)	0.0
Concession fees payable	(79.8)	(100.2)	20.4
Other payables	(13.0)	(11.4)	(1.6)
Dividend payables	0.0	(2.2)	2.2
Total payables	(108.1)	(129.1)	21.0
Net balance receivables payables	47.9	58.2	(10.3)

Current payables increased by € 287.1 million

Current payables net of the increase resulting from the consolidation of GORI (+ € 306.8 million) decreased by € 19.7 million compared to the end of 2017.

The **Other Current Assets and Liabilities** recorded an increase of € 52.6 million and € 72.9 million respectively compared to last year.

In detail, the other activities increased due to the consolidation of GORI (+ € 76.3 million), due to the effects of the first application of the new IFRS 15 international standard on Acea Energia and areti, the reduction of tax receivables for € 28.4 million and re-

ceivables from the compensation fund (- € 14.1 million).

Current liabilities increased due to the consolidation of GORI (+ € 37.4 million) and the effects related to the first application of the new international standards mainly linked to the application of IFRS 15 (+ € 30.9 million).

Shareholders' equity amounted to € 1.9 billion

The **net shareholders' equity** amounted to € 1,903.5 million.

The changes amounting to € 92.3 million are analytically described in the relevant table and are basically due to the distribution of div-

idents, the accrual of 2018 profits and the change in the cash flow hedge reserves and those formed by actuarial profits and losses, as well as to the registration of the FTA - First Time Adoption reserve for the application of the new international standards (IFRS 9 and IFRS 15).

Net financial debt increased by € 146.5 million compared to the end of 2017

Group **debt** recorded an overall increase of € 146.5 million, going

from € 2,421.5 million at the end of 2017 to € 2,568.0 million at 31 December 2018. This change is a direct result of investments in the period, including those of a technological nature.

The increase in the debt position of the Water Segment (+ € 117.8 million) and the Energy Infrastructure Segment (+ € 85.2 million) was due to the growing volume of investments and the dynamics of operating cash flows influenced by the numerous payments made by the Water Segment companies offset by the improvement in the Parent Company's position (- € 20.9 million).

€ million	31/12/2018	31/12/17	Change	% Change
Non-current financial assets/(liabilities)	1.8	2.7	(0.9)	(33.6%)
Parent Companies, Subsidiaries and Associates non-current financial assets/(liabilities)	30.9	35.6	(4.8)	(13.3%)
Non-current borrowings and financial liabilities	(3,374.1)	(2,745.0)	(629.1)	22.9 %
Net medium/long-term debt	(3,341.4)	(2,706.7)	(634.8)	23.5 %
Cash and cash equivalents and securities	1,068.1	680.6	387.5	56.9 %
Short-term debt	(351.8)	(544.6)	192.7	(35.4%)
Current financial assets (liabilities)	(29.0)	32.9	(61.8)	(188.2%)
Parent Company and Associates non-current financial assets/(liabilities)	86.1	116.2	(30.1)	(25.9%)
Short-term financial position	773.4	285.1	488.3	171.3 %
Total net financial position	(2,568.0)	(2,421.5)	(146.5)	6.0%

Medium and long-term borrowings increased by € 634.9 million

As regards the **medium/long-term component**, the increase of € 634.9 million compared to the end of 2017 refers to € 629.1 million for the increase in non-current payables and financial liabilities.

This change derives from the opposite effect due to the increase in bonds for € 983.4 million offset by the reduction in non-current financial payables and liabilities for € 354.3 million, as shown in the following table:

€ million	31/12/2018	31/12/17	Change	% Change
Bonds	2,678.4	1,695.0	983.4	58.0%
Medium/long-term borrowings	695.7	1,050.0	(354.3)	(33.7%)
Medium/long-term debt	3,374.1	2,745.0	629.1	22.9 %

Bonds amounted to € 2,678.4 million, registering an increase of € 983.4 million, essentially due to the placement of two bond issues in the first quarter of 2018 amounting to € 300 million and € 700 million respectively for the Euro Medium Term Notes (EMTN) programme.

Medium/long-term loans of € 695.7 million decreased by € 354.3 million, which almost exclusively refers to the parent company

(€ 341.4 million). This change is mainly 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 € 100.0 million and € 150.0 million respectively, in addition to the reclassification of the portions expiring in the following year.

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

Bank Loans: € million	Total Residual Debt	Due from 31.12.2019		
		By 31.12.2019	to 31.12.2023	After 31.12.2023
fixed rate	496.4	273.2	103.1	120.1
floating rate	493.5	39.6	213.9	240.0
floating rate to fixed rate	27.1	8.3	18.7	0.0
Total	1,016.9	321.2	335.7	360.1

The fair value of Acea hedging derivatives was a negative € 2.1 million, decreasing by € 1.4 million compared to 31 December 2017 (was a negative € 3.4 million).

The short-term component was positive for € 773.4 million, an increase of € 488.3 million

The **short-term** component is positive for € 773.4 million and, compared to the end of 2017, shows an increase of € 488.3 million, € 387.5 million of which are due to an increase in cash and cash equivalents generated for € 451.1 million from the parent company.

The Acea rating

At 31 December 2018 the Parent Company held unused uncommitted credit lines totalling € 679 million, of which € 529 million unused. No guarantees were issued to obtain these credit lines.

It must be noted that the long-term Ratings assigned to Acea by the International Ratings Agencies were:

- Fitch's 'BBB+'
- Moody's "Baa2".

REFERENCE CONTEXT

The Acea Group monitors the scenario of reference – internal and external – intercepting and analysing the factors assuming relevance for the company and which can affect the pursuit of strategic goals. In particular, the corporate sustainability, normative, regulatory, technological, competitive, market and environmental settings represent different aspects integrated into an overall framework, which outlines the context within which management activities and the outlook of the organisation are to be included. These are supplemented by the context within the Group – in terms of energy and environmental impacts, development of human capital, protection of workers' health and safety – and management of the supply chain.

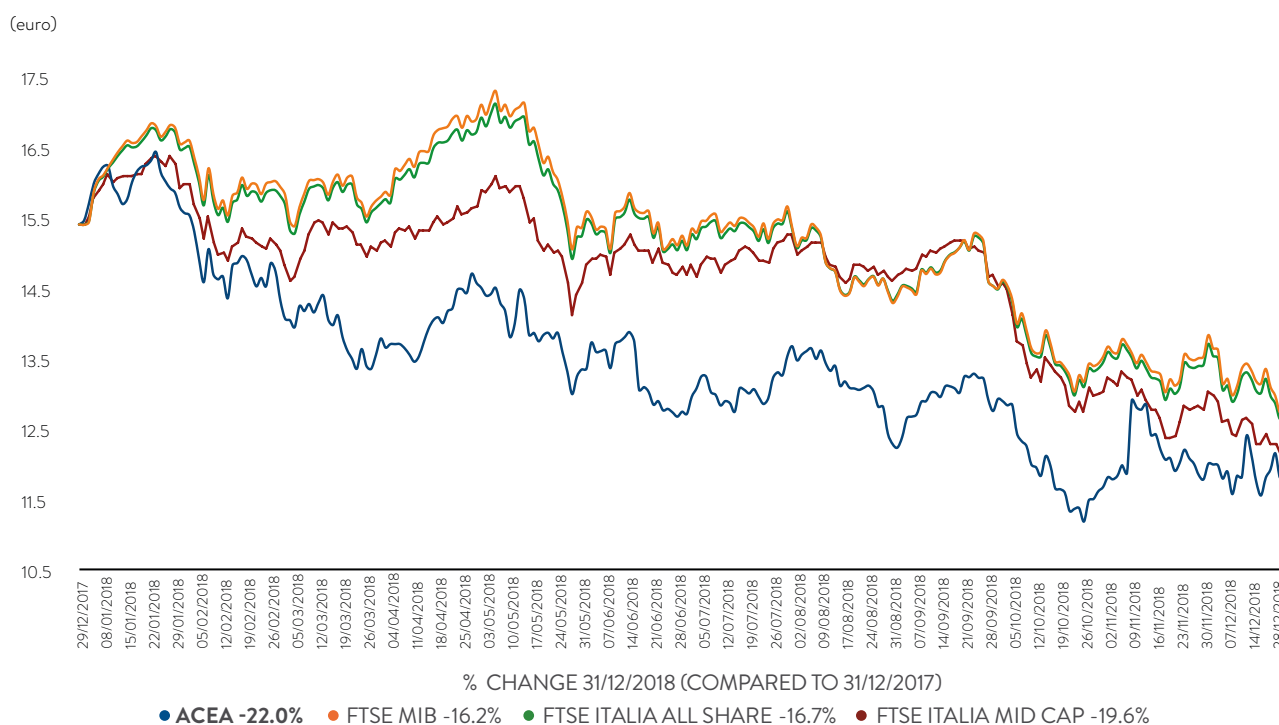
PERFORMANCE OF THE EQUITY MARKETS AND THE ACEA SHARE

In 2018, the international equity markets were down overall. Acea's share price fell by 22.0, substantially in line with the performance of the FTSE Italia Mid Cap (-20%). On 28 December 2018 (last session of the stock exchange last year), the share had a closing price of € 12.01 (capitalisation: € 2,557.7 million). The maximum value of € 16.43 was reached on 23 January, while the minimum value of € 11.18 was reached on 26 October. During 2018, the average daily traded volumes were just above 116,000 shares (compared to 140,000 in 2017).



(Source: Bloomberg)

The following graph shows re-based figures for Acea's share price, compared to Stock Market indices.



(Chart normalised to Acea values - Source: Bloomberg)

Acea	-22.0%
FTSE Italia All Share	-16.7%
FTSE Mib	-16.2%
FTSE Italia Mid Cap	-19.6%

115 reports/notes were published on Acea shares in 2018.

ENERGY MARKET

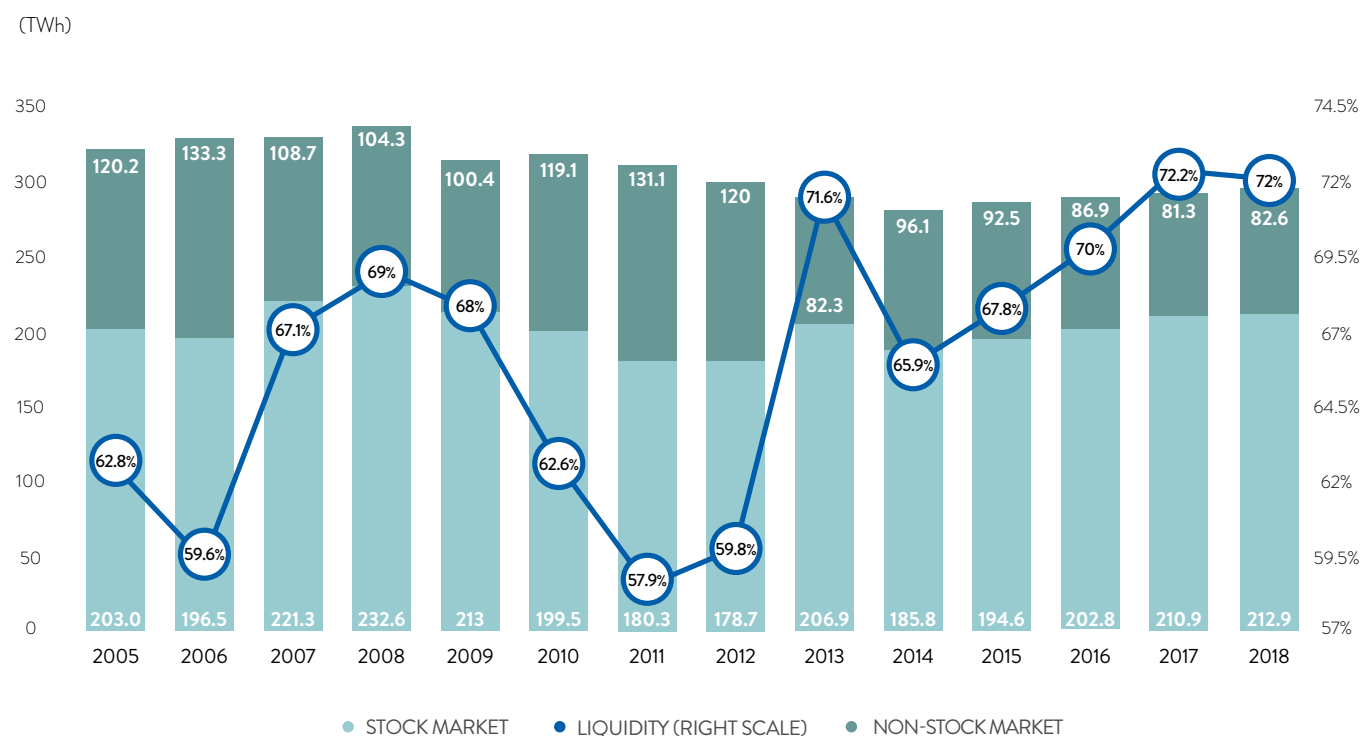
In 2018, electricity demand in Italy (equal to 321,910 GWh)³ increased by 0.4% compared to the same period of the previous year. 87.1% of electricity requirements were covered by national (Italian) production and the remaining share, amounting to 14%, was covered by imports from abroad (balance of imports up by 16.3% compared to last year). The net national production (280,234 GWh) showed a decrease of 1.8% compared to 2017.

Specifically, electricity produced from thermal production sources decreased by 7.6%, as did electricity produced from photovoltaic systems (- 4.7%), geothermal (- 1.9%) and wind (- 1.4%), while energy produced by water sources grew (+ 31.2%).

With reference to the results of the electricity market, the volumes traded on the First Day Market marked a strong increase on an annual basis (+ 1.2%), reaching 295.6 TWh.

The volumes traded in the Power Exchange grew (+ 1.0%), equal to 212.9 TWh, as did the volumes traded OTC recorded on the PCE and nominated on the DAM, increasing to a value of 82.6 TWh (+ 1.7%). Market liquidity stood at 72.0%, only 0.2 percentage points lower than the historical maximum recorded in 2017.

LIQUIDITY ON THE DAM⁴



During 2018, the average energy purchase price (PUN) recorded an average value of € 61.31/MWh, up by € 7.36/MWh compared to 2017 (+ 13.6%). The analysis by groups of hours during 2018 showed more intense increases in off-peak hours, where an increase of + 7.93 €/MWh (+ 16.0%) was observed in off-peak

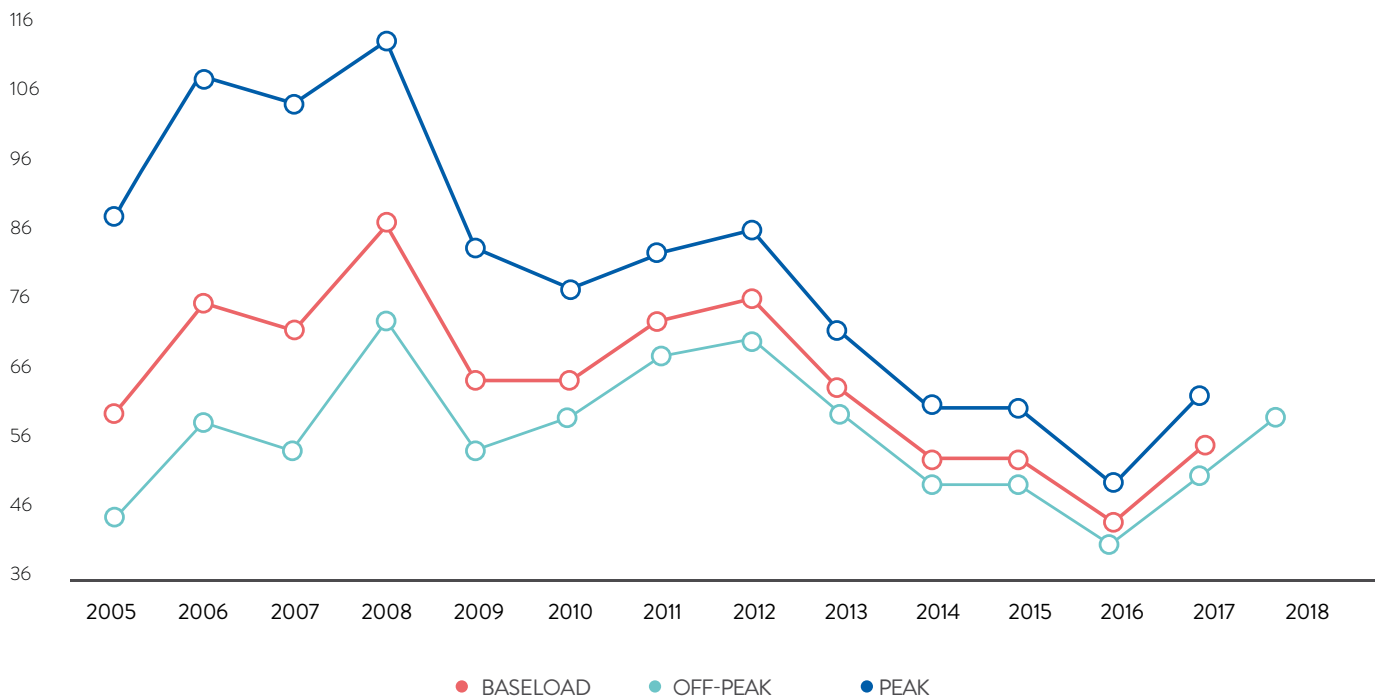
hours and an increase of 6.13 €/MWh (9.8%) during peak hours, with prices standing at 57.52 and 68.46 €/MWh respectively. The price peak/baseload ratio is equal to 1.12, a historical low and slightly down compared to last year (- 0.04).

³ Source: Terna - December 2018, monthly report on the electricity system

⁴ Source: Energy Market Operator (GME) December 2018 Newsletter

MGP: SOLE NATIONAL PRICE (PUN)⁴

e/MWh



The zonal sales prices are also on the rise and are around 60 €/MWh on the peninsula and in Sardinia and oscillate between 59.37 €/MWh in the Centre-South and 69.49 €/MWh in Sicily. Domestic purchases amounted to 291.8 TWh, up 2.0% on an annual basis. An analysis by zone shows increasing purchases in all areas, particularly in the North (+ 3.3%) and in Sicily (+ 3.5%), with the exception of the Central North (- 0.5%) and the Central South (- 1.4%). Energy purchases in foreign areas (exports), equal to 3.7

TWh, are down (- 38.5%), reaching the lowest level in the last four years. The sales of electricity produced nationally reached 247.5 TWh, a slight decrease compared to a year ago (- 0.3%). The reductions observed, in particular in the Central South (- 10.9%) and in the South (- 5.2%), were countered by increases in the North (+ 4.8%) and in Sicily (+ 3.3%). Energy sales in foreign areas (imports) grew, reaching 48.1 TWh (+ 9.1%).

MGP: SALE PRICES⁴

e/MWh



TRANSPORT SERVICE TARIFFS

2018 was the third year of the new regulatory period, the term of which has been increased from four to eight years (2016-2023) divided into two sub-periods: the first four with method continuity, the method for the others to be subsequently implemented.

“Integrated Text of dispositions of the Authority for supplying electricity transmission and distribution services (TIT)”, Annex A to resolution 654/2015/R/eel, the “Integrated Text of dispositions of the Authority for the supply of the electricity metering service (TIME)”, Annex B to resolution 654/2015/R/eel, and the “Integrated Text on dispositions of the Authority for the economic conditions for supplying connection services (TIC)”, Annex C to resolution 654/2015/R/eel, published on 23 December 2015.

For the distribution service, ARERA confirmed unbundling of the tariff applied to end customers (the so-called compulsory tariff) from the reference tariff for determination of the restriction on revenue permitted to each company (the reference tariff).

The regulations in force in 2016 include:

1. Regulatory lag and return on invested capital;
2. Extension of regulatory useful life;
3. Tariff adjustment criteria: cost coverage, measurement.

With regard to the first point, the ARERA has changed the manner for offsetting the regulatory lag, recognising new investments made both for Distribution and for measurement (no retroactivity).

The criterion based on the increase in the investment rate of return granted to new investments, equal to 1% (year $t-2$), has been replaced by recognition in the capital base (RAB) also of the investments made in year $t-1$, evaluated on the basis of pre-final data communicated to ARERA. These data will be used for the determination of the provisional tariffs of reference published by 31 March and then replaced by the final data for the determination of the definitive tariffs of reference published by February of the following year. On 15 March 2018, the ARERA published the definitive reference tariff for the electricity distribution service for the year 2017 with resolution 150/2018/R/eel. On 29 March 2018, the ARERA published the provisional reference tariff for the electricity distribution service for the year 2018 with resolution 175/2018/R/eel.

In the year t , the ARERA only recognises the remuneration of the invested capital concerning the assets which entered use in the year $t-1$, without recognising the relevant amortisation rates (which are still recognised in the year $t-2$).

With reference to depreciation recognised in the tariff, the new regulation increases the useful regulatory life of certain assets, such as HV electric lines (increased from 40 to 45 years), MV and LV lines and “end users’ connection points” (from 30 to 35 years). The rate of return on net invested capital (WACC), whose calculation parameters were published in Resolution 654/2015/R/eel, is 5.6% for the distribution service on the investments made until 31 December 2017.

In terms of operating costs, the new company-based tariff covers the specific costs by means of a national average cost adjustment coefficient, calculated by the ARERA on the basis of actual company costs and on the basis of scale variables.

These costs, when calculating the company-based tariff, according to the definitions of Resolution No. 654/2015, are supplemented by flat rate connection contributions acknowledged throughout Italy, and will be considered as other grants and no longer deducted from operating costs.

Furthermore, the flat rate connection contributions of each company are deducted directly from the invested capital considering them as equal to MV/LV assets.

Updating of the distribution reference tariff after the first year is individual and based on financial increases reported by the companies on the RAB databases. The updating criterion envisages that:

- the portion of the tariff covering operating costs will be updated using the price cap mechanism (with a productivity recovery target of 1.9%);
- the part intended to provide a return on invested capital will be updated on the basis of the gross fixed investment deflator, movements in the volume of services provided, gross investments started up and differentiated according to the voltage level and the rate of variation linked to increased returns designed to provide incentives for investments;
- the part intended to cover depreciation has been updated, using the gross fixed investment deflator, movements in the volume of services provided and the rate of variation linked to the reduction in gross invested capital as a result of disposal, discontinuation and end of life, and the rate of variation associated with gross investments that have become operational.

The ARERA confirms for 2017 the mechanism, already introduced in the third regulatory period, for the higher remuneration of certain categories of investments made until 2015, not extending this mechanism also for the 2016-2023 cycle.

As regards marketing activities, the ARERA introduces a single reference tariff that reflects both the costs for managing the network service and marketing costs, with recognition of the specific capital costs also for investments in marketing activities.

With regard to the transmission tariff, the ARERA confirmed the introduction of a binomial tariff (capacity and consumption) for high voltage customers, and the cost tariff structure for the transmission service to Terna (CTR), also introducing a binomial price. Given the two tariffs, the equalization mechanism has been confirmed.

The general equalisation mechanisms for distribution costs and revenue for the regulatory cycle in force are:

- equalisation of distribution service revenue;
- equalisation of transmission costs;
- equalisation of the difference between actual and standard losses.

Starting in 2017, the ARERA has introduced a tariff applied to home customers that is no longer divided between D2 and D3 but single (TD), as specified in resolution 799/2016/R/eel dated 28 December 2016, leading to the removal of the calculation mechanism for the equalisation of revenue from the supply of electricity to home customers, in force until 2016.

In the new Transport Integrated Text, the ARERA has confirmed the mechanism of advance recognition on a two-monthly basis, of equalisation balances for revenue from the distribution service and transmission costs.

The Measurement Integrated Text (TIME) governs tariffs for the metering service, divided into meter installation and maintenance, taking meter readings, confirming and recording readings. The structure of the fees has been changed compared to the previous regulatory period only with regard to the fees for collection and validation of meter readings, previously broken down and now unified into a single fee.

The ARERA has introduced a new method for recognising the cost of capital in relation to low voltage electronic meters, for companies that supply the service to more than 100,000 withdrawal points, based on the recognition of investments actually made by the individual firms confirming the criterion for determining the metering service tariff on the basis of the national cost for remote management systems and for electromechanical meters still in place (residual cost), maintaining the metering equalisation also for the fifth regulatory period to equalise the surplus deriving from the comparison of the obligatory tariffs billed to end users and the rev-

enue valorised in the reference tariff. The equalisation mechanism is intended to equalise the revenue from the comparison of the obligatory tariffs billed to end users and the revenue valorised in the reference tariff.

On 29 March 2018, the ARERA published in resolution 174/2018/R/eel the definitive tariff for metering activities in 2017. On 29 March 2018, in resolution No. 176/2018/R/eel, the ARERA published the provisional reference tariff for the 2018 electricity metering service.

The tariffs covering the metering service are updated, as for the distribution service, by price cap mechanisms for the part covering operating costs (with a productivity recovery target of 1%) and by the deflator, change in invested capital and rate of change in volumes for the part covering invested capital and depreciation. The rate of remuneration of the measurement capital is the same as that for the distribution service.

In resolution 646/2016/R/eel dated 10 November 2016, the ARERA described the methods of defining and recognising costs concerning the second generation (2G) *smart metering* system for metering low voltage electricity. On 8 March 2017, it published a release in which it updated the evaluation of the plan for entry into service of the 2G *smart metering* system prepared by e-distribuzione S.p.A.

Starting in 2017, and only with regard to the investments that come into operation in 2017, the ARERA has established in the same resolution that for the annual updating of the return on invested capital and depreciations concerning metering points effectively in low voltage, for each distribution firm, the maximum gross investment value recognisable per meter installed in 105% of the corresponding gross investment value per meter for the investments that came into operation in 2015.

The “Integrated Text on dispositions of the Authority for the economic conditions for supplying connection services (TIC)”, Annex C to Resolution 654/2015/R/eel, governs the economic terms for the provision of connection services and specific services (transfers of network equipment requested by end users, contract transfers, disconnections, etc.) to paying end users, essentially in line with the previous regulatory period.

THE ITALIAN WASTE MANAGEMENT MARKET

The current situation of production, disposal and treatment capacity for waste in the traditional operational areas of the Acea Group and in the neighbouring areas shows a high “potential demand” for waste management (disposal, waste-to-energy, composting and biogas, sludge and liquid waste treatment). This is supported by a national regulatory framework that provides incentives and the regulatory support of European directives on matter and energy recovery, as well as by the implementation of the European Union’s policy guidelines on the circular economy (closing the loop).

Opportunities for developing the sector are therefore highlighted, also facilitated by the availability of new technologies (for example in composting) and by possible forms of industrial integration with other operators.

Finally, the expansion of the potential for disposal/recovery of sewerage sludge – in the context of value added environmental services (sludge treatment, compost) – could lead to the completion of the integration with the Water business, in view of a complete management in-house of the entire supply chain.

WATER REGULATION

The year 2018 was marked by the entry into force of several ARE-

RA provisions (issued in the course of the year 2017) that significantly changed the regulatory framework with regard to the following aspects: redefinition of the tariff structure, launch of the social water bonus for utilities in conditions of economic hardship, start of the application of the regulation of technical quality, consumer protection.

At the end of 2017, with resolution 918/2017/R/idr the measures concerning the two-year update of the tariff provisions for the two-year period 2018-2019 were also issued (two-year period ending the second regulatory period 2016-2019). The same resolution also provides for the quantification from 1 January 2018 of the UI2 equalisation tariff component (Technical Quality) and the introduction of the UI3 equalisation tariff component (Social Water Bonus).

The framework relating to the measures to contain arrears in the IWS is yet to be defined, for which DCO 80/2018 of February 2018 was issued and the final provision is currently pending.

ARERA WATER SERVICES ACTIVITIES

Resolution 25/2018/R/idr - Initiation of the proceeding concerning the necessary and urgent interventions for the water sector for the definition of the “Aqueducts” section of the national plan, referred to in article 1, paragraph 516 of Italian Law 205/2017

The provision initiates a proceeding concerning the necessary and urgent works in the water sector for the purposes of defining the “aqueducts” section of the National Water Works Plan, referred to in article 1, paragraph 516 of the 2018 forecast budget law (Italian Law no. 205/17 of 27 December 2017).

The aforementioned budget law provides that the Regulator, after consulting the Regions and local authorities concerned, on the basis of the existing schedules and monitoring the implementation of the financial plans of the managers “conveys the list of necessary and urgent works for the sector, specifying the implementation methods and times, for the achievement of the following priority objectives: achievement of adequate levels of technical quality, recovery and expansion of the water supply and transportation of water resources, dissemination of tools aimed at saving water in agricultural, industrial and civilian uses”. The Authority also resolved to verify the “persistence of any critical issues in the planning and implementation of works in certain areas of the country, as well as to carry out additional monitoring activities” also using the Energy and Environmental Services Fund (CSEA).

DCO 80/2018/R/idr - Procedures for the containment of arrears for the integrated water service

With consultation document (DCO) 80/2018/R/idr (deadline for submitting the observations scheduled for 12 March 2018), the ARERA presents the final guidelines on the measures necessary for the containment of delinquency related to the integrated water service and also attaches the provision scheme for the Regulation of arrears in the integrated water service (REMS1). In particular, the DCO contains the final guidelines on the following aspects:

- definition of the categories of final users that cannot be disconnected;
- timing and methods for the declaration of default (including the methods for the payment of the amounts subject to declaration of default);
- timing and procedures for limiting, suspending and deactivating the water supply;
- protection measures that benefit the end user, in particular for resident home users and users in conditions of economic hardship or physical disability;

- compensation that the manager is required to pay in the absence of compliance with certain deadlines.

In addition, the DCO introduces changes to the integrated text of the Contractual Quality Regulation - RQSII, establishing that, in the event that it is not possible to extinguish the complaint, the manager provides the end user with the information to resolve the dispute, indicating in particular the contact details of the Energy and the Environment Consumer Desk and the procedures for involving any other out-of-court dispute resolution bodies, in which the operator commits to participate to make an attempt to resolve the matter through mandatory no-cost end-user mediation.

Lastly, the provision scheme supplements Resolution 86/2013 relating to the security deposit by providing that the security deposit that has been fully or partially depleted due to default of the end user can be reinstated by the manager by adding the related amount in instalments to the subsequent bills over a minimum instalment period equal to 18 months, unless otherwise agreed between the parties. The end user's will to avail himself of the possibility of paying in instalments for a period of less than 18 months must be expressed in writing or in another documented manner.

The Company submitted a document containing its own reflections by the requested deadline (i.e. by 12 April 2018). We are awaiting the final resolution on the matter.

Resolution 1/2018/DSID - Definition of the procedures for the collection of technical and tariff data, as well as the standard forms for the report accompanying the programme of works and updating the tariff provisions for the years 2018 and 2019, pursuant to Resolutions 917/2017/R/idr and 918/2017/R/idr

With regard to the biennial update of the tariff provisions, which is expected to be implemented by the governing bodies of the area (EGA) by 30 April 2018, with resolution 1/2018 drafted by the Water Systems Department (DSID), the ARERA incorporated the contents of resolutions 917/2017 and 918/2017 and established that by 30 April 2018 the EGA must send the ARERA (for the purpose of its approval) the update of the tariff arrangements for the years 2018 and 2019 through the specific procedure available on the ARERA website.

The decision also approves the standard schemes for the preparation of the works programme and the economic and financial plan, the standard format for the report accompanying quality data and the works programme, the standard format for the accompanying report on the update of tariff preparation. These documents, duly completed, must be sent to ARERA using the digital procedure cited above. The final forms were made available with the Press Release of 05/04/2018, initiating Data Collection and reconfirming the deadline of 30 April 2018 for the EGAs.

With a subsequent press release dated 17/05/2018 "Tariff and technical quality requirements for the integrated water service", ARERA urged the completion of the tariff determination process and the related implementation of the technical quality regulation, recalling that according to Resolution 1/2018/DSID it is possible for managers to present an application for tariff updates in case of inaction of the responsible parties, requesting the Authority to authorise the extraordinary procedure for entering the data.

With regard to the new formulation of the fees to be applied to industrial waste authorised to discharge into public sewerage, in addition to the flexibility margin associated with the iso-revenue related to the rate of sewerage and treatment deriving from the application of the previous method, where there are significant problems of financial sustainability other transitional forms of tariff convergence are possible in compliance with the constraints envisaged by Resolution 665/2017/R/idr.

Resolution 57/2018/A - Approval of the organisation and operation regulations of the new ARERA organisational structure

This resolution describes the new organisational structure of the Authority, in force since 1 March 2018, updated in light of the new responsibilities in the waste cycle. The framework was completed by subsequent resolutions 58, 59 and 60 (assignment of macro-structure assignments, interim appointment of the Director of the Environment Division, assignment of offices).

Resolution 9/2018 - DACU Changes to the regulation of the operators - managers portal and to the user manual as per the resolution of 5 January 2017, 1/DCCA/2017

With Resolution 55/2018/E/idr, ARERA defines the transitional regulations in force from 1 July 2018 until 30 June 2019 for the extension of the consumer protection system to the water sector and for the out-of-court settlement of disputes already active in the electricity and gas sectors.

Approved after two consultations in the months of September and December 2017, the provision contains two attachments:

- Annex A "Transitory regulations concerning voluntary out-of-court settlement procedures for disputes between water users and operators";
- Annex B "Regulations concerning the activities carried out by the Desk with reference to the processing of second-level complaints of water users".

With regard to the Transitional Regulation, we note:

Mediation Scope: from 1 July 2018, attempts to mediate disputes between users and their managers will be voluntary and possible - also through the ARERA Mediation Service - and for issues related to the aspects regulated by ARERA itself and for all other issues of interest to the user of the IWS, with the exclusion of those not falling within the scope of application of the Integrated Text of Mediation (TICO) and those relating to water quality;

Duration of the transitional period: the transitional period, defined in the document itself as the "period from the activation for the water sector of the ARERA Mediation Service managed by the Single Buyer, as of 30 June 2019", will start on 1 July 2018 and will end on 30 June 2019. An assessment of the implementation status of the transitional provision is envisaged in order to evaluate further gradual mechanisms, after discussion with the stakeholders;

Exemptions from the implementation of the regulation: if the manager proves that it cannot comply with the obligation to take part in the mediation procedure in the times provided, the EGA responsible, in agreement with the manager and the regionally registered local consumer associations, has the right to submit to ARERA a request for a justified exemption limited to this obligation and for a maximum period of one year, in any case with a deadline of 31 December 2019. The application is considered admissible if it is submitted by 30 September 2018 and if it is based on the existence of ongoing aggregation processes involving the manager submitting the application. ARERA will check the requests received and grant or deny the requested exemption.

Regarding the second topic, the Regulation establishes that the Energy and Environment Consumer Desk, managed together with the Single Buyer, will deal with complaints concerning issues subject to national regulation in the water sector by means of online procedures. Specifically, the Desk prepares and publishes a complaint submission form on its website and makes online submission methods available through its website by issuing a specific electronic receipt of the submission (article 4.2 of the Regulation). The form and online methods are approved as per the provisions of art. 4.3 of the Regulation upon proposal of the Desk, with resolution of the Director of the Environmental Services Protection of ARERA (see Resolution 2/2018 - DTSA discussed later).

The Regulation enters into force from 1 March 2018 and ceases to be effective on 1 July 2019. There is an exception to the date of 1 March 2018 contained in art. 9.2 of the Regulations, according to which “Managers make available answers to requests for information from the Desk through the Operator - Manager Portal, and, if requested by the Desk, send the answers to the end user without prejudice to any data of a reserved nature”. Compliance was achieved on 1 June 2018.

Lastly, in addition to any technical meetings and focus groups, resolution 55/2018/E/ldr envisages the convening of two technical round tables the first with consumer and user associations, managers and EGAs aimed at further expanding the procedures for the transformation of the mediation bodies currently operating at a local level - different from the joint mediations - into ADR entities referred to in the Consumer Code; the second with the Regions and the EGA, aimed at expanding further initiatives in support of users to be developed in partnership with the Regions.

In compliance with the provisions of art. 4.2 of the Regulation annexed to resolution 55/2018, with Resolution no. 2 of 23 February 2018 the Director of the Protection of Environmental Services approved the document “Single Portal. Project for the expansion of online services to users of the Integrated Water Service. Online procedure for submitting requests for information-complaints-reports-requests to the Desk and related forms”, sent by the Desk to ARERA with a communication dated 23 February 2018.

The document supplements and amends resolution 7/DCCA/2015 “Customer Portal. Online procedure for submitting requests for information/complaints and related forms” and illustrates the revision of the customer and user electronic submission procedure prepared by the Desk and taking into account the changes introduced by resolution 900/2017 (extension of the Single Buyer to the water sector) and the aforementioned resolution 55/2018.

In addition to a new module relating to the bonus for light/gas/water services, ARERA resolution 2/2018 also proposes the following new modules related to the water sector:

- information request;
- notifications;
- complaints;
- Help Desk associations.

The methods of accreditation to the portal by the Managers/Operators were the subject of a specific procedure communicated by ARERA to the managers of the IWS, which, in compliance with the aforementioned art. 9.2 of the Regulations contained in Resolution 55/2018, from 1 June 2018 will have to make available the responses to requests for information from the Desk through the Operator - Manager Portal, managed by the Single Buyer.

The procedure referred to above is contained in decision no. 9/DACU/2018 of 29 May 2018 containing “Changes to the regulations of the Operator - Manager Portal and to the User Manual referred to in Resolution 1/DCCA/2017 of 5 January 2017”, with which the ARERA updated both the Regulation for Portal operation and the User Manual according to the provisions of resolution 55/2018.

With Resolution 56/2018 ARERA launched a fact-finding investigation concerning complaints and reports sent to ARERA by IWS users, Consumer Associations and local public bodies.

The procedure, which was completed on 31 December 2018, concerns in particular the most recurrent critical issues communicated to ARERA regarding:

- interruptions to the supply of the service due to causes or methods that do not comply with current legislation and/or user contracts;
- delays in the execution of works/connections associated with

transfer and/or take-over procedures;

- failure to comply with the frequency and transparency of billing;
- responses to complaints, notifications and requests for information from users (missed responses, inaccurate/generic responses also sent using standard forms, inadequate assistance from call centre operators).

The managers involved in the survey (which will be conducted by the User Protection Department of environmental services in collaboration with the Accountability and Enforcement Department and the Finance Police for possible audits) will be selected based on the number, frequency and relevance of the content of the reports sent to ARERA regarding service problems. On the basis of additional reports sent during the course of the survey the assessment may be extended to other managers.

As part of the survey, the conditions for sanctions and/or regulatory actions will also be assessed.

Lastly, again with regard to consumer protection, we point out DCO 199/2018/R/com “Guidelines for sectoral efficiency and harmonisation of the regulation regarding out-of-court dispute resolution procedures between customers or end users and operators or managers in the sectors regulated by the authority for energy networks and the environment (TICO)” with which ARERA expresses its orientation on the topic (by offering 14 different ideas) and represents some clarifications that apply to the regulation.

The effectiveness of the interventions subject to consultation will start from 1 January 2019, with the exception of the provisions for the water sector which are proposed to be effective from 1 July 2018 (coinciding with the entry into force of the transitional period pursuant to Resolution 55/18). In particular, the application clarifications noted for the water sector can be summarised in the following points:

- ARERA incorporates the definitions of “end user” and “manager” contained in Annex “A” of resolution 655/2015 (RQS2) which regulates the contractual quality of the IWS;
- the attempt at mediation on a voluntary basis during the transitional period can be made by the final user, including condominium users;
- as regards separate management, always in accordance with the provisions of the RQSII on the subject of contractual services, the Authority proposes (making it a point of reference for consultation) that the manager of the water supply is the party that receives requests for mediation in cases of separate management, even if the disputes concern sewerage and/or treatment service;
- in terms of increasing the efficiency of the transitional provision of the Mediation Service for the water sector, ARERA established that in order to avoid the convening of meetings at which it is already known that the manager will not be able to participate, the manager must communicate participation in the procedure within 5 days prior to the scheduled date of the meeting and, in case of refusal or non-confirmation, the procedure is dismissed and the final user is informed of such dismissal (see art. 7 paragraphs 21 and 22 of the document).

Acea S.p.A. submitted a document containing its reflections on the matter through Utilitalia by the date requested (May 4, 2018).

Resolution 14/2018 - DACU Approval of the detailed procedures for the validation of Social Water Bonus requests and the procedures for the recognition of the One-Off quota as per Resolution 21 December 2017, 897/2017/R/ldr as amended.

With Resolution 14 of 10 August 2018, ARERA approved the detailed procedures for the validation of social water bonus requests. These procedures are contained in Annex A, which specifically reports the checks that water managers are required to make on the Request for Benefits (RDA) for the purposes of validation/rejec-

tion (OK/KO) of the social water bonus, as well as the list of the reasons for the rejection of the RDA to be used to communicate the details of the RDA rejection to SGAt. The procedures contained in Annex A are divided into fully operational procedures and operating procedures for 2018. Furthermore, the Authority approved the self-certification form (Attachment B) that the user can use to declare that he/she is in the conditions required to obtain the social water bonus.

The provisions of Annex A apply as of 1 September 2018, except for paragraphs 2.3 "Special cases: multi-family dwellings not classified as apartment buildings" and 2.5 Optional fields that will come into force from 1 October 2018. Attachment B containing the self-certification form will be applied starting 1 October 2018. Finally, starting on 31 August 2018 the latest version of the technical specifications relating to the management functions for Suppliers for the applications for the Social Water Bonus on SGAt were made available on the website <http://www.sgate.anci.it/>. In particular, the document describes both the method of interaction between the water manager and the SGAt system (based on web services) and the method of interaction between the water manager and the SGAt system (based on web-files).

Document for consultation 573/2018/R/ldr of 13 November 2018 - Control of the implementation of planned investments for the integrated water service

The document is part of the procedure started with Resolution 518/2018/R/ldr (conclusion scheduled for 30 April 2019) and illustrates the Authority's guidelines for: 1) assessing the possible benefits achieved by the manager through the use of regulatory schemes for the promotion of investments even in the presence of their non-execution; 2) taking into account the outcome of the monitoring of the causes of deviations between the investments made and those planned, articulating the current system of rules possibly by providing for the mere recovery of the possible benefits in the absence of responsibility, as well as the application of specific penalties and the recovery of the benefits achieved in the event of persisting difficulties in carrying out the planned investments and with the presence of significant differences; i2) defining further rules that put the managers in charge of differentiated efficiency improvements due to the relative effectiveness in carrying out the planned investments.

In fact, when processing the data received, ARERA found uncompleted planned investments, with deviations more or less significant compared to what was planned in the various ATOs. In particular, the rate of completion of the planned projects was 81.9% for 2014, 77.6% for 2015, 81.7% for 2016 and 88.8% for 2017. The analyses performed by ARERA highlighted the different cases, and in the report the Authority expressed its own guidelines on the matter. Particular attention was paid to the investments connected with the pursuit of targets for improving or maintaining technical quality performance levels.

The deadline for submitting observations was set for 15 December 2018. The Acea Group submitted its observations on 14 December 2018.

Resolution 571/2018/R/ldr of 13 November 2018 - Launch of the procedure for monitoring the application of the regulation related to the contractual quality of the integrated water service, as well as for the implementation of the current regulation (RQS2)

The ARERA resolution seeks to strengthen the measures aimed at ensuring the diffusion, usability and quality of the service to users in a uniform manner throughout the country. With this resolution, a procedure was initiated to monitor the application of the regulation of the contractual quality of the integrated water service pursuant

to resolution 655/2015/R/ldr, as well as for the implementation of the regulations contained therein.

Lombardy Regional Administrative Court judgements on actions brought by certain Operators

In 2013 Acea Ato 2 filed an appeal against Resolution 585/2012 (MTT) and subsequent resolutions that amended and supplemented the contents (Resolutions 88/2013, 73/2013 and 459/2013). The appeal was partially upheld by the regional administrative court of Lombardy 2528/2014, against which both Acea Ato 2 and ARERA have appealed.

In the public hearing held on 29 September 2015, the suspension of the pending judgement and the postponement of the decision to a later date following the outcome of the technical office consultancy arranged for the appeals proposed in 2014 by Codacons and the associations Acqua Bene Comune and Federconsumatori, considering the existence of a relationship of dependence-consequentiality between the decision of the appeal by ARERA and the decision on appeals promoted by the Consumer Associations, focusing in particular on the tariff component relating to the financial charges of the IWS manager, i.e. on the formulas and parameters implemented in art. 18 of Annex A of Resolution ARERA no. 585/2012/R/ldr of 28 December 2012 (MTT), considered as a re-introduction of the criterion of "adequacy of invested capital" that had been eliminated by the outcome of the 2011 referendum.

The expert committee, appointed in October 2015, filed the report on 15 June 2016, concluding that the formulas and parameters aimed at calculating the interest rate of reference are considered reliable and reasonable in terms of national and international regulations and the component of risk coverage considered in the Resolution.

The final hearing in the case was held on 15 December 2016 and sentence no. 2481/2017 was published on 26 May 2017, in which the Council of State accepted the conclusions of the panel of experts and reiterated the full legitimacy of the tariff method adopted by the ARERA, as the definition of the single parameters on the basis of the criterion of efficient cost coverage only and also the different calculation of the tax cost in the water sector compared to the electricity and gas sectors tends to eliminate any performance guarantee, leading to the strict coverage of the cost of invested capital and minimising the user costs, in line with the law and the principle of full cost recovery. This ruling therefore rejected the Codacons and Acqua Bene Comune/Federconsumatori appeals noted above, consequently confirming the original sentences. Following this, the subsequent hearing before the Council of State was set for 20 September 2018. In view of the hearing, Acea Ato 2 presented a Memorandum with which, after presenting an overview of the issues that are the subject of the dispute, requested that the Council of State "reject the appeal proposed by ARERA as completely unfounded and confirm the decision of the Regional Administrative Court of Lombardy - Milan, section II, no. 2528/14".

Following the hearing, held as planned on the scheduled date, the Council postponed the discussion of the judgement, inviting the parties to file some briefs (to be presented by 19 December 2018) to make sure that there were no delays in resuming the appeal proceedings. At the hearing in question, however, the judge had not set the date of referral, which was instead established only in the early days of 2019: the next hearing will therefore be held on 13 June 2019.

At the date of this report, in addition to the appeal to the Council of State cited above, the other appeals filed by Acea Ato 2 to the Lombardy Regional Administrative Court against Resolution no. 643/2013/R/ldr (MT1) and Resolution 664/2015/R/ldr ARERA (MT1-2) are still pending. With regard to the latter, in February 2018 Acea Ato 2 extended its original appeal, presenting addition-

al reasons against resolution ARERA 918/2017/R/Idr (biennial update of the tariffs for integrated water service) and against Annex A of resolution 664/2015/R/Idr, as amended by the aforementioned resolution 918/2017/R/Idr.

ARERA ELECTRICITY SERVICES ACTIVITIES ENERGY INFRASTRUCTURES OPERATING SEGMENT

Resilience of the electrical system in the development plans of distribution companies

Resilience is the ability of a system to quickly return to the initial situation after suffering a disruption. Resistance to stress and the ability to restore service even in emergency conditions are essential components of resilience. In the 5th regulation period 2016-2023 (see the Integrated Text of the output-based regulation of electricity distribution and measurement services (TIQE), the Regulatory Authority for Energy Networks and Environment (ARERA) is following up on several initiatives to promote an increase in the resilience of the electrical system and laid the foundations for further developments. In fact, Resolution 31/2018/R/eel of 25 January 2018 updates the aforementioned TIQE, introducing obligations for the preparation of Resilience Plans for distribution companies. The Resilience Plan – which occupies a dedicated section in the Development Plan – must:

- have a horizon of at least three years;
- be processed in a coordinated manner with Terna and with the interconnected and underlying companies;
- include actions to contain the risk of disruption in the face of the critical risk factors, like flooding due to particularly intense rain, heat waves and prolonged droughts.

With Resolution 668/2018/R/eel of 18 December 2018 the Authority introduced an incentive mechanism for investments aimed at increasing resilience, focusing in particular on the resistance of distribution networks subjected to extreme weather events.

As anticipated by the Authority in consultation, projects with benefits greater than costs are eligible for a bonus, while all the projects present in the Resilience Plan of the DSO are subject to penalties. More in detail, the bonus for each project – quantifiable as 20% of the net benefit of the project itself – will be reduced by 50% in the event that the effective completion date is postponed by six months compared to what was initially envisaged in the Plan. At the same time, the penalty associated with each project will be 10% of the costs actually incurred for the task if the effective completion date is postponed by 12 months compared to what was initially specified in the Plan, and 25% if the delay lasts 18 or more months. In the latter case, the DSO must justify the causes of the delay, describe the actions taken to recuperate the time lost and give an indication of any extra costs arising from the delay.

With regard to the operating procedures of the bonus/penalty mechanism, the resolution envisages that by 30 November every year from 2019 to 2024 the Authority will update and publish the list of the projects of each main DSO eligible for a bonus and/or penalty, and by 31 December of each year from 2020 to 2025 it will determine for each DSO the bonuses and penalties related to the projects with effective completion date in the previous year.

General system charges

The general system charges are specific cost items applied to electricity and natural gas bills in order to collect the sums necessary for financing various forms of incentives, like those to support Renewable Energy Sources (electricity sector) and the so-called Thermal Feed-in Tariffs (gas sector). Since these charges arise as ancillary components to the transportation fees, they are invoiced and collected by the distributors, which must invoice them to the sellers, which – in turn – invoice them and collect them from the final cus-

tomers. The payment to the system members, in particular the Energy and Environmental Services Fund (CSEA) and the Energy Services Manager (GSE), is made by the distributors. In the event of non-collection by the vendors from the final customers or by the distributors from the vendors, each party is in any case required to pay the amount due to the “party upstream”. In the commercial relationship between distributors and vendors, the obligation of payment by the latter is supported by specific guarantees that must be issued to the distributor.

With Resolution 50/2018/R/eel of 1 February 2018 (Provisions relating to the recognition of charges that could not otherwise be recovered due to the failure to collect general system charges), the Authority introduced a mechanism to reinstate the general system charges paid but not collected by distributors and establishes:

- the conditions for access: it is envisaged that access to the mechanism will be given to any distributor that requests it and that fulfils the obligations of paying the general system charges starting from the receivables accrued from 1 January 2016, in relation to transport contracts terminated for non-compliance for at least 6 months;
- the recoverable amount: the amounts to be included both related to the charges incurred for any actions aimed at the collection of receivables and the receivables not collected identified by the ARERA, as well as the amounts to be excluded or considered reduced.

The procedural aspects and obligations set by the Energy and Environmental Services Fund (CSEA) are then defined for quantification and settlement of the amounts to be recognised to the companies.

Lastly, resolution 626/2018/R/eel of 5 December 2018, in which the Authority deferred the completion of the reform of the general system charges for domestic users to 2020, postponing the elimination of residual progressiveness from rates. Therefore, the two-scale structure remains in place for 2019 (up to 1,800 kWh/year and over 1,800 kWh/year).

Billing and measurements in the retail electricity market

For the complete implementation of the provisions contained in the 2018 budget law (Italian law no. 205/2017) regarding the phenomenon of maxi-bills (biennial consumption prescription) and in consideration of the relevant impacts of the law on the regulation in force, the ARERA started a complex procedure that should have been completed by 31 December 2018, but that is not yet complete. Resolution 97/2018/R/com dated 22 February 2018 introduced the first measures necessary for the implementation of the 2018 budget law aimed at reducing the phenomenon. In particular, it established that:

- the seller is required to issue the billing document relating to adjustments made on the basis of corrections of the metering data within 45 days from the time the correction is made available within the Integrated Information System (IIS);
- at the time of first application the legislation's scope of application is limited to low-voltage domestic and non-domestic end users;
- together with the issuance of the bill and in any case at least 10 days in advance with respect to the expiry of the payment terms, the seller is obliged to inform the customer of the possibility of objecting to the limitation period of the claim.

On 13 April 2018, with resolution 264/2018/R/com, the Authority intervened again on the matter, temporarily establishing that in the event of non-collection due to the objection to the limitation period raised by the end customer, for the cases relating to adjustments deriving from corrections attributable to the distributing company, the seller is entitled to request a restatement of the amounts, the reversal of the transport invoices and the restitution of any amounts paid in excess.

Finally, on 13 November 2018, with consultation 570/2018/R/

com, ARERA started defining responsibilities in cases where the billing delay is attributable to the operator (seller/distributor) or is consequent to failure or incorrect collection of consumption data attributable to the end customer.

Update of Distribution and Measurement, Connection and Transport Tariffs.

With resolutions 150/2018/R/eel dated 15 March 2018 and 174/2018/R/eel dated 29 March 2018, the Authority determined the definitive tariffs of reference for the year 2017 for the Distribution service and for the electricity measurement service, respectively. For areti, the fixed rate payments are higher than those determined provisionally and made known in resolution 286/2017/R/eel.

With the resolutions of 29 March 2018 175/2018/R/eel and 176/2018/R/eel, the Authority determined the provisional tariffs of reference for the year 2018 for the Distribution service and for that of the Measurement of electrical energy, respectively.

Resolution 670/2018/R/eel of 18 December 2018 - Update of the tariffs for the supply of the electricity transmission service for the year 2019 and decisions regarding the requests for incentives for specific projects with high risks, updates the 2019 fees for the electricity taken by the distribution companies from the national grid pursuant to art. 14 of the TIT.

On the other hand, with resolution 671/2018/R/eel of 18 December 2018 were updated for 2019 the mandatory tariffs for the electricity distribution and meter reading services for non-domestic customers and economic conditions for the provision of the connection service. Furthermore, the provision:

- envisages the extension to 31 December 2019 of the deadline for the definition of tariff regulation criteria for use and injection of power and reactive energy at the high and very high voltage junctions;
- extends to 31 December 2019 the reduction in charges for domestic customers who wish to change the level of contractually committed power as set out in article 8-bis of the TIC.

Finally, with Resolution 673/2018/R/eel dated 18 December 2018, the Authority updated the 2019 tariffs for the supply of electrical grid services (transmission, distribution and measurement) for low voltage domestic customers, specifically the mandatory TD tariff reserved for them.

Smart Meter 2G

The Authority continues to focus on the topic of Smart Meter 2G, with the publication of the consultation document 245/2018/R/eel of 11 April 2018 which illustrates the Authority's guidelines on the definition of the functional specifications for the "2.1" version of second-generation meters. Specifically, the guidelines concern: the possible definition of a complementary channel on chain 2 for sending information to the end user, the possibility of remote reinitialisation in the event of excess power, the possibility of displaying removal readings, the possibility of evaluating the achievement of certain threshold values set by the seller, the methods for implementing pre-paid offers.

Furthermore, with Resolution 419/2018/R/eel of 2 August 2018 the Authority defined criteria for the recognition of measurement costs for low voltage electricity linked to the installation of 2G meters before starting the plan of mass installation envisaged by provision 646/2016/R/eel.

In particular, the ARERA:

- confirmed the rules for recognising capital expenditures also in force for the 1G investments that will come into operation in 2019, providing that the maximum value recognisable per meter will always be equal to 105% of the corresponding value for 2015;

- introduced a new transitional mechanism for investments in 2G installed by the companies in the years 2018 and 2019, before the start of the mass replacement plan, such that the maximum recognisable expense per 2G meter will be equal to the sum:

- of 125% of the average unit expenditure incurred in 2015 for the procurement of 1G meters,
- of 105% of the investment per meter net of the average expenditure for the supply of installed meters incurred in 2015.

The changes respond to the difficulties of some DSOs finding 1G meters that are no longer in production and to the simultaneous need to start supplying 2Gs before submitting the request for admission to the recognition of specific investments (RAR1) to the Authority.

Reclamation of antiquated upright columns

The Consultation document 331/2018/R/eel dated 14 June 2018 contains the Authority's guidelines aimed at encouraging the reclamation of old upright columns and illustrates mechanisms that can facilitate the acquisition of the necessary authorisations by the distribution companies for intervening on private property.

The aim of the Authority is to define a standard unit cost for the construction works connected to the intervention, based on the value of the building's finishes and the following parameters:

- cost per building (fixed intervention costs);
- variable cost (based on the extension of the building) to be calculated according to the number of users affected by the reclamation;
- any other parameters (like the existence of architectural or historical constraints).

TEE Energy Efficiency Certificates: determination of the tariff contribution

With provision 487/2018/R/efr of 27 September 2018, the Authority updates the criteria for determining the tariff contribution paid to distributors complying with energy saving obligations, in consideration of the changes introduced by interministerial decree of 10 May 2018, updating the previous interministerial decree of 11 January 2017, as well as the changes in the mechanism made in recent years. As a result of the resolution, the update of the Regulations for bilateral transactions and the TEE Market Rules was approved, as proposed by GME (Resolution 501/2018/R/efr).

Sanctioning procedures concluded

With a sentence of 22 February 2018, the Council of State completely voided the penalty on the grounds that, as correctly found by areti, the regulation then in force did not include any obligation to register the reminders following a first notification already recorded for the same customer. In fact, with Resolution 512/2013/S/eel, which followed VIS 60/11, the Authority ordered the imposition of a pecuniary administrative sanction equal to € 517,000 against areti for a violation concerning the registration of disruptions of the electricity distribution service. In particular, the violation concerned the obligations envisaged in the previous TIQE (2011-2015) of:

- using a register to document the beginning of long unannounced disruptions originating on the low voltage network by noting the date, time and minute of the first alert – even by telephone call – of the disruption;
- record all calls received reporting malfunctions, even if there is no disruption in service.

With respect to these two claims, the Authority proceeded with the violation relating to the failure to record all calls, including reminders. On 13 January 2014, areti filed an appeal with the Lombardy Regional Administrative Court, which partially upheld the request to cancel the sanction, reducing areti's fine to € 50,000. In essence,

while confirming the existence of the infringement, the judges found that the ARERA had limited itself to indicating the size of the sanction without providing adequate reasons for its quantification. With subsequent resolution 14/2016/C/eel, the Authority decided to file an appeal with the Council of State against the sentence of the Lombardy administrative court, which had decided in areti's favour. With another resolution 300/2018/S/e, ARERA ordered a pecuniary administrative sanction of € 906,000 against areti for violations concerning the commissioning of electronic meters. Initiated with resolution VIS 62/2014/S/eel, the procedure derives from a communication sent by the company to ARERA, in response to a request, which showed that, unlike the provisions of Resolution 292/2006 on the date of 30 June 2013, the percentage of meters put into service compared to the total of low voltage PODs with available power lower than 55 kW was equal to 89.9%, below the threshold required by the regulation (95%).

ARERA ELECTRICITY SERVICES ACTIVITIES COMMERCIAL AND TRADING SEGMENT

Budget Law 2018 (Maxi-bills and limitation of two years)

The 2018 Italian budget law no. 205 of 27 December 2017 approved the so-called amendment on "maxibollette" (maximum bills), reducing the period of limitation of the right to remuneration for electricity and gas supply contracts to two years, in relations between customers (domestic, professionals and micro-enterprises) and the seller, and in relations between the distributor and the seller, and in those with the transport operator and with other subjects in the supply chain. These rules apply with reference to bills whose due date is later than 1 March 2018 for the electricity sector and 1 January 2019 for the gas sector.

With subsequent resolutions, the Authority is aligning the regulations with the primary norms. In fact, with Resolution 97/2018/R/com, the Authority provided the first guidelines for the application of the provisions of the 2018 budget law, establishing that to start with the two-year limitation would apply to all customers connected in low voltage who request it, following appropriate information provided by the seller on the bill or at least 10 days in advance with respect to its expiry. With subsequent resolution 264/2018/R/com, the Authority implemented a further transitional measure regarding the application of the limitation in the relations between sellers and distributors, establishing that if an end customer objected to the limitation of the amount invoiced by the seller with reference to consumption dating back more than two years, for cases concerning adjustments deriving from corrections attributable to the distribution company the seller could request the reversal of the bills concerned and the return of any excess amounts paid to the distribution company.

On 18 May the Authority asked the company for information on the application of the provisions of Resolution 97/2018/R/com regarding the seller's disclosure obligations with respect to end customers, as well as the number of bills containing consumption following with the period of limitations. The response was provided on 15 June.

With Resolution 569/2018/R/com, the Authority approved the interventions (previously illustrated in DCO 408/2018/R/com) for the strengthening of protections in the event of bills containing amounts relating to consumption dating back more than two years, definitively identifying the subjective perimeter against which the interventions are applied and defining the sellers' disclosure obligations, as well as the forms of presentation and management of any claims by end customers. In particular, it is envisaged that:

- the seller adds the notices and the form to object to the limitation in an initial page added to the bill;
- the amounts for consumption dating back more than 2 years

are shown separately on the same bill or through the issue and simultaneous sending of two separate bills, providing for the suspension of any automatic collection methods for the part beyond limitations.

The Authority established that these provisions should be effective with reference to the invoices issued starting from 1 January 2019. In this regard, Acea Energia informed the Authority of the difficulties related to the implementation of the actions requested in the proposed time and, through the trade associations, presented a request for review in order to extend the entry into force of the regulations by nine months in such a way as to have adequate time to develop and introduce the required IT workarounds and a definitive and certain regulatory framework. In fact, in parallel, the ARERA has published DCO 570/2018/R/com concerning the definition of the attribution of responsibilities (between distributor and end customer) regarding the billing of amounts related to consumption more than two years old. On this occasion, both the trade associations and Acea reaffirmed the need for a certain, complete regulatory framework.

Finally, although it rejected the request presented by the associations for the review of Resolution 569/18, with Resolution 683/2018/R/com the Authority nevertheless allowed the operators to be able to implement the resolution with specific and differentiated methods while safeguarding the right to protect the customer in relation to information and the possibility of objecting to the limitation. Furthermore, in the resolution the Authority established that in the event of failure to record consumption due to the responsibility of the distributor, distributors can return the sums they have paid to the sellers by offsetting subsequent payments of transport invoices rather than through an activity of reversal, and confirmed the daily criterion for the purposes of determining the consumption out of limitation. The following are thus postponed to a subsequent order:

- the procedures for requesting Terna or Snam Rete Gas to review the values relating to the dispatching or balancing service in the event of a limitation applied due to the fault of the distributor;
- the definition of the methods for attributing sums deriving from missed collections due to limitations objections to the parties responsible.

Electronic invoicing

With Resolution 712/2018/R/com, the Authority dictated the first provisions to coordinate the regulation regarding the bill for end customers and electricity and natural gas bills issued by distributors with legislative changes in force since 1 January 2019 on the subject of electronic invoicing as required by the 2018 budget law.

Compliance with the judgements of the Lombardy Regional Administrative Court and the Council of State regarding guarantees for the collection of the general charges of the electrical system

On 30 November 2017 the State Council rejected the appeals filed by E-Distribuzione and the Authority against the regional administrative court's rulings of January 2017, thus confirming the annulment of the provisions of the Electricity Grid Code that provide for the inclusion of general system charges in the calculation of guarantees that sellers must offer to distributors for the conclusion of the transport contract, but stated that the guarantees can be requested for the sums collected by the sellers from end customers. Thereafter, with a press release on 29 December 2017 the Authority reiterated that the transitional provisions regarding the reduction of the distributor guarantee amounts defined by resolution 109, taking into account the highest unpaid ratio declared by the sellers to the Authority, had been fully applied in all its parts. In order to settle the whole matter, with the consultation docu-

ment 52/2018/R/eel the Authority gathered operator comments to establish a mechanism that from 2019 would allow sellers to recover general system charges (incurred in 2016) from those paid to the distribution companies but not collected by the final customer and any transfer costs and legal costs related to these charges. The document also envisaged that in cases of particular difficulty of the seller it can submit an early application for recovery, in 2018. With its own document the Acea Group proposed clarifications and improvements to the mechanism in question. On 2 February the Authority asked the company to quantify as precisely as possible the amounts recoverable through the mechanism proposed in the consultation document for the two-year period 2016-2017. Acea Energia therefore estimated these amounts to be around € 8.5 million.

Given the outcome of the consultation, which highlighted the impossibility of reconciling the various interests involved, and given the absence of primary legislation defining the issue, with resolution 430/2018/R/eel the Authority suspended the definition of the specific recovery mechanism, considering it more appropriate to implement a reform of the entire sector regulation by 30 June 2019.

Integration of the grid code type for the transport service in terms of guarantee updating

With Resolution 655/2018/R/eel, the Authority expanded the Electricity Grid Code (Annex B of resolution 268/2015) with respect to the regulation of guarantees. In particular, the transport contract is expected to be terminated even in cases where the seller, despite the reminder and warning from the distribution company, does not proceed promptly with the updating of the guarantee.

2G smart metering systems and gas smart meters

With Resolution 700/2017/R/eel which follows DCO 466/2017/R/eel, the Authority ordered the TIS modifications aimed at applying hourly processing for use points equipped with 2G smart metering systems. In particular, the resolution provided for the IWS to carry out the first aggregation for the purpose of settling the daily quarter-hour curves relating to withdrawal points gradually equipped with 2G smart meters with regard to the measurement data for August 2018 (anticipating the transition to hourly processing starting from the thirteenth month after commissioning, guaranteeing dispatching users at least 12 months of measurement data for correct scheduling of use). The date of entry into force of the new standard formats relating to measurement data from 2G systems was postponed to 1 January 2019 from the previous 1 October 2018.

With Resolution 88/2018/R/eel, the Authority published the methods and time frames for exploiting and displaying the configurable information for the 2G withdrawal points in operation via IWS, applicable starting from 1 October 2018.

With Resolution 669/2018/R/gas, the Authority confirmed the need to continue the commissioning process of the G4-G6 class smart meters (typical for home use), updating resolution 631/2013. In particular, distribution companies with more than 100,000 customers are expected to commission at least 85% of the new grid points by 2021.

Imbalance fees for non-programmable renewable sources

With resolution 80/2017/C/eel, the Authority decided to appeal against the rulings of the Lombardy administrative court for partial cancellation of Resolution 522/2014/R/eel. This Resolution, in part cancelled, provided that for the validity period of Resolution 281/2012/R/EFR (cancelled by the Administrative Court), i.e. from 01/01/2013 to 31/12/2014, relating to the imbalances for renewable energy sources that cannot be planned, the original framework contained in Resolution No. 111 of 2006 would apply. According to this framework, for production units supplied by

sources that cannot be planned, an exemption from the imbalance costs was arranged, except for the case in which the aforesaid units had participated in the intra-day market. With the judgement no. 7317 of 31 December 2018, the Council of State overturned the sentences of the TAR and declared the provisions of Resolution 522/2014/R/EEL legitimate for the past, i.e. "for the period between 1 January 2013 (date of entry into force of Resolution 281/2012/R/efr) and 31 December 2014, Terna will apply the imbalance fees as initially defined by Resolution no. 111/06, i.e. in their version prior to resolution 281/2012/R/efr, subsequently voided". Following this pronouncement of legitimacy, the proceeding started with Resolution 593/2018/R/eel, aimed at executing the judgements of the Lombardy Tar, was filed with Resolution 15/2019/R/EEL.

Indicators and comparative publication of the annual report on the management of complaints and the resolution of disputes

Following DCO 493/2018/R/com, the Authority published Resolution 623/2018/R/com with which it modified the TIQV relating to the annual satisfaction survey dealing with the handling of complaints (art. 38) and the Report on the processing of complaints and the resolution of disputes (art. 39). In particular, the Authority confirmed the 4 quantitative indicators already subject to consultation, namely:

- complaint indicator (ICR);
- complaint response capability indicator (ICRC);
- information request indicator (IINFO);
- response to information request indicator (ICINFO).

The Authority therefore established that the Report to be published in May 2019 relating to 2017 will not contain the comparative publication of individual indicators, but only an analysis by homogeneous groups of unnamed companies, while starting with the data for 2018 it will contain the comparative publication of the individual indicators, each of which will contain a ranking, not individual, but in the form of non-anonymous clusters that bring together operators with similar performance levels.

The ICS satisfaction indicators will be reported in a specific section of the report, i.e. the indicators related to the customer satisfaction survey, for which the publication of responses to complaints is expected starting from the interviews carried out in 2018 with publication for the years 2018-2020 through non-anonymous clusters that group operators with similar performance and characteristics. Starting in 2021 the comparative ranking of the ICSs will be carried out by single operator.

PLACET offer and minimum contractual conditions for other free market offers

With Resolution 555/2017/R/com, the Authority approved the regulation of PLACET offers together with the minimum contractual conditions for all other free market offers other than PLACET offers. These provisions came into force on 1 January 2018. In particular, the Resolution envisaged that PLACET offers be inserted by each free market operator in their commercial offers both for the electricity sector (for domestic and non-domestic grid points connected to low voltage), and for the gas sector (for domestic and non-domestic points of delivery, including apartment buildings for domestic use for points with an annual consumption of less than 200,000 m³). As regards the general supply conditions, the seller alternatively had the choice to use either the form prepared by the Authority or draw up their own general contractual conditions in accordance with the resolution, the form and regulations which do not contain any additional contractual conditions. As regards the economic conditions for the part to cover the costs typical of the procurement and marketing of the commodity, PLACET offers require a fixed amount €/point/year and an energy

amount €/kWh or €/m³. It is envisaged that the energy amount will have two separate price formulas, a fixed price and a variable price (based on the National Single Price (PUN) for the electricity sector and on the TTF for the gas sector). Prices are freely determined by individual suppliers.

With Resolution 848/2017/R/com, the Authority extended the entry into force of the PLACET offer until the date of approval by the Authority of the general supply conditions form. With Resolution 89/2018/R/com, the Authority therefore resolved that starting from 1 March 2018 all sellers were required to make PLACET offers available on the retail market. The provision also approved the modules of the general conditions of supply of the PLACET offers. In accordance with the dates specified by the Authority, Acea Energia has made the offer available through the shop and via the website.

With Resolution 288/2018/R/com, the Authority established the obligation for sellers to transmit instrumental data for the monitoring of PLACET offers, establishing that starting from 1 March 2018 they submit by the month following the end of each quarter the number of contracts with PLACET offer activated and terminated.

Approval of the 3rd decision level for the resolution of disputes

With Resolution 639/2017/E/com, the Authority approved the 3rd decision level for the resolution of disputes between customers and operators, to be activated as an alternative to legal recourse and if such disputes have not been resolved either through a written complaint or a reconciliation procedure. The new procedure entered into force on 1 January 2018.

Update of RCV and DISPbt components

With Resolution 927/2017/R/eel the Authority published the updated RCV and DISPbt components for 2018, following criteria and methodologies already applied in the previous year.

As regards the RCV (Centre-South territorial area) there was a decrease in the recognised value for domestic points (from 4,345.30 to 4,076.76 €/grid point) and an increase in the recognised value for points relating to other uses (from 12,536.55 to 14,623.02 €/grid point) based on an unpaid Centre-South ratio which, compared to last year, is down for domestic customers from 1.0893% to 1.0762% and an increase for other uses from 3.1250% to 3.8664%. With respect to the compensation of arrears mechanism (Centre-South territorial area) the value has fallen for domestic points (from 884.17 to 825.06 €/grid point) and increased for points relating to other uses (from 5,873.78 to 8,082.69 €/grid point); for the purposes of admission to this mechanism, the minimum unpaid ratio value for domestic points has fallen to 1.12% while for points relating to other uses it has risen to 5.13%.

Compared to 2017, the DISPBT has gone from -2,314.50 and -2,298.86 €/grid point for domestic resident points and from -1,484.30 to -1,468.70 €/grid point for non-domestic resident points, while going from -434.37 to -187.55 €/grid point for points relating to other uses; the DISPBT component is also applied to energy amount for resident domestic customers only with values differentiated by consumption bands i.e. 0.269 €/kWh (from 0.272 in 2017) for the consumption band of less than 1,800 kWh/year and 0.619 €/kWh (from 0.583 in 2017) for the consumption band over 1,800 kWh/year. With respect to the incentive mechanism for increased dissemination of electronic bills, the Authority has on the other hand confirmed the last year's values.

With Resolution 188/2018/R/eel, in addition to updating the economic conditions of electricity sales as part of the enhanced protection service for the quarter 1 April-30 June 2018, the Authority also updated the DISPBT component with effect from 1 April 2018 in order to take into account the structure of the tariff com-

ponents for resident domestic customers to cover the general system charges in force from the same date.

With subsequent resolution 364/2018/R/eel, with effect from 1 July 2018 the Authority confirmed the value of the PCV fee already in force in the period from 1 January 2017 to 30 June 2018 (resolution 633/2016/R/eel) waiting to update it after completing the PCV data collections that would be available starting from September 2018.

With Resolution 706/2018/R/eel, the Authority published the PCV, RCV and DISPBT components updated for 2019. With regard to the RCVsm (specific for operators other than the incumbent) for the Central South territorial area, there was a particular decrease for all types of customers and in particular for other uses, where the component dropped to 11,629.87 €/pdp from 14,623.02 in 2018. This RCV was calculated mainly on the basis of:

- an average unpaid ratio in Central-Southern Italy of July 2015 and June 2016 turnover, which is down compared to last year for both domestic customers (from 1.0762% to 0.85%) and for other uses (from 3.8664% to 2.83%) with a higher level of arrears for former customers;
- in relation to the remuneration of net invested capital taking into account an average exposure between the activity of purchase and sale of electricity equal to 38 days (against 41 days in 2017) and a WACC level of 6.5%.

Also with regard to the mechanism for compensating for arrears (Central-Southern area) the values show a significant decrease: domestic customers went from 825.06 c€/pdp in 2018 to 383.56 and other uses from 8,082.69 c€/pdp to 4,282.63 with new minimum unpaid ratio values (reference in order to be able to participate in the mechanism) also decreasing: domestic from 1.12% in 2018 to 1.06% and other uses from 5.13% to 3.56%.

The same resolution also updated the DISPBT component with the new monomial structure for domestic customers (the 626/2018), which no longer includes, for resident domestic customers, the energy share with differentiated values by consumption levels, but only the withdrawal point amount.

With regard to the PCV fee, applied to protected customers and defined in line with the marketing costs incurred by an efficient operator on the free market, there was a slight increase compared to 2018. In fact the 2019 fee for servants amounted to 6,538.46 c€/pdp (from the previous 5,778.84) and for other uses equal to 12,184.84 c€/pdp (from the previous 11,837.77). This PCV was calculated mainly on the basis of:

- an average unpaid ratio on July 2014 and June 2015 turnover and on July 2015 and June 2016 turnover which is 1.68% for domestic customers and 1.99% for other uses;
- in relation to the remuneration of net invested capital taking into account an average exposure between the activity of purchase and sale of electricity equal to 53 days and a WACC level of 6.7% due to the higher risk of sales activity on the free market.

Authority proceedings

ARERA unbundling checks: With Resolution 561/2018/E/eel, the Authority approved a programme of controls on the separation of the brand and communications policies for companies operating in the sale of electricity to free customers and protected customers. Acea Energia was also involved in these checks and on 14 January 2019 responded to requests for information made by the Authority regarding compliance with brand unbundling obligations. The resolution also envisages that, after this first phase of documentary checks, a second phase of checks would commence by accessing the physical spaces dedicated to sales.

Sanctioning procedure for charging the postal costs for the paper bill: With decree 66/2018/com dated 15 November 2018, the

Authority ordered the initiation of a sanctioning and prescriptive procedure against Acea Energia for charging final domestic customers for the receipt of the paper bill for free market offers called “Acea Viva” and “Acea Rapida” in violation of the provisions of Italian Legislative Decree 102/14 and Annex A to Resolution 555/2017/R/com.

On 14 December Acea Energia notified the Authority of the termination of the conduct, updating the economic conditions of the offers in question and presenting the following commitments:

1. reimbursement of the amounts already paid by domestic customers;
2. making available to electricity customers who were still active and who had paid the disputed surcharge a free consumption analysis service in order to promote greater efficiency in the use of energy;
3. strengthening – even through parties external to the Company – the verification of electricity and gas supply contracts that can be selected by domestic customers in terms of compliance with applicable industry regulations.

The deadline for the conclusion of the proceeding is 220 days starting from the communication of its initiation, unless there are justified procedural requirements.

Other topics

Updating of the structure of tariff components to cover general costs for non-domestic customers: on 30 December 2016, Italian Decree Law no. 244 (so-called Milleproroghe 2017) was published, which in article 6, paragraph 9, extends to 1 January 2018 the deadline by which the Authority will have to adjust the structure of the tariff components relating to the general charges for electricity applied to non-domestic customers. With Resolution 481/2017/R/eel, the Authority defined the main characteristics of the tariff structure for the system charges valid starting from 1 January 2018, with the introduction of two groups: general charges to support renewable energies and cogeneration (Asos) and the remaining charges (Arim) with a three-part structure (fixed annual quota, annual power quota and variable consumption quota).

With Resolution 921/2017/R/eel and subsequent resolution 71/2018/R/eel, the Authority then concluded the process of reforming the general charges, defining the new methods for implementing incentives for energy-intensive businesses. With resolutions 285/2018/R/eel and 339/2018/R/EEL, the Authority approved the implementation rules (methods and timing) for the opening of the portal by Cassa for registration in the list of companies with a high electricity consumption for the year 2018. With Resolution 181/2018/R/eel, the Authority established the implementing provisions to allow the Cassa to proceed with the granting of subsidies to energy-intensive businesses pertaining to the years 2016 and 2017 and to other related prerequisites.

Deferral of completion of general reform of charges for domestic customers: after the deferral to 1 January 2019 established with Resolution 867/2017/R/eel, with subsequent resolution 626/2018/R/eel the Authority further deferred the last phase of the tariff reform for general charges of domestic customers to 2020. Specifically, the Authority established:

- general charges: for 2019 the two-tier structure in force in 2018 remains in force for domestic customers (up to 1,800 kWh/year and over 1,800 kWh/year) which will definitively be superseded in 2020;
- DISPT: on 1 January 2019 the portion of Euro/kWh by consumption level for resident domestic customers (identical single structure of non-resident customers) will be eliminated;
- for customers participating in tariff testing for heat pumps, the tariff structure already in force in 2018 remains confirmed

(general costs without groups and DISTBT with single structure for residents and otherwise).

With this action, the Authority sought to minimise the effects that will derive from the reactivation of general charges, partially reduced in the last two quarters to limit the increases in electricity expenditures.

Portal for comparing offers (Annual Market and Competition Law for 2017. Italian Law no. 124 of 4 August 2017): with Resolution 51/2018/R/com (which followed DCO 763/2017/R/COM), the Authority defined the guidelines for the SII Manager's creation and management of an Offers Portal to collect and publish all offers in the retail energy and gas markets for domestic customers and SMEs. The portal was published and completed in subsequent steps by December 2018.

The resolution also envisaged future step-by-step implementations that will make it possible to offer additional services, for example through interaction with the IWS, which will allow the portal to calculate the expense associated with the offers displayed by the user based on actual historical consumption.

Suspension of economic compensation for arrears related to fraudulent use: pursuant to Resolution 26/2018/E/eel, on 28 February 2018 and 1 March 2018 an audit by the Authority and Fund for energy and environmental services was carried out at the Acea Energia headquarters with regard to the request for economic compensation for arrears related to fraudulent use presented in 2014 for the period August 2010 - July 2011. The verification did not reveal any critical issues regarding the matter in question. Following the results of the audits carried out at Acea Energia and at Enel, with resolution 568/2018/R/eel the Authority deemed it appropriate to initiate a process to modify the mechanism in question in order to better incentivise the collection of receivables and to better manage some timing, and therefore suspended the regulation governing the collections mechanism for all arrears deriving from fraudulent withdrawals (16bis of the TIV). The conclusion of this procedure is expected by 31 March 2019.

Methods for determining the economic conditions of the natural gas protection service from 1 January 2018: with Resolution 108/2017/R/gas, the Authority determined the economic conditions of the gas protection service starting from 1 January 2018. The measure restores the thermal year (1 October - 30 September), i.e. the time reference for gas protection, at least until the date on which the protection regime is superseded, established as 1 July 2018. Specifically, it is envisaged that the methods of determination will be defined by the end of the 2017-2018 thermal year at the latest, having established that, should the protection regime be superseded by the Competition Authority before then end of the thermal year, such dispositions would no longer be applicable. Furthermore, the resolution identifies the market of reference for the determination of the CMEM component starting from 1 January 2018 and defines the levels and criteria for the definition of the CCR component. Lastly, the Authority has confirmed that as of 1 January 2018, the GRAD component for graduality in applying the reform of raw gas material will no longer be applicable.

Modification of the regulation of the natural gas market: with the decree of the Minister of Economic Development of 13 March 2017, based on the opinion of the Authority 98/2017/I/gas, the proposal prepared by GME to amend the M-GAS (gas market) regulation was approved. With the new regulations in force since 1 April 2017, the MPL (market for locational products) and MGS (market for storage gas) markets, which constituted the PB-GAS (the specific platform for balancing natural gas), were merged into

the renewed M-GAS where GME acts as the central counterparty for transactions concluded by operators. The discipline specifies formal methods of participation, illustrates the technical operation of individual markets and governs administrative aspects like payments, guarantees and disputes. Also in implementation of the same Ministerial Decree, the Authority published Resolution 147/2017/R/gas that approved the agreement between GME and Snam Rete Gas for the management of these markets according to the last structure defined with the decree of the Minister of Economic Development 13 March 2017. With Resolution 804/2017/I/gas, the Authority expressed a positive opinion on the proposed amendments to the M-GAS regulation, prepared by the Energy Markets Manager. Designed to improve the efficiency and liquidity of the natural gas markets and to implement the provisions on neutrality, the amendments became effective on 10 January 2018.

Reform of the switching process in the natural gas retail market:

with Resolution 850/2017/R/gas, the Authority extended the information content of the Official Central Registry (RCU) of the Integrated Information System (S2), seeking to simplify the exchange of information necessary for the termination of contracts, the provision of data at the beginning of the supply and the activation of last resort services managed during switching processes through the SII. For the purposes of populating the RCU, the Authority has established that: starting in January 2018, by the last working day, for each grid point the commercial counterparties must communicate their membership in the Protection Service or in the Free Market to the SII. Starting in April 2018, both distribution companies and commercial counterparties must upload most of the data required by this resolution. Starting from June 2018 both distribution companies and commercial counterparties must update the data constituting the RCU on condition. With Resolution 77/2018/R/com, the Authority therefore defined the regulation of gas switching via SII starting from 1 November 2018, as well as the management of contractual termination and the activation of services of last resort. The provision confirmed the guidelines set by the Authority in DCO 544/2017 and follows the model currently in use in the electricity sector.

Scenario of reference for ESG aspects (environmental, social, governance)

Sustainable development

In the field of sustainability, the signals coming from the institutional, national and international settings indicate the growing importance of a multidimensional logic capable of highlighting the interconnection of social, environmental and economic aspects with which to interpret, assess and guide global priorities integrating regulatory, relational, physical and productive systems.

Worthy of note in this area is the Committee of Sponsoring Organisations of the Treadway Commission (COSO), a global point of reference for enterprise risk management models (ERM) that, in collaboration with the World Business Council for Sustainable Development (WBCSD), issued the first Guide to apply ERM methodology to risks related to social, environmental and governance factors.

In 2018, environmental risks were confirmed as the main global concern both in terms of impact and probability, followed by cybersecurity and privacy due to the speed of ongoing technological development. These aspects become even more complex when it comes to considering their interconnections with potential social and geopolitical risks (Global Risk Report).

The commitments made at the UN with the Sustainable Development Goals (Agenda 2030) that were then ratified at a national level represent the framework of reference for a transition towards sustainable life models, in relation to which important institutions

perform analyses and define their own pathways. Indeed, this was the orientation chosen by the International Energy Authority, for example, which developed its own World Energy Outlook by combining analyses and assessments based on consumption projections generated by demographic and production dynamics, technological-innovative trends and environmental determinants.

Also of note in the year under review was the award of the Nobel prizes for economics to William Nordhaus and Paul Romer. The Nobel prize was for sustainability, considering the motivation of the Royal Academy for the choice of the two American scientists, who developed studies on the integration of climate change, technological innovation and macroeconomic analysis, dedicating themselves to “some of the fundamental and most urgent challenges of our time: combining the long-term sustainable growth of the global economy with the well-being of the planet’s population”.

The European Union has made two important strategic commitments. The first defines a roadmap for strengthening the role of finance in creating an economy that achieves environmental and social objectives, the second represents the new long-term climate strategy of the Union, with the aim of making the European continent the first great global economy with zero climate impact by 2050.

Looking towards the Fourth Industrial Revolution, as evidenced by recent research of the World Economic Forum, cities will play a decisive role in triangulating the environment, production systems, technological developments and social and demographic dynamics in a sustainable manner. Urban setting will grow, becoming agile and resilient and basing their evolution on big data and analytics, IT systems and interoperable management systems.

Local public services represent the main infrastructure for future smart cities, and the role of Utilities will be crucial in managing water and energy efficiency and savings, the circular economy, the prevention and reduction of pollution and climate-changing emissions. Lastly, it is worth noting the change made by the 2019 Budget Law in Italian Legislative Decree no. 254/2016, which made non-financial reporting mandatory for companies, adding reporting obligations for environmental, social and sustainable governance (ESG) management methods.

Environmental and energy impacts

The natural environment is the scenario where the activities of the Group are performed and is to be preserved with a responsible and efficient use of resources, protecting sources, safeguarding the natural areas where the plants and service networks encroach, mitigating the physical and the external impacts generated in the ecological context of the operating processes.

Consider for example energy generation where the repowering initiatives constantly act to modernise plants also by pursuing the lowest environmental impacts in terms of emissions, or the integrated water service where Acea’s responsible management in resources starts from the provisioning stage, to make it available to people and ends with the commitment to restore the runoff to the receptacle body in the best condition possible.

Finally, the environmental services linked to waste management cannot be overlooked, where the commitment to the ecosystem regards both operating processes, just think about the environmental efficiencies brought in the innovative project of the Eco-belt® WA belts in the waste to energy plant of San Vittore del Lazio, or the transformation of waste with a view to circular economy, as occurs with sludge treatment for water purification.

In keeping with the desire to operate while respecting and protecting the surrounding environment, Acea has already implemented a series of initiatives aimed at better managing the aspects of its activities that have a general impact on the environment and specifically on energy, also thanks to the use of advanced systems and technologies.

- Management systems: the widespread adoption of environmental and energy management systems is a concrete response on the importance of environmental dynamics for Acea and a managerial tool for continuous improvement in performance;
- mobility management: a focus on the environmental impacts of corporate activities also concerns the effects produced by the movements of employees. In this context, the Acea Group has undertaken initiatives to reduce employee travel and to encourage less polluting means of transport;
- carbon disclosure project (CDP): Acea publishes its initiatives, for over ten years communicating them to the international CDP organisation, which produces various annual online reports aimed at informing analysts and lenders about the levels achieved by companies in managing risks and opportunities related to the topic of climate change;
- green purchases: Acea has set itself the goal of increasingly developing Green Procurement for the relevant product categories included in the PAN (National Action Plan for Green Procurement);
- environmental conduct of the supply chain: Acea has committed to assessing its suppliers on an annual basis with regard to the environmental performance of the products/services supplied, and to inform/train contractors and subcontractors regarding the environment;

Acea has included actions to combat climate change in its 2018-2022 Sustainability Plan, which includes both mitigation and adaptation actions and monitors the matter and related EU and international developments (the COP - Conference of the parties and European legislation). Environmental issues related to the array of services provided by the Group are included in the Organisation and Management Model pursuant to Italian Legislative Decree no. 231/01.

Development and technological innovation

Technology represents an area that is both dynamic and critical for Acea. The intense activity of research and development by the producers of technological services and the pervasive application of these technologies in the areas of Acea's operations led in 2018 to a substantial refocusing on the topic of Innovation. The Innovation, Technology & Solutions department, which reports directly to the CEO, was set up with an Organisational Unit dedicated to Innovation that has the task of ensuring an Innovation model for the Group through the adoption of processes and Open Innovation approaches that involve internal and external stakeholders, assigning the new activities to the three pillars of the business plan: Infrastructure, People, Customers. In 2018, innovation initiatives were launched for each of the three pillars, with positive effects on the infrastructure, employees and customers.

In addition, from an Open Innovation perspective, partnerships have been established with Open Fiber for the evolution of networks and the development of innovative services for the city of Rome, and with Huawei for the definition of projects of high technological value to provide advanced and innovative services in Smart and Safe City area.

Development of human capital

To cope with the increasingly rapid changes of our time and transform them into opportunities for development, Acea has decided to focus on the evolution of its corporate culture.

The new Leadership model, values and behaviours guide and con-

tribute to defining an organisational setting that seeks to promote a constant development of human capital, recognised as a fundamental asset for remaining competitive in a changing economic and social context.

Entrepreneurship, teamwork and action are the three pillars upon which the Group's initiatives are built to achieve the goals of the 2018-2022 strategic plan and the sustainability plan.

Among these, the goal of enhancing people for the growth of the Group is broken down and carried out through three areas of activity:

- professional growth, training and development of skills through a process that, starting from hiring, uses training and a performance assessment system to align behaviour with the Leadership model and the values of the Acea Group in a constant development of human capital;
- involvement of people in the Group's identity through specific initiatives designed to promote employer branding, making Acea increasingly attractive for new talent;
- inclusion and organisational well-being, with the launch of initiatives aimed at making work increasingly "smart" and boosting motivation, potential and satisfaction of personnel, as well as the well-being of employees, recognising the strategic value of Diversity, Health and the Safety of workers.

Sustainable management of the supply chain

Aware of the positive contribution that sustainable supply chain management can offer to protecting the environment, Acea is committed to defining purchasing methods that include intrinsic characteristics of the products and aspects of the process that limit environmental impact and foster initiatives aimed at minimising waste, reusing resources and protecting the social aspects involved in the procurement of goods, services and works defined and used to meet its needs.

Indeed, for several years Acea has been using the Minimum Environmental Criteria, in its calls for tenders including even rewarding aspects that are not mandatory but often decisive in ensuring the maximum achievement of the objectives set. Furthermore, it engages in the education of its own resources so that the purchasing choices tend toward goods or services with sustainable characteristics, thus stimulating the development of a specific sensitivity towards these aspects, with the aim of having them always present in supplier selection processes.

Health and safety in the workplace

2018 marks the tenth anniversary of the "Consolidated Law on Safety and Health in the Workplace", published on 9 April 2008, and, while over the past ten years numerous actions have been taken to prevent accidents, the current INAIL data in Italy unfortunately show an increase in the number of accident reports.

Acea carries out constant awareness campaigns on the subject, with the aim of profoundly affecting the widespread dissemination of a culture of safety involving all its employees. It has also implemented an advanced risk assessment model, not to mention control and mitigation measures. Acea has also launched a number of initiatives to raise awareness of and involvement in the issues discussed above with its contractors and sub-contractors, key business partners throughout the entire value chain.

To this end, an intense audit activity carried out at construction sites also contributes, such inspections being an effective tool for verifying the application of safety regulations and procedures with respect to maintenance contracts for networks and plants.

TREND OF OPERATING SEGMENTS

ECONOMIC RESULTS BY SEGMENT

The results by segment are shown on the basis of the approach used by the management to monitor Group performance in the financial

years compared in observance of IFRS 8 accounting standards. Note that the results of the “Other” segment include those deriving from Acea corporate activities as well as inter-sectoral adjustments

31.12.2018	Environment	Commercial and Trading	Overseas	Water	Energy Infrastructures				Engineering and Services	Other	Consolidated Total		
€ million					Generation	Distribution	IP	Adjustments	Total	Corporate	Consolidation adjustments		
Revenues	174	1,693	39	841	81	559	48	(2)	687	74	129	(566)	3,072
Costs	108	1,617	24	408	32	242	54	(2)	326	56	164	(566)	2,139
EBITDA	66	76	15	433	49	317	(5)	-	361	18	(35)	-	933
Depreciation/ amortisation and impairment charges	27	72	7	212	24	129	9	-	162	3	(28)	-	455
Operating profit/loss	38	4	8	221	25	188	(14)	-	199	15	(7)	-	479
Capex	20	25	7	330	16	218	4	-	238	2	10	-	631

The revenues in the above table include the condensed result of equity investments (of a non-financial nature) consolidated using the equity method.

31.12.2017	Environment	Commercial and Trading	Overseas	Water	Energy Infrastructures				Engineering and Services	Other	Consolidated Total		
€ million					Generation	Distribution	IP	Adjustments	Total	Corporate	Consolidation adjustments		
Revenues	161	1,577	36	731	70	528	62	(1)	659	84	120	(545)	2,824
Costs	97	1,499	22	382	29	241	57	(1)	326	70	134	(545)	1,984
EBITDA	64	78	14	350	41	287	4	-	333	15	(14)	-	840
Depreciation/ amortisation and impairment charges	39	60	6	158	24	141	1	-	165	3	48	-	480
Operating profit/loss	25	18	8	191	18	147	3	-	168	11	(62)	-	360
Capex	15	19	5	271	23	186	1	-	209	1	11	-	532

OPERATING SEGMENT

The Acea macrostructure is divided into Corporate functions and in six industrial segments: Water, Energy Infrastructures, Commercial and Trading, Environment, Overseas and Engineering and Services



ENVIRONMENT OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE PERIOD

Operating figures	U.M.	2018	2017	Change	% Change
WTE conferment	kTon	466	459	7	1.5 %
Conferment to CDR production plant	kTon	0	0	0	0 %
Net Electrical Energy transferred	GWh	355	354	1	0.2 %
Waste coming into Orvieto plants	kTon	89	100	(11)	(10.8%)
Waste Recovered/Disposed of	kTon	565	518	48	9.2 %
of which					
Incoming waste composting plants, sludge and liquids disposed of	kt	480	438	42	9.6 %
Slag and Ash produced by WTE	kt	86	80	5	6.7 %

Operating results and financial position

€ million	31/12/2018	31/12/17	Change	% Change
Revenues	173.9	161.1	12.8	7.9 %
Costs	108.3	96.7	11.7	12.1 %
EBITDA	65.6	64.5	1.1	1.8 %
Operating profit/(loss) (EBIT)	38.4	25.1	13.4	53.2 %
Average number of personnel	360	355	5	1.4 %
Capex	20.0	15.4	4.6	30.1 %
Net financial debt	203.6	195.3	8.3	4.2 %

Gross operating profit (EBITDA)

€ million	31/12/2018	31/12/17	Change	% Change
Gross operating profit (EBITDA) ENVIRONMENT Area	65.6	64.5	1.1	1.8 %
EBITDA GROUP	933.2	840.0	93.3	11.1 %
Percentage weight	7.0 %	7.7 %	(0.6 p.p.)	

The Segment closed the financial year 2018 with an EBITDA level of € 65.6 million (+ 1.8%). This performance is mainly attributable to the improvement recorded by **Acea Ambiente** (+ € 2.1 million) due to both the greater transfers of waste and the greater quantities of electricity sold, and **Iseco** (+ € 0.3 million), offset in part by **Acque Industriali** (- € 1.0 million) following the ongoing regulatory uncertainty in the area of sludge recovery, and **Aquasider** (- € 0.4 million).

The average number of staff as at 31 December 2018 was 360, 5 more than the previous year. The growth is mainly attributable to **Acea Ambiente**.

The investments in the Segment amount to € 20.0 million, up by € 4.6 million compared to the previous year, and refer mainly to the works to expand the Monterotondo Marittimo plant, the works carried out in the WTE plants in Terni and San Vittore, the works on the waste treatment plant and biogas production located in Orvieto and the purchase of industrial land near Chiusi.

The net financial debt of the Segment stands at € 203.6 million (+ € 8.3 million). The increase is mainly due to the dynamics of the operating cash flow.

SIGNIFICANT EVENTS FOR THE 2018 FINANCIAL YEAR

At the end of the year and precisely on 1 December 2018, the company entered **Bioecologia S.r.l.**, company acquired by Siena

Ambiente S.p.A. and wholly owned by Acea Ambiente. The Company carries out its activity in the liquid waste purification, treatment and intermediation sector. The activity is carried out in the treatment plants located in the municipalities of Chiusi, Buonconvento and Colle Val d'Elsa.

As regards the single local units, it should be noted that:

Terni (UL1): the conferment of the pulper waste has ensured the fuel requirements for the entire period and the expected performance was confirmed in terms of both the pre-treatment of waste and the production of electrical energy. Following the presentation of a new authorisation request by Acea Ambiente aimed at obtaining an expansion of the category of non-hazardous waste to be launched for energy recovery, the fifth Service Conference was held on 19 December 2017, which concluded the AIA verification phase and in fact initiated the verification phase of the Environmental Impact Assessment procedure at the pertinent offices of the Umbria Region. On 4 December 2018, an application for an EIA was presented concerning the increase of non-hazardous waste categories (CER codes) to be sent for energy recovery at the Terni waste-to-energy plant.

Paliano (UL2): the characterisation plan was presented to the Ministry of the Environment which, with Decree no. 557 of 11/12/2017, approved the Plan for the characterisation of the entire Paliano site, included in the Site of National Interest (SIN) "Sacco River Basin". The Company has planned to implement what is specified in the aforementioned Characterisation Plan by means of

functional sections, starting operations from the area where the decommissioned purifier is located.

Once the operations of characterisation of the first section have been completed and the authorisation from the Ministry of the Environment has been obtained, the aforementioned purifier will be demolished in order to guarantee a progressive redevelopment of the property.

Due to a request for clarification sent by ARPA Lazio to the Ministry of the Environment, the characterisation activities have not yet been started. On 30 January 2019 a meeting was held at the Ministry of the Environment to define the characterisation of the area in detail. With regard to the authorisation procedure for the construction of the industrial site, note that the authorisation for landscape works and the related consequent permit to build is currently in the preliminary phase.

San Vittore del Lazio (UL3): the waste-to-energy plant is destined for the production of electricity from renewable sources, and in particular from RDF produced by the treatment of urban waste exclusively from the territory of the Lazio Region. During the period of reference the three lines of the plant ensured regular operations, both in terms of electricity produced and in terms of RDF used for energy recovery.

Orvieto (UL4): in compliance with that stated in the Integrated Environmental Authorisation and the contract signed with the ATI and municipalities in the reference area, the conferment of non-hazardous urban and special waste continued, starting recovery and disposal activities on time. As regards the project submitted in 2014 for the morphological adjustment of the site and optimisation of the volumes and capping of the landfill, it should be noted that after a EIA/IEP preliminary investigation process that continued until January 2016, the Umbria Region has interrupted the verification phase without reason: Acea Ambiente has initiated appropriate legal proceedings.

Furthermore, in May 2017, the Company again appealed the judicial procedures for the annulment, subject to suspension, of the effectiveness of the Regional Council's resolution of the Umbria Region and of all the prerequisites, with which the Body approved the resolution with which it considered insurmountable the dissent declared by the Municipality of Orvieto in the context of the EIA - IEP coordinated procedure related to the project "Morphological adaptation of the site and optimisation of volumes and top capping - Orvieto landfill, Pian del Vantaggio no. 35/A".

In the last months of June, July and September, a number of institutional discussions were held at the headquarters of the Umbria Region to verify every possible project evolution to enable the site to be evaluated for the purposes of implementing the Regional Urban Waste Management Plan and in compliance with the indications contained in the Regional Deliberations approved up to now. The discussions allowed verifying the solutions most suitable for overcoming the dissent expressed by some institutions with regard to the project in question. In this sense, the Company presented a design change that allowed the continuation of the environmental compatibility verification activities during the Environmental Impact Assessment. The work of the Services Conference was restarted and the conference was convened for the day 23 April 2018. Following the negative opinion issued by the Municipality of Orvieto, the Umbria Region convened the Coordination Committee on environmental assessments for 21 May 2018. Here the Regional Council, on the basis of the Committee's findings, expressed a favourable opinion on the issue of the EIA authorisation, thus overturning the dissent of the Municipality of Orvieto.

The Umbria Region therefore issued a positive opinion on the Environmental Impact Assessment of the project under discussion, issuing DD no. 5559 on 1 June 2018. These authorisations allowed

the start of the landfill expansion works on 16 July 2018, with the preparation of the 9-bis tier. The works are in the final phase and should be completed by April 2019.

Monterotondo Marittimo (UL5): in 2017 the executive design and construction of the plant were awarded in the anaerobic/aerobic configuration with a total capacity of 70,000 t/year. During the month of May, construction activities began for the construction of the new plant by the entity that won the tender.

With reference to the composting activities carried out at the current plant, on 31 December 2017 the transfer of waste was interrupted. The plant was completely empty and therefore activities were completely suspended on 30/04/2018. During the month of May, construction activities began for the construction of the new plant by the entity that won the tender, and during June 2018 the works were handed over definitively.

The suspension is part of the current authorisation provisions and has become necessary also in relation to the operational needs that do not allow for the coexistence of operations with the construction of the new plant.

The extension and construction works of the anaerobic digestion section are in full swing and it is plausible to assume that the work will be completed on time, subject to any postponements relating to the complementary works on the pre-existing structures and any other unforeseen events.

Saubaudia (UL6): during the period of reference, the plant underwent important redevelopment works that involved various areas. The Lazio Region issued the water permit with provision no. 1900 of 3 July 2018.

Following the positive outcome of the inspection carried out on 17 September 2018 by the Lazio Region, it was possible to restart the plant itself, as required by D.D. Authorisation no. G06449 of 21 May 2018, limited to the composting activity.

With regard to the liquid waste treatment plant section, the Company is awaiting the opinion of the Province of Latina regarding hydro-geological constraints in order to complete the preliminary authorisation procedure still pending with the Lazio Region.

Aprilia (UL7): The plant is authorised for operation with an Integrated Environmental Authorisation issued by the Lazio Region with DD no. G08408 of 7 July 2015 and subsequent amendments.

Works are currently ongoing for the realisation of the new plant configuration, which will enable the current treatment capacity to be increased with the introduction of an energy recovery section.

The construction of the second-stage civil works will probably be completed by March 2019. In the meantime, the areas and works for the construction contract for electromechanical projects have already been delivered (third and last part). Note that on 14 December 2017, a preventive urgent seizure measure of the entire composting plant was issued, due to the findings of an audit activity by the Supervisory Authorities who found the presence of strong miasmas coming from the production cycle, thus generating discomfort for citizens living in the immediate vicinity of the plant.

Subsequently, the Lazio Region notified a formal notice measure to comply, requiring multiple activities to be carried out, aimed at overcoming the critical issues found.

Acea Ambiente, while considering that it is able to prove that it has implemented correct management of the plant in compliance with the IEP guidelines, fulfilled all the prescriptions given. In this regard, it should be noted that by provision dated 12 April 2018, the provisional use of the plant was permitted with the authorisation to restart the contributions.

Finally, note that the works for the construction of the front part aimed at limiting the odour emissions in the waste discharge phase have been completed. The Lazio Region carried out inspections with a positive outcome on 10 July 2018 and on 12 July 2018.

The entity announced its acknowledgement. All the fire prevention upgrades that allowed the compost storage warehouse to operate were also completed.

Again in relation to the Aprilia site, note that the Lazio Region has initiated a review procedure of the current authorisation for the part relating to the plant engineering section in operation.

COMMERCIAL AND TRADING OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE YEAR

Operating data	U.M.	2018	2017	Change	% Change
Electrical Energy sold - Free	GWh	3,685	4,191	(506)	(12.1%)
Electricity sold on the protected market	GWh	2,344	2,652	(308)	(11.6%)
Electricity - Free market customers (P.O.D.)	N/000	331	320	12	3.6 %
Electrical Energy - No. Protected Market Customers (P.O.D.)	N/000	831	893	(62)	(6.9%)
Gas Sold	Msm ³	128	103	25	24.6 %
Gas - No. Free Market Customers	N/000	173	167	5	3.2 %

Operating results and financial position € million	31/12/18	31/12/17	Change	% Change
Revenues	1,693.2	1,576.7	116.5	7.4 %
Costs	1,617.1	1,499.1	118.0	7.9 %
EBITDA	76.1	77.6	(1.5)	(1.9%)
Operating profit/(loss) (EBIT)	3.7	17.6	(13.9)	(79.2%)
Average number of personnel	464	474	(10)	(2.0%)
Capex	24.6	19.4	5.3	27.2 %
Net financial debt	(23.7)	(8.7)	(15.1)	173.8 %

Gross operating profit (EBITDA) € million	2018	2017	Change	% Change
Gross operating profit (EBITDA) Commercial and Trading Segment	76.1	77.6	(1.5)	(1.9%)
EBITDA GROUP	933.2	840.0	93.3	11.1 %
Percentage weight	8.2 %	9.2 %	(1.1 p.p.)	

The Segment, responsible for the management and development of electricity and gas sales and related customer relationship activities as well as the Group's energy management policies, closed 2018 with an EBITDA of € 76.1 million, down compared to 2017 by € 1.5 million. The reduction is mainly attributable to **Acea Energia** (- € 2.1 million) and **Acea8cento** (- € 0.4 million), only partially mitigated by the better margin of **Umbria Energy** (+ € 0.8 million).

With regard to the effects on the primary gross margin, the reduction recorded by **Acea Energia** is mainly due to the decrease in the **free market** margin (- € 7.3 million) and the margin of the **gas market** (- € 4.8 million mainly due to higher procurement costs). The margin of the **protected market** is substantially in line with the previous year. The reduction in the free market margin is due to the contraction in volumes of electricity sold, mainly in the B2B segment, to the lower margins in the mass market segment and to the regulatory review of imbalances. However, we note an increase in the number of customers, with particular reference to the small business and mass market segments (+ 4.0%).

The operating result shows a reduction of € 13.9 million due to hi-

gher provisions recorded compared to the previous year (+ € 5.8 million), to which are added the economic effects deriving from the first application of the new IFRS 15 international standard, which reclassifies the cost of agents from service costs to depreciation and amortisation (+ € 7.4 million).

With reference to the workforce, the average number at 31 December 2018 stood at 464 employees; this number was down compared to the previous year by 10 employees. The primary contributors to this change are **Acea8cento** (- 14 people) and **Acea Energia** (+ 6 people).

The investments of the Segment amount to € 24.6 million and show an increase of € 5.3 million, mainly due to the capitalisation of costs for agents in line with the provisions of the new IFRS 15 international standard (+ € 9.5 million).

The net financial position at 31 December 2018 stood at - € 23.7 million, an improvement of € 15.1 million compared to 31 December 2017. The above trend derives from operating cash flow dynamics influenced by the improvement in collection performance and lower payables for lower volumes of energy purchased on the protected market.

SIGNIFICANT EVENTS FOR THE 2018 FINANCIAL YEAR

Energy Management

Acea Energia is responsible for performing the “Energy Management” necessary to Group operations, particularly with regard to sales and production. The Company also liaises with the Energy Market Operators (GME) and with Terna. In relation to the institutional entity Terna, the Company is the input Dispatch User for Acea Produzione and other companies in the Group. It performed the following main activities in the period:

- the optimisation and assignment of electricity produced by the Tor di Valle and Montemartini thermoelectric plants and by the S. Angelo hydroelectric plant,
- the negotiation of fuel procurement contracts for the power generating plants,
- the procurement of natural gas and electricity for the sales company to sell to end customers,
- the optimisation of the supply portfolio for the procurement of electricity and management of the Energy segment companies’ risk profile.

In 2018 Acea Energia purchased electricity from the market for a total of 11,321 GWh, of which 9,509 GWh through bilateral contracts and 1,813 GWh through Borsa, for resale to end customers of the free market and for the optimisation of energy flows and the purchasing portfolio.

Electricity distribution

As regards the sales market, the refocusing of **Acea Energia’s** sales strategy continued in the period with a more capillary and attentive selection of customers which tends to favour contracting small (residential and micro business) customers.

In 2018, Acea Energia sold electricity on the Protected service for a total of 2,344 GWh, with a 11.6% reduction on a trend basis. The number of withdrawal points totalled 831,236 (893,319 at 31 December 2017). Sale of electricity on the Free Market amounted to 3,323 GWh for Acea Energia and 362 GWh for the sales Joint Venture, for a total 3,685 GWh, a decrease of 12.1% compared to last year. The reduction mainly concerned the B2B segment and derives from a strategy of consolidation in the small business and mass market segments.

In addition, Acea Energia and the other sales companies of the Group sold 128.3 million Sm³ of gas to end customers and wholesalers which involved 172,755 re-delivery points, while at 31 December 2017 they were 167,371.

With regard to the proceedings started by the Antitrust Authority, the main updates are described below:

Proceeding PS9815 of the AGCM antitrust authority for unsolicited activations: the Court of Justice suspended the discussion of the judgement in question, pending the definition of the preliminary questions raised by the Council of State in a different ruling, with reference to the application of the Directive on unfair commercial practices in the electronic communications sector.

The Court of Justice has not accepted the request of the Lazio Regional Administrative Court to implement an “accelerated” procedure for the settlement of the preliminary question.

Proceeding PS9354 of the AGCM antitrust authority for unfair commercial practices: on 7 December 2017 the AGCM replied with an acknowledgement of Acea Energia’s measures to comply with the Authority’s sanctions, deeming them substantially adequate. In this regard, the Authority requested a report no later than 30 June 2018 regarding the measures definitively taken by that date to complete implementation of the Acea 2.0 System, for full compliance with the above-mentioned sanctions.

On 2 July 2018 Acea Energia submitted the report requested by the antitrust authority concerning the definitive measures implemented by the Company at 30 June 2018 in compliance with the provision in question.

On 24 September 2018, the Company received a new request for information formulated by the antitrust authority in response to the last Acea Energia note containing the description of the measures to comply with the provision implemented by the Company. In particular, the authority requested by 24 October 2018 further indications regarding the handling of the adjustment/recovery invoices, inclusive of fully or partially prescribed consumption.

The AGCM antitrust authority focused on the new aspects introduced by Italian Law no. 205 of 27.12.2017 as well as the resolutions of ARERA 97/2018/R/COM and 264/2018/R/COM regarding the limitation period for the payment of electricity and gas consumption, and asked the Company to specify the impact of this changed regulatory framework on the functionality of the Acea 2.0 System regarding the processing of invoices inclusive of consumption limitation periods. On 24 October 2018 the Company responded to the aforementioned AGCM request regarding the impact of the changed regulatory and regulatory framework in light of Italian Law no. 205 of 27.12.2017 and of the deliberations of ARERA 97/2018/R/COM and 264/2018/R/COM on the subject of consumption limitation periods.

Proceeding A513 of the AGCM antitrust authority for abuse of a dominant position: on 18 January 2018, with the support of the Guardia di Finanza, the AGCM carried out another audit at the offices of Acea Energia S.p.A. in Piazzale Ostiense 2 and in Viale dell’Aeronautica 7, as well as at the registered office of Acea S.p.A. and at the registered office of Areti S.p.A.

During the inspection the Authority served the aforementioned companies with a provision of objective and subjective extension of the A/513 procedure. Specifically, the antitrust authority deemed it necessary to extend the investigation both objectively with regard to the availability and exploitation by Acea Energia of inside information and subjectively to the electricity distribution company areti S.p.A., vertically integrated with Acea Energia, as a party that transfers this information to the sister.

During the audit, the officers in charge of the AGCM examined corporate documents both in paper form and in electronic format considered relevant in light of the aforementioned extension of the procedure, extracting a copy and requesting oral information concerning the subject matter of the proceedings from employees of the companies involved.

On 9 February 2018, following the extension granted by the AGCM, Acea Energia filed an application for confidentiality pursuant to art. 13, paragraph 7 of Italian Presidential Decree no. 217/98 regarding the documents acquired during the audit.

Having submitted a request to access the deeds and this having been upheld by AGCM, Acea Energia and Acea S.p.A. were able to examine the additional documents relative to these proceedings.

On 3 August 2018 the antitrust authority served the companies involved with a Communication of Preliminary Results (hereinafter CPR), document in which the authority renders its preliminary findings official based on the information gathered during the Procedure, and, for the purposes of the assessment of the violations of article 102 of the TFEU, identifies 1) the relevant markets, 2) the existence of the dominant position of the companies of the Acea Group, 3) the abuse of said dominant position, (iv) the severity and duration of the abuse of dominant position. From this CPR it emerges that the authority challenges the entire Acea Group to pursue a commercial/industrial strategy aimed at governing the “emptying” of its protected market customer base through the unlawful exploitation of irreplicable prerogatives deriving directly from the perfor-

mance in a legal monopoly both of the distribution activity and of the activity carried out as the operator of the Enhanced Protection Service in the areas of the Municipalities of Rome and Formello. The conduct identified by the Authority as instrumental to the pursuit of this purpose would be:

- a. the Group's use of discriminatory methods to acquire privacy consent for the contact data of SMT customers and their use for commercial purposes on the free market (an infringement that allegedly occurred from March 2014 until December 2017);
- b. the Group's use for commercial purposes of sensitive information regarding the market positioning of its main competitors that was exclusively available to areti (an infringement that allegedly started in February 2016 for data on an annual basis, and in October 2016 on a monthly basis at least until August 2017).

The Authority concluded that the aforementioned conduct – contested by the three companies (Acea S.p.A., areti and Acea Energia S.p.A.) – was intended to exploit the dominant position held by the Acea Group companies (in the distribution and sale of electricity) in order to maintain the market position of the Acea Group sales company, also following the imminent repeal of the enhanced protection regime, and constituted a very serious breach of the regulations for the protection of competition.

The Authority defined some corporate and strategic choices of the Acea Group as “consistent with abusive objectives” consonant with the disputed conduct, increasing its serious nature. These choices would be as follows:

- a. organisational/corporate evolution of the Acea Group in the electricity sector;
- b. industrial commercial strategy planned by the same Group to deal with the planned changes in the market of energy sales;
- c. the characteristics/potential of the Acea Group's information systems;
- d. the unitary management of electricity sales activities;
- e. the electrical services sales organisation used by AE.

On 15 November 2018, Acea Energia, together with Acea S.p.A., filed the final brief and related attachments, including the “Economic Opinion on the alleged conduct of Acea Energia S.p.A., as part of proceeding A/513” prepared by Officina Economica.

On 20 November 2018 the final hearing of the proceedings was held. The Group filed briefs and defensive documents whose main points were as follows:

- the reconstruction of the actual scope of the Group's disputed conduct (acquisition of privacy consent for commercial purposes) and of its concrete exclusionary effect on the market in order to demonstrate the negligible materiality, and therefore its substantial ineffectiveness;
- the assessment of the informational advantage that Acea Energia would have benefited from, taking advantage of the information that Areti allegedly made available to it (market shares of Acea Energia's competitors in the free market), in order to demonstrate its substantial irrelevance;
- the critical examination of the empirical evidence presented by AGCM about the alleged “differential capacity” of Acea Energia to attract users from the Protected Service to the Free Market, from which it allegedly benefited thanks to the disputed conduct in the CPR, in order to demonstrate its inexistence.

On 8 January 2019 the AGCM antitrust authority notified the Company of the final Order of Procedure A/513. In this order, the Authority ruled that Acea S.p.A., Acea Energia S.p.A. and areti S.p.A. 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.

The Company is considering filing an appeal with the regional administrative court against the aforementioned fine, and, at the same time, is assessing the measures to be implemented in compliance with the provisions of the AGCM.

Proceeding PS9974 of the AGCM antitrust authority for unfair trade practices:

on 30 May 2018, the AGCM served a note (also called “Moral Suasion”) to Acea S.p.A. concerning an invitation to eliminate any possible commercial misconduct pursuant to art. 4, paragraph 5 of the “Regulation on preliminary investigations concerning misleading and comparative advertising, unfair trade practices, violations of consumer rights in contracts, violation of the prohibition of discrimination and unfair terms”. In fact, the Authority noted that it had received complaints from consumers and micro-enterprises regarding the conduct of certain operators in the sector that during transfer or takeover of the utilities would only activate the supply if the new party agreed to pay any outstanding amounts (so-called “past arrears”) from the previous holder of the supply contract. Therefore the AGCM requested that within 30 days from receipt of said note elements be produced demonstrating that the procedure implemented by the company, in the event of request for transfer or takeover in the case of previous arrears, does not involve any request for payment by the new party or an unjustified delay in the fulfilment of the necessary obligations. The Authority also requested to explicitly specify in the Contractual Conditions, on the website and in the FAQs the procedure adopted and any documentation required to comply with the request for transfer or takeover.

On 2 July 2018, Acea Energia, as the company of the Acea Group that deals with the sale of electricity to end users with respect to which the activities of “Moral Suasion” seems to have been reported, submitted a timely acknowledgement to the AGCM regarding the requests made by the Authority.

On 26 September 2018, the Company was notified by the antitrust authority of the outcome of the procedure concerning the invitation to eliminate possible improprieties in its commercial conduct, pursuant to art. 4, para. 5 of the “Regulations on preliminary procedures concerning misleading and comparative advertising”, which had been served to the company on 30 May 2018.

The authority decided to dismiss the requests for action because the activities put in place by the company are considered sufficient to eliminate any commercial improprieties under investigation.

OVERSEAS OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE YEAR

Operating data	U.M.	2018	2017	Change	% Change
Water Volumes	Mm ³	43	44	(1)	(1.9%)

Operating results and financial position	31/12/2018	31/12/17	Change	% Change
€ million				
Revenues	38.6	36.2	2.4	6.7 %
Costs	23.8	21.7	2.1	9.4 %
EBITDA	14.8	14.4	0.4	2.6 %
Operating profit/(loss) (EBIT)	7.8	8.3	(0.4)	(5.0%)
Average number of personnel	781	595	186	31.2 %
Capex	6.6	5.2	1.4	27.1 %
Net financial debt	4.1	7.4	(3.2)	(43.9%)

Gross operating profit (EBITDA)	2018	2017	Change	% Change
€ million				
Gross operating profit (EBITDA) Overseas Segment	14.8	14.4	0.4	2.6 %
EBITDA GROUP	933.2	840.0	93.3	11.1 %
Percentage weight	1.6 %	1.7 %	(0.1 p.p.)	

The Segment, incorporated following the organisational changes in May 2017 (it was previously included in the Water Segment), currently includes the water companies managing the water service in Latin America. Specifically:

- Aguas de San Pedro (Honduras), 60.65% owned by the Group as of October 2015, when it was consolidated using the line-by-line method. The Company serves its customers in San Pedro Sula;
- Acea Dominicana (Dominican Republic) wholly owned by the Group, provides the service to the local municipality known as CAASD (Corporation Aqueducto Alcantariado Santo Domingo);
- AguaAzul Bogotá (Colombia) of which the Group holds 51% is consolidated on the basis of the equity method with effect from the 2016 financial statements as a result of a change in the composition of the Board of Directors;
- Consorcio Agua Azul (Perù) is controlled by the Group which owns 25.5% and provides the water and discharge service in the city of Lima.

Furthermore, during 2018:

- Acea Perù, wholly owned by Acea International, was established on 28 June 2018. This company was established with the specific intent to manage the aqueduct service in the city of Lima.
- Consorcio Servicios Sur controlled by Acea International (50%), Acea Ato 2 (1%) and by local partners Conhydra, Valio and India (total 49%) and established on 5 July 2018. This company has the specific aim of managing the corrective maintenance service for the Drinking Water and sewerage systems of the Directorate of Services Sur of Lima (Perù).

This Segment closed 2018 with an EBITDA of € 14.8 million, substantially in line with the previous year (€ 14.4 million in 2017).

The average headcount at 31 December 2018 stood at 781 units

and was up by 186 compared to the previous year, mainly due to the consolidation of **Consortio Servicios Sur** (+ 172 units).

Investments for the year increased by € 1.4 million and refer mainly to the company **Aguas de San Pedro**.

Net financial debt at 31 December 2018 amounted to € 4.1 million, an improvement compared to 2017 of € 3.2 million mainly attributable to **Agua de San Pedro** (- € 2.3 million) and **Acea International** (- € 1.2 million), partly offset by the consolidation of **Consortio Servicios Sur** (+ € 0.3 million).

SIGNIFICANT EVENTS FOR THE 2018 FINANCIAL YEAR

The Overseas Operating Segment was affected by the reorganisation of investments in South America which gave Acea International S.A. a management and coordination role. With this in mind, the transfer of the shareholdings that Acea held in Acea Dominicana S.A. and Aguas de San Pedro to Acea International took place in 2017, to which is added the transfer of shareholdings that Acea held in Consorcio Agua Azul S.A in 2018.

The role of Acea International is increasingly directed to the execution of scouting and monitoring activities in Central and South America that have the purpose of presenting events of interest to various initiatives. It should be noted that during the month of July 2018, the management of the corrective maintenance of the water and sewerage system in the south area of Lima was awarded to Acea International.

Acea Dominicana and Consorcio Agua Azul (CAA) are also included in this area.

The former carries out commercial management service in the northeast part of Santo Domingo, while the latter has built and manages the water supply system in the northern part of Lima.

WATER OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE YEAR

Operating figures*	U.M.	2018	2017	Change	% Change
Water Volumes	Mm ³	440	421	19	4.5 %
Electrical Energy Consumed	GWh	440	432	8	1.8 %
Sludge Disposed of	kTon	96	143	(47)	(32.8%)

* The values refer to fully consolidated companies (including GORI).

Operating results and financial position

€ million	31/12/18	31/12/17	Change	% Change
Revenues	841.0	731.1	109.8	15.0 %
Costs	408.0	381.5	26.5	6.9 %
EBITDA	433.0	349.6	83.3	23.8 %
Operating profit/(loss) (EBIT)	221.0	191.3	29.7	15.5 %
Average number of personnel	2,551	1,796	755	42.1 %
Capex	329.7	271.4	58.2	21.5 %
Net financial debt	1,039.0	921.2	117.8	12.8 %

Gross operating profit (EBITDA)

€ million	2018	2017	Change	% Change
Gross operating profit (EBITDA) Water Segment	433.0	349.6	83.3	23.8 %
EBITDA GROUP	933.2	840.0	93.3	11.1 %
Percentage weight	46.4 %	41.6 %	4.8 p.p.	

EBITDA for the Segment stood at € 433.0 million at 31 December 2018, an increase of € 83.3 million compared to 2017 (+ 23.8%). The increase is mainly due to the tariff dynamics of the water sector. Specifically, performance in the Segment is influenced

by: 1) Acea Ato 2, Acea Ato 5, Crea Gestioni which recorded increases of € 49.8 million, € 4.1 million and € 1.9 million respectively; and 2) an increase in the contribution to EBITDA of water companies valued at equity of € 15.6 million, as shown below:

€ million	2018	2017	Change	% Change
Publiacqua	15.8	9.2	6.6	71.5%
Acque Group	13.9	8.7	5.2	60.2%
Acquedotto del Fiora	4.4	2.3	2.1	91.3%
Umbra Acque	1.1	0.3	0.9	n.s.
Gori	3.0	1.9	1.1	58.1%
Nuove Acque and Intesa Aretina	0.5	0.5	(0.0)	(8.4%)
GEAL	1.0	1.3	(0.3)	(21.6%)
Total	39.7	24.1	15.6	64.6%

For **GORI**, note that the company was fully consolidated starting from 8 November 2018, therefore the valuation of net equity does not include the last period of the year in which the contribution to the EBITDA of the company was equal to € 12 million.

The revenues for the year are measured on the basis of the calculations made by the EGA and/or the ARERA; as usual, these include the estimate of the adjustments concerning the passing costs. As is known, as of the second *regulatory* period, the tariffs may also include marketing and technical quality components; under specific conditions, the Managers may be recognised the Opexqc com-

ponent or alternatively the “contractual quality” award. The latter is recognised to the Manager if the indicators identified for metering and monitoring (as of 1 July 2016) exceed the thresholds established in ARERA resolution 655/2015. The Acea Ato 2 revenue includes the amount of € 33.6 million, representing the best estimate of the quality award due for 2018. The penalties for commercial quality amount to € 0.7 million. Below is a table summarising the status of the tariff proposals.

The operating result was affected by the increase in amortisation and depreciation (+ € 50.6 million) in line with the trend in invest-

ments and the entry into operation of the new functions of the programmes relating to investments in technological infrastructure as well as some write-downs on plants no longer realised (+ € 6.3 million). Provisions for the year (equal to € 14.5 million) decreased by € 8.0 million, attributable primarily to the effects deriving from the change in the methods of application of the criteria for estimating IFRIC 12 adopted by the group. The average headcount at 31 December 2018 increased by 755 units, mainly attributable to the consolidation of GORI (+ 746 units). Acea Ato 2 also contributed to the increase in resources (+ 8 units).

Investments in the Segment were € 329.7 million and were mainly attributable to Acea Ato 2 for over € 286.5 million and € 32.6 million to Acea Ato 5. The main investments in the year include those relating to the work carried out for the reclamation and expansion of the water and sewage pipes of the various municipalities, the extraordinary maintenance of the water centres, the interventions on the treatment plants, works to reduce water leaks and improve relationships with users and the local region and on IT applications. The contribution to investments in the Segment of the newly consolidated GORI is equal to € 9.9 million.

Net debt of the Segment at 31 December 2018 was € 1,039.0 million, an increase of € 117.8 million compared to 31 December 2017, principally due to: 1) Acea Ato 2, substantially due to the lower liquidity resulting from a reduction in the available assets primarily used to finance the investments; 2) to Acea Ato 5 as a result of a worsening of debt exposure to the parent company. It should be noted that the newly consolidated GORI contributes positively to the financial debt of the Segment, reducing it by € 10.5 million.

SIGNIFICANT EVENTS FOR THE 2018 FINANCIAL YEAR

Lazio - Campania area

Acea Ato 2

The Integrated Water Service in Ato 2 Central Lazio - Rome started on 1 January 2003. The management of the ATO Municipalities took place gradually and the Municipalities currently managed are 79 compared to 112 of the entire ATO. The overall situation of the managed area is shown below.

Acquisition situation	No. of municipalities
Municipalities fully acquired into the Integrated Water Service	79
Municipalities partially acquired, for which Acea ATO 2 provides one or more services	17
Municipalities with Protected Entity	1
Municipalities in which Acea Ato 2 provides no services	8
Municipalities that declared they do not wish to be part of the Integrated Water Service*	8

* Municipalities with less than 1,000 inhabitants which had the right to express their will in accordance with paragraph 5 of Italian Legislative Decree 152/06.

The Company provides the full range of **drinking water distribution** services (collection, abstraction, retail and wholesale distribution). Water is abstracted from sources on the basis of long-term concessions. Water sources supply approximately 3,900,000 residents in Rome and Fiumicino and in more than 60 Municipalities in the Lazio region, via five aqueducts and a system of pressurised pipes.

Three further sources of supply provide non-drinking water used in the sprinkler system of Rome.

As at 31 December 2018, Acea Ato 2 manages a total of 6,749 kilometres of sewerage network, 632 sewerage pumping stations – of which 195 in the Roma Capitale area – and a total of 167 waste treatment plants – 32 of which in the Roma Capitale area – for a total quantity of treated water equal to 569 million m³ (data referring to managed treatment plants only).

On 16 March 2018, the handover report for the municipality of Civitavecchia IWS was signed (effective 3 April 2018), only for the municipal drinking water service, while from 1 July 2018 the management of the purification and sewerage systems was acquired. The acquisition expanded the inventory of sewerage pumping stations by 35 and a treatment plant with a capacity of 86,400 inhab./eq.

The company manages the waste treatment system and pumping stations that serve the network and sewage trunk lines.

During the year the main treatment plants treated a volume of water equal to about 490 million m³, with an increase of about 4% compared to what was treated the previous year (468 million m³), attributable to the greater rainfall that affected the area.

During 2018 a critical issue emerged linked to the progressive reduction of the spaces in the treatment sites where the sludge coming from the treatment plants was to be conferred. This issue was mainly linked to the announced revision of the annexes to Italian legislative decree no. 99/92, which should unequivocally regulate the characteristics of sludge suitable for agronomic recovery.

This regulatory uncertainty has created organisational problems that have led to new conferrals, either due to the non-renewal of the authorisations or, prudently, to avoid incurring fines. The situation was made even more critical due to the particularly extraordinary meteorological events that did not allow for the continuous use of the contracted disposal companies (for example due to snow).

Discussions were established with the organisations and trade associations in order to guarantee as quickly as possible the issuing of a new regulatory decree updating legislative decree no. 99/92.

In the face of sentence no. 1782 of 20 July 2018 issued by the Regional Administrative Court of Lombardy, conferrals to the disposal plants that guaranteed up to 50% of the company's disposal spaces were blocked. To deal with this stoppage, the Company took action with targeted communications and round tables with the relevant Bodies obtaining the issuance of two ordinances that have thus allowed the management of critical issues still in place, temporarily finding a solution based on what was laid down in art. 41 of Italian Law Decree 109/2018 converted with Italian law no. 130/2018. Given the situation described above, the production of sludge, sand and sediment for all the plants managed in 2018 amounted to around 70,000 tonnes, with a reduction of around 50,000 tonnes compared to 2017.

During 2018 there was an increase in the number of analyses performed by Acea Elabori (certified external laboratory) compared to the average in previous years. The increase in calculations and analyses is attributable to the greater presence of the managed sewage plants and the relevant sewage systems. This specific choice results in a more specific control over the managed territory.

With regard to the problem concerning the seizure of the treatment plants, the Colubro and Roma Nord plants are still under seizure. With regard to the latter, however, it is specified that in the order issued on 14 December 2018, the related criminal proceed-

dings ordered – but have not yet executed – the release and restitution of the plant. The Carchitti plant of the Municipality of Palestrina was subjected to temporary release from seizure at the end of 2016 due to the commissioning of the plant and consequent verification of the treatment process.

The Botticelli treatment plant was subject to disruption following the commissioning of the new plant called Botticelli 2 and a request for revocation of the seizure was subsequently filed.

During the month of September 2018, the drainage of the Fonte Tonello purifier in the Municipality of Marcellina was released after having been seized with the right for use at the end of 2016.

During 2018 there were no further seizure orders.

As regards the proceedings of the Antitrust Authority started against Acea Ato 2 in the spring of 2015 and ended with a monetary administrative sanction of € 1.5 million being invoked, it should be noted that the legal action taken by the Company is currently pending (awaiting the scheduling of the hearing).

Acea Ato 5

Acea Ato 5 provides integrated water services on the basis of a thirty-year agreement signed on 27 June 2003 by the company and the 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 Ato 5 region – Southern Lazio – Frosinone involves a total of 86 municipalities (the management of municipalities of Atina and Paliano still remain to be acquired) for a total population of about 490,000 inhabitants, a population served of 470,000 inhabitants, with a service coverage equal to approximately 97% of the territory. The number of users is 197,821.

The drinking water system comprises supply, abstraction and distribution plants and networks that use 7 main sources from which an equal number of aqueduct systems originate.

The sewerage and treatment system comprised a network of sewers and collectors connected to waste water treatment terminals.

The Company manages 209 sewage pumping plants and 108 biological waste treatment plants, as well as 14 Imhoff tanks and 2 percolating filters.

With regard to the acquisition of the plants relating to the management of the 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 Integrated 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. 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, as well as in response to the note sent on 13 February 2018 by the Ministry of the Environment and the Protection of the Territory and the Sea with which the Operational Technical Secretariat of the AATO5 was expressly requested to put in place all the activities necessary for the transfer of the IWS to Acea Ato 5 in the non-compliant Municipalities – to date only the Municipality of Paliano – and the subsequent note of the Lazio Region of 25 May 2018, the Operational Technical Secretariat convened the interested parties – Acea Ato 5, the Municipality of Paliano and AMEA S.p.A. – for 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 S.p.A. 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 Acea Ato 5, 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 S.p.A. 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 Acea Ato 5. In particular, at the end of November, the definitive report was drawn up transposing the current status of the works and installations relating to the IWS in the Municipality of Paliano.

With regard to the transfer of the management of the IWS in the territory of the Municipality of Atina, at the beginning of the year several meetings took place at the Operational Technical Secretariat of ATO 5, 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 AATO5 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 simultaneously 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 to proceed 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 of 19 April 2018 in the presence of the Operational Technical Secretariat of ATO5, 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 AATO5, 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.

With regard to the relevant events occurred in the year, it should be noted that:

- with regard to the merger project launched in 2015 between the Acea Ato 5 S.p.A. and Acea Ato 2 S.p.A., with ruling no. 638 published on 27 December 2017 the Latina administrative court upheld the appeal brought by the Company against the resolution of the Conference of Mayors which ordered the resolution, annulling the measure. To date there is no information regarding the scheduling of the hearing;
- on 9 February 2017, the Company appealed for the annulment of Resolution no. 6 of 13 December 2016 with which the Conference of Mayors of ATO 5 approved the tariff proposal for the IWS for the 2016-2019 regulatory period, providing for an amount of adjustments for the period lower than the Manager's proposal (€ 77 million vs € 35 million), as a consequence of the different quantification made by the Operational Technical Secretariat essentially on four regulatory items: 1) amount of FNI (psi coefficient 0.4 instead of 0.8 proposed by the Company); 2) recognition of charges for arrears (3.8% of turnover instead of 7.1%); 3) recognition of the quality charges (Opex qc), effectively cancelled and not recognised by the Operational Technical Secretariat; iv) penalties for € 11 million. On 8 March 2018, the public hearing was held and 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 Mayors no. 6 of 13 December 2016. With this ruling, 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 because the pricing determination process should conclude “with the definitive provision represented by the approval of the Authority for Electricity and Gas, as also reaffirmed in Resolution no. 664/2015 ARERA in point 7.4: ‘Within the following 90 days, the Authority, without prejudice to the need to request further supplements, approves the tariff proposals pursuant to Article 154, paragraph 4 of Italian Legislative Decree no. 152/06’”. Therefore the deliberation of the Conference of Mayors no. 6 of 13 December 2016 would not be the definitive measure for determining the tariff, but only a proposal of the Area Authority submitted for the approval of ARERA: consequently, the resolution in question would not be open to challenge. The decision of the matter remains completely open and the Company will have to await the resolution of ARERA on the tariff proposal made by AATO5. The sentence, which has become final, appears to be open to criticism. In any case, it can certainly be confirmed that the rate currently applied by Acea Ato 5 remains valid and is not affected by the ruling in question. On the contrary, the acceptance of the appeal would have resulted in the obligation for the Area Authority to modify the tariff proposal by adding back the illegitimate reductions. Furthermore, as regards the topic of penalties, which resulted in a tariff reduction of over € 10 million, the administrative court recalled the previous ruling no. 638/2017 which cancelled the imposition of penalties on Acea Ato 5.

On this specific matter, with the ruling in question no. 135/2018 the administrative court noted that the previous judgement

and the previous sentence preclude “the Panel from deciding again on the same acts on the basis of the principle - referred to in art. 2929 of the Italian Civil Code and 324 of the Code of Civil Procedure - of *ne bis in idem* which is also applicable to the administrative process, which presupposes the identity in the two judgements of the parties involved and the identifying elements of the proposed action and therefore that in the aforementioned judgements cancellation is requested for the same provisions, or at the most for different rulings but linked by a strict link of consequentiality to the point of having the same relationship, on the basis of identical grounds of appeal (Council of State Section IV 23 June 2015 no. 3158)”. This leads us to believe that - even independently of the possible proposition of an appeal - for the purpose of approving the final 2016-2019 tariffs both the AATO and the ARERA will have to consider:

- the previous sentence of the Latina administrative court no. 638/2017 which cancelled the penalties, with the consequence that the PEF must be increased by the amounts already reduced as penalties (over € 10 million). This aspect was reiterated by the sentence in question which underscored how the issue has already been definitively resolved by the administrative court itself;
- as well as the further investigation carried out by the AATO - in the interest of the administrative judgement - in relation to the charges incurred by Acea Ato 5 so-called Opex QC (equal to 1,970,082.00) and the increase in the default rate.

Further, regarding the appeal presented by the Company (additional reasons added to appeal no. 316/2016) before the Latina administrative court with a simultaneous claim for damages against resolution no. 7 of 13 December 2016, with which the Conference of Mayors resolved to terminate the contractual relationship with Acea Ato 5, with sentence no. 638 published on 27 December 2017 the Lazio Regional Administrative Court - Latina branch upheld the appeal brought by the Company against the aforementioned resolution, annulling the provision; 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. 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.

- on 28 February 2017 the sentence was handed down by the Court of Frosinone revoking the injunction issued in 2012 in favour of the Company for the recovery of its receivable (amounting to € 10,700,00.00) arising from the Transactive Act signed with the Area Authority on 27 February 2007, implementing the resolution of the Mayors' Conference no. 4 of 27 February 2007. The Court of Frosinone held that the 2007 settlement agreement was void, it rejected the Acea Ato 5 subordinated counterclaim request for the payment of the higher costs incurred (and originally requested) amounting to a total of € 21.5 million and ordered the remission of the case to be investigated with respect to the counterclaim request made by the Operational Technical Secretariat regarding the payment of the concession fees which in its final statement has in any case acknowledged the payment by the Manager of a large part of its debt, representing the existence of a residual balance of approximately € 7.0 million. The Jud-

ge, 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 5, granted a postponement to 4 May 2018, inviting the parties to clarify the reasons for these discrepancies and indicating that if they cannot then a court expert would be appointed. At this hearing there was a further postponement until 21 September 2018. At that time, in the light of the Conciliation Panel established on 11 September 2018 with A.A.T.O. 5 - 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, scheduling the hearing for 15 February 2019, then postponed until 17 September 2019. Connected to said judgement one must consider the appeal contesting the Court of Frosinone's ruling which nullified the injunctive decree for € 10,700,000 initially issued by said 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 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.

Regarding the deliberations of the Regional Council no. 56 of 6 February 2018, no. 129 of 27 February 2018 and no. 152 of 2 March 2018 (published on BURL no. 20 of 8 March 2018), which modify the delimitation of the optimal territorial areas and against which the Company has filed an appeal before the Superior Court of Public Waters in the same Region of Lazio, last 8 May 2018, resolved:

- “to suspend the effectiveness of Regional Council Decree no. 56 of 6 February 2018 bearing Regional Law no. 5/2014 and Regional Law no. 9/2017, art. 17, paragraphs 98 and 99 - Identification of Optimal Territorial Areas of Hydrographic Basin”;
- “to confirm the current organisation of the regional IWS in five regional AATOs, as defined by Regional Law 6/1996 and the related management structure of the five regional AATOs, as well as over time identified as signers of the specific Management Agreements, until their natural expiry”;
- “in the following six months from the present date, delegate to the Regional Director of Water Resources and Land Defence to carry out any useful activity to arrive at a new governance model of the IWS, even through modification of the current rules that govern it, even based on qualified contributions to be found outside the regional structure in terms of: regulation system, environmental protection, consumer protection, industrial model, interregional comparison, enhancement of the participation of territories and widespread social interests”.

With regard to the appeal before the Superior Court of Public Waters presented by the Company against the resolutions of the Regional Council no. 56 of 6 February 2018, no. 129 of 27 February 2018 and 152 of 2 March 2018, at the hearing of 11 July 2018 the Lazio Region presented the need to have a reasonable deadline for the preliminary investigation to be carried out due to the suspension order and, in agreement with all the parties, the case was postponed for the same reasons at the hearing of 6 February 2019. It is plausible to believe that the Region wants to limit itself to confirming the structure defined in the challenged provisions, supporting them with an adequate preliminary investigation.

In this regard, the Company deemed it appropriate not to participate in the preliminary investigation, reserving the right to assess

any further actions following the outcome of the measures to be taken by the Region in the future.

With the determination of 21 May 2018 DSAI/42/2018/IDR the ARERA initiated a sanctioning procedure against the Company, concerning the tariff regulation of the integrated water service. This procedure is the result of the audit carried out by the ARERA in collaboration with the Special Energy Unit and the water system of the Guardia di Finanza from 20 to 24 November 2017 at the Company's offices.

It should also be noted that on 5 July 2018, in implementation of the resolution adopted by the Italian Competition Authority on 27 June 2018, an audit took place at the registered office of the Company following the initiation of the proceeding pursuant to art. 27, para. 3 of Italian Legislative Decree no. 206 of 2005, as well as pursuant to art. 6 of the 'Regulation on preliminary investigations concerning misleading and comparative advertising, unfair trade practices, violations of consumer rights in contracts, unfair terms' (hereinafter Regulation).

The proceedings were opened in response to reports made to the Authority by the Consumer Associations CO.DI.CI. and Federconsumatori Frosinone regarding alleged incorrect and aggressive behaviour towards consumers and small businesses by the Company in the period January 2015 - June 2018.

The complaints mainly concern:

1. inadequate management of consumer claims with respect to billed consumption, without suspension in the meantime of the procedures for the collection of disputed amounts, with consequent sending of payment reminders with the threat of disconnection pending complaints or mediation procedures;
2. failed or late delivery of bills, with consequent impossibility to pay in instalments;
3. at the time of transfer/takeover of pre-existing service or in case of new activation, requirement of payment of arrears accrued by the previous holder of the service, even when there are clear and adequate ways to demonstrate that the successor has nothing to do with the previous user.

Upon completion of the audit, the Authority acquired most of the documentation specified in the communication initiating the procedure.

On 3 August 2018 a reply was sent in response to the AGCM antitrust authority's request for information in the act initiating the proceeding – pursuant to art. 12, para. 1 of the Regulations – as well as presenting requests for confidentiality and restitution relating to the audit documentation acquired.

With regard to the aforementioned requests, with the communication of 29 August 2018, the AGCM rejected the requests for restitution and, instead, deferred the decision on the requests for confidentiality. Furthermore, on 17 August 2018 the Company sent the Authority a form for the presentation of commitments pursuant to art. 27, paragraph 7 of the consumer code and art. 9 of the regulation, concerning which on 6 November 2018 the AGCM issued to order rejecting the proposed commitments presented by the Company.

On 21 November 2018, with the authorisation of the Authority, officials it had delegated, together with the Guardia di Finanza - Special Antitrust Unit - performed a further inspection at the headquarters of the Company, since the objective extension of the proceedings was ordered PS9918 with new and specific provisions. In particular, information and documentation were requested relating to the management of hidden losses and the failure to recognise the period of limitations. On 11 December 2018 precise feedback was provided to the request for information to supplement the communication of the initiation of the proceeding, at the same time presenting a request for a hearing, granted by the Authority and scheduled for 10 January 2019.

Finally, on 2 January 2019 a preventive seizure decree was issued

on 18 December 2018 by the Judge for Preliminary Investigations at the Court of Frosinone as part of criminal proceedings no. 3910/18 rgnr, pending for the alleged violation of art. 4 of Italian Legislative Decree no. 74/2000 (inaccurate declaration). Pursuant to the aforementioned provision, the preventive seizure of financial resources in the accounts held in the name of Acea Ato 5 up to a value of € 3,600,554.51 was ordered. On 11 January 2019, a request for a review was filed, whose discussion hearing was scheduled for 1 February 2019 before the Court of Frosinone, as a unified bench. At the outcome of the aforementioned hearing in the Council Chamber, the Court of Frosinone upheld the proposed re-examination request and, as a result, cancelled the preventive seizure decree, ordering the restitution to the person entitled thereto. Currently the proceedings are still pending during the investigation phase.

Lastly, on 10 January 2019 a hearing was held at the AGCM – in response to a formal request formulated at the same time as the requests for information referred to in the provision of objective extension of the proceeding.

During the aforementioned hearing, the lawyer in charge of representing and defending the Company, referring to what has already been represented in the answers to the requests for information made by the authority at the time of the start-up and objective extension of the proceeding, highlighted the constant attention shown by the Company towards its consumers, implementing for this purpose a series of measures and improvements in the procedures concerning the management of the activities disputed by the Authority. Reaffirming what has already been fully explained in the feedback sent to the Authority, the Company provided further information and documentation regarding the activities implemented (collaboration with the OTUC, opening of the consumer counter, activities aimed at solving historical arrears) in a perspective of constant attention to consumer issues.

On 20 February 2019, the AGCM, with regard to the PS/9918 proceeding, announced that it had extended the deadline for the conclusion of the proceeding to 23 May 2019.

On 28 February 2019, the AGCM notified the communication of the conclusion of the preliminary phase of the P9918 proceeding – scheduled for 20 March 2019 – with concurrent clarification of the disputes raised against the Company.

In particular, the Authority abandoned some of the initial disputes, confirming instead that it had detected some critical issues concerning: 1) initiation of collection procedures pending complaint for the period prior to the corporate procedure of 2018; 2) consumption limitations, for the period prior to the change made in January 2019 to the procedure implemented by the Company with regard to the limitation period; 3) management of hidden water losses.

By the aforementioned deadline of 20 March 2019, the Company may file a defence brief and supporting documentation, which will be remitted to the Board together with the other instructing documents for the adoption of the final order.

See also the additional information contained in the paragraph "*Information on services under concession*" and with reference to the proceedings Italian legislative decree no. 231/2001 in the paragraph of this "*Report on Major Risks and Uncertainties*".

GORI

The Company manages the Integrated Water Service for the entire territory of the "Sarnese Vesuviano" District (EIC definition) of the Campania Region (74 of the 76 municipalities, given that the Municipalities of Calvanico and Roccapiemonte are managing their water services, not having yet ensured the start of IWS management by the Company) which covers an area of approximately 900 square kilometres with a population of approximately 1.46 million inhabitants.

A total of 4,574.5 km of water network is currently managed, consisting of 467.2 km of primary abstraction network and 4,107 km of distribution network, and a 2,409 km drainage system.

GORI currently manages 10 water sources, 90 wells, 170 tanks, 101 water pumping stations, 174 waste water pumping stations and 7 waste treatment plants.

The Company provides integrated water services on the basis of a thirty-year agreement signed on 30 September 2002 by the Company and the Sarnese Vesuvian Area Authority.

Relations with the Campania Region and with Acqua Campania for wholesale supply

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 the Company 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 and to pursue 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 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.

Agreement with 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 by transacting a lump sum of around € 8.3 million for the fees invoiced throughout 31 December 2015 and an amount equal to about € 1.3 million for the period from 1 January 2016 to 30

September 2018 on the basis of the tariff referred to in the resolutions of the Commissioner of Ato 2 no.27 of 17 October 2017 and no. 28 of 24 October 2017.

Update of the 2016-2019 Regulatory Framework of the Sarnese-Vesuvian District of the Campania Region

Preliminarily, it is clarified that the ARERA has determined: a first transitional tariff method for the years 2012 and 2013 (which entirely replaced the previous “normalised method” referred to in Italian Ministerial Decree LL.PP. 1 August 1996), issued with resolution 585/2012/R/idr (“Transitional Tariff Method” or “MTT”); a second water tariff method for the years 2014 and 2015 issued with resolution 643/2013/R/idr (“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/idr, as amended by subsequent resolution 918/2017/R/idr (“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/idr 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/idr resolution, with resolution no. 39 of 17 July 2018. With this last resolution:

1. the RCappr adjustment component was valued at € 216,948,037;
2. the Operator’s Revenue Constraint (“VRG”) for the years 2016 was recognised (VRG: € 167,958,694); 2017 (VRG: € 183,072,979), 2018 (VRG: € 197,001,101) and 2019 (VRG: € 206,352,671) as well as the corresponding “tariff multipliers” for the 2018 financial years (9 1.247505) and the 2019 financial year (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 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 243/2016;
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 243/2016 and the relevant Framework Agreement of 3 August 2018 specified above;
3. the provision of instalment 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”. 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. Refer to the entire contents of the paragraph “Service Concession Arrangements” also for information on the financial effects deriving from the conclusion of the recognition of equalisation measures. Lastly, it should be noted that from 1 January 2018 the legal, administrative and tax effects of the merger by incorporation of the company GORI Servizi S.r.l. into GORI S.p.A. have already been finalised with an agreement signed on 28 December 2017.

Gesesa

The Company operates in ATO 1 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. 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 Integrated Water Service (aqueduct, sewerage and treatment) to a single operator.

During 2018, the Company began to establish the foundations consistent with the resolutions of the Board for a new path of growth and development aimed at achieving strategic objectives that provide for company growth. In this regard, a capital increase operation was already approved to aggregate new operations with the direct assignment of the Integrated Water Service by new municipalities, using an instrument that is given by the regulatory provisions contained in Italian Legislative Decree 175/2016 containing the “Consolidated Law on companies in which the public administration participates”. Art. 4 of the aforementioned regulation allows municipalities to acquire company shareholdings in activities producing a service of general interest, subject to the body’s verification of the economic convenience of the direct or externalised management of the service entrusted to private operators.

This gives the Company the opportunity to proceed with new acquisitions of IWS and therefore to continue its development in the territory falling under ATO1, pending the identification of the single operator, implementing a management development that, upon reaching at least 25% of the population served, would establish the Company as an interlocutor able to request the direct awarding of the entire territory as Sole Manager.

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 - Umbria Area

Acque

The management agreement, which came into force on 1 January 2002 with a twenty-year duration (expiry is now in 2026), was signed on 28 December 2001. In accordance with said agreement,

the Operator took over the exclusive integrated water service of ATO 2, comprising all public water collection, abstraction and distribution services for civil use, sewage systems and the treatment of waste water. The Area includes 57 municipalities. In return for award of the concession, Acque pays a fee to all the municipalities, including accumulated liabilities incurred under previous concessions awarded.

With Resolution no. 6/2018 of 22 June 2018 concerning the “Update of the tariff structure 2018-2019”, the Board of Directors of the Tuscany Water Authority 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 was 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/idr of 9 October 2018 with modification 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.

Finally, it is 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 suspensive conditions were met and, therefore, the new loan agreement became effective. The new loan was stipulated with a pool of banks and envisages two lines of credit: 1) Term Line of € 200.0 million disbursed in a single use and with final single maturity of 29 December 2023 and, 2) RCF Line equal to € 25.0 million payable in one or more uses within the period of use and final maturity on 29 December 2023. This line must be used exclusively to meet the financial needs of the Company for its ordinary business.

At the same time the new loan agreements were entered into, 6 new interest rate hedging contracts were entered into. The new contracts envisage the Company’s semi-annual payment of a fixed rate to the counterparties starting from 24 January 2019 and in correspondence with a payment by the counterparties to Acque of a variable rate.

Publiacqua

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, Fiorenti-

nagas. 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.

With regard to the new tariff structure, with resolution no. 29/2016 of 5 October 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 687/2017R/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 (TIC-SI), Publiacqua has billed according to the new structure since August. Finally, with resolution no. 24 of 7 December 2018 the AIT approved the 2018-2019 tariffs.

Acquedotto del Fiora

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.

With regard to the update of the tariffs for the period 2018-2019, on 27 July 2018, based on the actual data collected referring to the years 2016 and 2017 and the Investment Plan, the AIT approved the tariff revision proposal, setting the VRG and the Teta of the years 2018-2019 and also redesigning the entire tariff profile until the end of the IWS concession (Deliberation of the Executive Council of the AIT no.17/2018 of 27 July 2018). Currently, this tar-

riff proposal of the Tuscan EGA is being examined by the National Authority (ARERA) and only after its ratification will the approval process be definitively concluded.

Umbra Acque

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 two-year period 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.

Finally, we inform you that on 29 December 2018 the request to extend the duration of the assignment to 31 December 2031 pursuant to art. 5.2 and 5.3 of the Convention and Resolution 656/2015/R/IDR.

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 MTI2 "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 $Opex_{qc}$. 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 $Opex_{qc}$. 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 $Opex_{qc}$ 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 $Opex_{qc}$.	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.

(follows)

Company	Approval status (up to MT12 "2016 - 2019")	Biennial update status (2018 - 2019)
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 _{qc} . 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 _{qc} . 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.
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.
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.
Umbra Acque	On 30 June 2016, the AIT approved the tariff with recognition of the Opex _{qc} . 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

Pending completion of the approval process, which is still in progress, the revenues recorded are determined on the basis of the tariff schemes previously approved by ARERA or by the respective Area Government Agencies, as better represented above. For more details on the matter, see the paragraph "Service Concession Arrangements".

Revenues from the Integrated Water System

The table below indicates, for each Company of the Water Area, the amount of revenue for the year 2018 valued on the basis of the tariff calculations assumed by the respective EGA or ARERA. The data includes the adjustment of passing items, the Fo.NI component, the Opex_{ac} or the award as per art. 32.1, subsection a) of resolution 664/2015/R/idr.

Company	Revenue from the IWS (pro quota values in € million)	FONI/Bonus (pro quota values in € million)
Acea Ato 2	574.9	FNI = 20.7 AMM _{FoNI} = 7.9 Premio = 33.6
Acea Ato 5	71.1	FNI = 6.8 AMM _{FoNI} = 2.5
GORI	75.1	
Acque	71.0	AMM _{FoNI} = 4.3
Publiacqua	96.8	AMM _{FoNI} = 9.3
Acquedotto del Fiora	43.6	AMM _{FoNI} = 3.5
Gesesa	10.9	FNI = 0.1
Geal	7.8	FNI = 0.7 AMM _{FoNI} = 0.4
Crea Gestioni	7.3	
Umbra Acque	29.9	AMM _{FoNI} = 1.2

ENERGY INFRASTRUCTURES OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE YEAR

Operating data	U.M.	2018	2017	Change	% Change
Energy Produced (hydro + thermal)	GWh	540	414	126	30.5 %
Energy Produced (photovoltaic)	GWh	10	12	(2)	(16.4%)
Distributed electricity	GWh	9,792	10,040	(248)	(2.5%)
TEE sold / cancelled	No.	148,557	145,754	2,803	1.9 %
No. Customers	N/000	1,629	1,626	3	0.2 %
Km of Network	Km	30,704	30,344	360	1.2 %

Operating results and financial position

€ million	31/12/18	31/12/17	Change	% Change
Revenues	687.2	659.1	28.1	4.3 %
Costs	326.5	326.1	0.4	0.1 %
EBITDA	360.7	333.1	27.6	8.3%
Operating profit/(loss) (EBIT)	198.8	167.8	31.0	18.5 %
Average number of personnel	1,387	1,366	21	1.6 %
Capex	238.3	209.4	28.9	13.8 %
Net financial debt	1,121.9	1,036.6	85.2	8.2 %

Gross operating profit (EBITDA)

€ million	2018	2017	Change	% Change
Gross operating profit Energy Infrastructures Segment	360.7	333.1	27.6	8.3%
EBITDA GROUP	933.2	840.0	93.3	11.1 %
Percentage weight	38.7 %	39.7 %	(1.0 p.p.)	

EBITDA at 30 December 2018 was € 360.7 million, an increase of € 27.6 million compared to 31 December 2017.

This change is mainly attributable to the company **areti** (+ € 29.8 million) as a consequence of the annual tariff updates in the scope of the fifth regulatory cycle (tariff variation effect between the two periods being compared) as per ARERA resolution no. 175/2018/R/eel of 29 March 2018. With reference to the energy balance, as of 31 December 2018 areti introduced 9,792 GWh into the grid in line with that introduced in 2017.

The EBITDA for **public lighting** is negative for € 5.4 million, a decrease of € 9.8 million compared to 31 December 2017. The change is caused by the margins deriving from the LED plan launched end June 2016 on the basis of an agreement with Roma Capitale. It should be noted that during 2018, 13,511 lighting fixtures were replaced. During 2019 the transformation of functional light points required by the agreement will be completed, the activity having slowed down – as shared with Roma Capitale – due to the revision of the colour temperature and colour rendering index, thus re-scheduling the transformations of artistic and ornamental fixtures mainly located in the city's historic centre.

Acea Produzione contributed to the increase in EBITDA totalling € 10.1 million thanks to an increase in the energy margin of the hydroelectric generation sector, with an increase in production of approximately 12.5%, also due to the greater contribution from the plants of Castel Madama, Mandela and Orte (+ 10.8%), that of Sant'Angelo (+ 30.0%) and the thermoelectric generation sector which recorded a significant increase (+ 80% compared to last year) following completion of construction of the Tor di Valle plant.

The average workforce increased by 21 units, all in **areti**.

The operating result was mainly affected by higher provisions for the period (+ € 10.1 million) mainly for regulatory risks and redundancy and mobility, offset by the lower component of bad debts (- € 11.1 million) due to the effects of write-downs last year on the matter linked to Gala.

Net financial debt stood at € 1,121.9 million at 31 December 2018, showing an increase of € 85.2 million compared to 31 December 2017. The effects are mainly due to the increasing volume of investments, the increase in pay-outs and the dynamics of operating cash flow.

Investments amounted to € 238.3 million and with regard to **areti** refer to the work on the HV, MV and LV network and a series of interventions for the expansion of the MV networks and extraordinary overhead lines maintenance. The investments made by **Acea Produzione** refer mostly to the revamping works of the Mandela hydroelectric plant and for the extension works of the district heating network in the Mezzocammino area in the south of Rome.

SIGNIFICANT EVENTS FOR THE 2018 FINANCIAL YEAR

GALA

With Resolution 50/2018/R/eel of 1 February 2018, the Authority approved a mechanism for recognising charges otherwise not recoverable due to the failure to collect general system charges. This regulation provides for the recognition of receivables accrued from 1 January 2016, with the request for recognition to be submitted by July 2018, referring to bills that have expired for at least 12 months.

This regulation establishes that only distributors that have paid the amount of charges for which they are to be reimbursed to CSEA and the GSE can access the mechanism. In addition, some restrictions have been introduced like not allowing full recognition of the portion relating to general charges. Being interested in joining the mechanism to obtain a partial re-integration, the Company, having regularly anticipated the share of charges to

CSEA and GSE, promptly filed a petition. Consequently, on 30 September 2018, by virtue of the mechanism described above, areti was able to recover the amount of € 28.4 million to partially offset the system charges.

At 31 December 2018 the total receivables accrued by the Company amounted to € 73.6 million, including billed interest.

Currently, also taking into account the changes in the regulatory framework deriving from the approval of the mechanism for reimbursing general expenses, the reduction in the value of the areti receivable from GALA was prudentially determined with reference to transport and works.

It should also be noted that, with resolution no. 583 of 20 November 2018, the ARERA rejected the complaint presented by Gala Power S.r.l., a company of the Gala Group, regarding areti's refusal to stipulate a transport contract with it given the established existence of a single decision-making centre subsisting between Gala Power and its parent company Gala, in light of the significant debt exposure accrued by the latter with respect to areti

ARERA fines

With regard to Resolution **62/2014/S/eel** of ARERA, the results of the preliminary investigation are still awaited, while as regards Resolution **512/2013/S/eel** of ARERA, the Authority gave a mandate to appeal the judgement of the Lombardy Regional Administrative Court to the Council of State. With a sentence of 22 February 2018, the Council of State completely voided the penalty on the grounds that, as with areti, the regulation then in force did not include any obligation to register the reminders following a first notification already recorded for the same customer.

Technological innovation projects

Pilot Project "New Digital Meter Plan" and "2.1G Digital Meter Project"

In order to assess the various technologies to be used in view of the end of the life cycle of the current digital meters (2019-2020), areti has completed detailed technical studies linked to the development and consolidation of the new standards being normalised in Europe, also taking into account AEEGSI resolution 87/2016/R/eel dated 8 March 2016 concerning the "Functional specifications for second generation intelligent meters (2G)".

Experiments were also completed on the various technologies available for the communication protocol transmitted between the meter and the concentrator and the communication protocol for the back-up communication channel.

Once the aforementioned experiment related to the PILOT project was completed, the "**2.1G DIGITAL METER**" project was launched.

In particular, the procedure was initiated for the selection of the field equipment supplier (meter and concentrator) and of the related Management Centre (the latter to be considered as an optional supply), with the related support services, with the goal of starting the development of the solution during 2019 and mass installation during the following year.

The launch of the mass installation project is subject to the approval of the Mass Replacement Plan by the Authority, to be presented according to regulatory deadlines.

Smart Grid Intelligence platform evolution (SGI - Electrical data)

The algorithms for calculating the impact indices, the failure rate and the element risks (branches and nodes) of the MV network were tested and released. This allows the SGI system to calculate and update the impact metric, failure rate and risk for the MV network in real time. The development of the SGI platform is envisaged in the strategic plan, in accordance with the plans for the integration of data and systems dedicated to sensors in the field and

with those relating to innovative central system platforms, with particular attention to the implementation of algorithms that are specific for risk assessment.

San Saba Project

The project consists in the redevelopment of a portion of the LV and MV networks in a public and private metropolitan setting and in the simultaneous preparation of a fibre optic network to support the electricity service. These new systems allow the use of technologically advanced equipment, above all aimed at guaranteeing greater flexibility in the manoeuvring and protection of the portions of the network supplying power to final customers, with the aim of improving the quality and continuity of the service provided.

DRONES project

With regard to the Drone Project, in 2017 the use of remote controlled aircraft (developed in 2016) was experimented with for inspections of overhead power lines to detect partial discharges on overhead lines, the patent relating to the “Ultrasound Sound System” being filed on 6 June 2017. Further developments are under way to define solutions that use passive drones for simplified mass inspections. Finally, the land drone project (rubberised) was defined for automatic inspections in primary cabins and/or other sensitive sites. This project involves the completion of the first step during 2019. In September 2018 a drone was delivered to be used with specific operational tests during 2019. In December 2018 a Pick-up was delivered for building a mobile laboratory for work assignments with drones.

Primary and Secondary Cabinet Project 2.0

The Primary Cabinet Project 2.0 (CP 2.0), to be developed in the two-year period 2018-2019 with implementation in the field immediately following, provides for the definition of a new Architecture of the Command Protection System, Control of the Primary Cabinet (CP) which envisages an apparatus that has the function of integrated management of the underlying MV network within the primary cabin.

The Secondary Cabin Project 2.0 developed during 2018 for the design and prototyping part is planned to be completed in 2019 with the consolidation of the solution. In addition to what is already envisaged for the remote control and the automation of the MV components of the secondary cabin, the project calls for the definition of a secondary cabin apparatus that implements the integrated management of the entire underlying LV network.

FIBRE OPTIC Project

The Company is planning and building a fibre optic network for connecting the primary substations of the distribution network, which is also the main telecommunications backbone that the underlying secondary network developed under the “secondary FO project” is connected to. This backbone will guarantee security and reliability in the transit of information between the centre and the periphery to ensure the correct operation of the Operation Technology systems and network management systems. Parallel with this activity, together with the LV and MV Regulatory Plans, areti has planned the construction of a fibre optic network. In particular, this network will make it possible to reach each secondary substation for the remote control of the installed equipment and, where possible, the measurement points for the purpose of transmitting all the information acquired through sensors and field devices to the central systems.

Furthermore, in parallel with the MV and LV regulatory plans, areti is building the fibre optic network of the Open Fiber company under a signed agreement for the development of the respective electronic communication networks by mutually exploiting the

works realised by the individual companies. This agreement will guarantee to areti the possibility of connecting every node of its own network (CP or CS) even in the areas of the territory where no works are being done on the electrical grid.

Public Lighting

As at 31 December 2018, 13,511 transformations had been carried out (for a total of 170,556 transformations). The Plan projected the end of activities by the first months of 2018. However, following the revision of the colour temperature and the colour rendering index carried out by the working group that involved the SIMU, the Superintendency and the University of Rome La Sapienza, the transformations of the artistic and ornamental fixtures were rescheduled, thus postponing the conclusion. The remaining approximately 12,000 lighting fixtures, mainly located in the city centre, will therefore be transformed during 2019. It should be noted that LED transformation projects and technological upgrades of important historical and artistic sites like the Capitoline Hill, Tiber Island, Piazza Navona and Ponte Mazzini were launched.

Production of electrical energy

The **Acea Produzione** production system is currently constituted by a group of generation plants, with an overall installed power of 226.6 MW, comprising five hydroelectric plants (three in Lazio, one in Umbria and one in Abruzzo), two so-called “mini hydro” plants in Cecchina and Madonna del Rosario, and two thermoelectric power plants in Montemartini and Tor di Valle, the latter was the subject of an important repowering completed at the end of 2017. Tor di Valle is now a modern high-efficiency cogeneration plant, replacing the previous combined-cycle plant. The new plant consists of two high-efficiency methane gas powered engines each with an electrical power of 9.5 MW, for a total of 19 MW, as well as three supplemental boilers and 6 storage tanks. In the current configuration, in addition to selling electricity to the market during the most profitable hours, the plant provides electricity in SEU to the total electricity users of the adjoining Rome South Treatment Plant and the thermal energy necessary for the supply of district heating service in the districts of Torrino Sud, Mostacciano and Mezzocammino in the Municipality of Rome. Again with regard to the Tor di Valle production site, the old co-generation module was demolished in 2018, consisting of an open cycle gas turbine of 19 MW electrical, operational since the early 1980s, in line with the provisions of the Integrated Environmental Authorisation issued.

This equipment will be supplemented by 52 photovoltaic plants with an overall installed power of 8.6 MWp.

In the 2018 financial year, the Company generated a volume of 548.6 GWh through the directly owned power plants. During the period, the Company's production was subdivided into the portion related to hydroelectric plant production of 467.7 GWh, the share of production from mini-hydro plants of 2.6 GWh, the share of thermoelectric production of 68.4 GWh and the portion related to photovoltaic production of 10.1 GWh.

With regard to district heating, the Company, through the cogeneration module of the Tor di Valle power plant, supplied heat to the Torrino Sud and Mostacciano districts (located in the south of Rome) for a total of 73.1 GWh, for a total of 3,244 utilities served (253 condominiums and 2,991 real estate units).

Co-generation

The operational management of **Ecogena** focuses mainly on three areas: 1) consulting in the Esco sector and offering services related to obligations to increase the energy efficiency of third parties; 2) the supply of energy service through the management of cogeneration (or trigeneration) plants and district heating networks and the sale of energy produced to customers; and 3) the coordination

of Group companies with regard to energy efficiency projects. Today the Company's production system is made up of a set of co-generation plants, combined with district heating networks, for a total of 6.6 MW of installed electric power in Umbria and Lazio. In 2018 the Company achieved a production volume of around 15 GWh (electricity), 26 GWh (thermal) and 9 GWh of refrigeration. With reference to the Europarco plant, the supply of the service to the ENI 4 building was launched in June 2018. Work on the construction of the ENI2 building was completed, with the start-up of the service scheduled for 1 February 2019. The activities envisaged by the August 2017 settlement act continue, with particular reference to the work that the Upside Fund has undertaken to entrust to Ecogena. The contract between Ecogena and Upside for the construction of a 450-space elevated parking lot is expected to be signed by February 2019. Lastly, it should be noted that on the subject of disputes, on 27 De-

cember 2018 a Transaction Agreement was signed with Cinecittà Parchi that envisages the termination of both existing contracts and comprehensive settlement payment by Cinecittà to Ecogena of €1.0 million with Ecogena committing to dismantle the plant by 2021. On the basis of this transaction, both parties have agreed to abandon any legal proceeding and/or executive procedure concluded or ongoing between them.

With regard to Energy Efficiency and Development, the first report for the final balance of the savings for lot 0 of the Roma Capitale LED Plan was presented. We are waiting for the approval process to be completed in order to proceed with the presentation of the second report. Furthermore, in the month of August the first reporting phase was started for lot 2 of the Roma Capitale LED Plan, while in September the request for completion of the final project presented to the GSE for the Roma Capitale LED Plan concerning the galleries was received.

ENGINEERING AND SERVICES OPERATING SEGMENT

OPERATING FIGURES AND FINANCIAL RESULTS FOR THE PERIOD

Operating figures	U.M.	2018	2017	Change	% Change
Technical-professional verification	Number of firms	226	74	152	0 %
Worksite inspections	Number of inspections	11,270	8,884	2,386	26.9 %
Safety Coordination	CSE Number	315	112	203	181.2 %

Operating results and financial position

€ million	31/12/18	31/12/17	Change	% Change
Revenues	74.1	84.4	(10.3)	(12.2%)
Costs	56.1	69.8	(13.8)	(19.8%)
EBITDA	18.0	14.5	3.5	23.9 %
Operating profit/(loss) (EBIT)	15.5	11.5	4.0	34.9 %
Average number of personnel	265	319	(54)	(16.9%)
Capex	1.6	0.8	0.7	90.5 %
Net financial debt	(13.3)	12.3	(25.6)	0 %

Gross operating profit (EBITDA)

€ million	2018	2017	Change	% Change
Gross operating profit (EBITDA) Engineering and Services Segment	18.0	14.5	3.5	23.9 %
EBITDA GROUP	933.2	840.0	93.3	11.1 %
Percentage weight	1.9 %	1.7 %	0.2 p.p.	

Established as a result of the organisational changes in May 2017, the Segment closed 2018 with an EBITDA of €18.0 million, an increase of €3.5 million compared to the previous year, mainly attributable to **Acea Elabori** and due to the growth in services carried out in the engineering and research and innovation sectors carried out mainly for the Water sector.

The Segment includes **Ingegnerie Toscane** and **TWS**, which respectively recorded EBITDAs of €2.3 million, substantially in line with the previous year (+€0.5 million) and €0.7 million, also in line with 2017 (+€0.1 million).

The average workforce as at 31 December 2018 stands at 265 units and is down compared to 31 December 2017 (319 units) due to

the effects deriving from the Facility Management branch transferred to Acea at the end of last year. This transaction involved the transfer of 55 resources from Acea Elabori to Acea S.p.A.

Investments amounted to €1.6 million, mainly related to industrial equipment purchased by **Acea Elabori**.

Net financial debt at 31 December 2018 was positive for €13.3 million and showed an improvement compared to the end of 2017 of €25.6 million, attributable to Acea Elabori for €18.1 million and mainly due to collections for work carried out with the associates Acea Ato 2 and Acea Ato 5, as well as TWS for €7.5 million due to collections for works carried out with Publiacqua and Umbriadue.

SIGNIFICANT EVENTS FOR THE 2018 FINANCIAL YEAR

Acea Elabiori

Laboratory activities

The Acea Elabiori laboratory provides analytical services on different environmental matrices linked to the prescriptions of the reference laws.

In 2018, as part of the analytical activities carried out on water intended for human consumption, analytical services were performed on 13,334 samples and 451,365 analyses were carried out against the 420,011 analyses for 2017. With reference to the checks carried out for wastewater (sewage and treatment systems managed by Acea Group), 10,719 samples were analysed for a total of 179,197 analyses (8,595 samples and 215,377 analyses in 2017).

Engineering activities

Acea Elabiori supplies engineering services to the companies in the Water Segment, in particular Acea Ato 2 and Acea Ato 5.

In recent years, the company has consolidated the development of engineering activities in other Energy Infrastructure and Environment Segments of Acea S.p.A. as well, with the design and direction of works for the valorisation of waste and the production of hydroelectric and thermoelectric energy and related "specialist and support" activities.

The direction of works also concerned archaeological excavations for the acquisition of the preventive authorisations needed during the planning of the works.

Research and innovation activities

Acea Elabiori carries out Research and Innovation activities in the

water, environment and energy segments and develops applied research projects for modelling, technological and digital innovation and optimisation of process management.

In 2018, following the water emergency that involved the city of Rome last year, the search for leaks continued. Indeed, the search for leaks in the city of Rome will continue, and a first phase has also been launched for the networks of the municipalities of the entire AATO2 area.

Lastly, it should be noted that Acea Elabiori has collaborated with Acea - Open Innovation on market studies to search for innovations and start-ups to start experimental projects (together with universities and specialised companies) in order to apply innovative ideas to actual cases, together with the companies of the Group, as well as some collaborative initiatives in financed projects.

TWS

The main activity of the Company is the construction and renovation of works instrumental to the operation of the Integrated Water Service and in particular of water treatment plants – drinking and waste water – as well as design and engineering services related to the activities of plant construction.

In 2018 work continued on the construction contracts acquired on the market prior to the Company's entry into the Acea Group and at the same time the gradual implementation of works for the companies of the Group - specifically Acea Ato 2.

Consistent with the process of concentrating on the core business of designing and building plants, the re-assignment of the remaining management activities and those of modest profitability throughout the territory was completed.

CORPORATE

OPERATING RESULTS AND FINANCIAL POSITION FOR THE YEAR

Operating results and financial position

€ million	31/12/18	31/12/17	Change	% Change
Revenues	129.5	120.5	9.0	7.5 %
Costs	164.4	134.2	30.3	22.6 %
EBITDA	(34.9)	(13.7)	(21.2)	155.1 %
Operating profit/(loss) (EBIT)	(6.6)	(61.6)	54.9	(89.2%)
Average number of personnel	663	589	74	12.5 %
Capex	10.0	10.7	(0.6)	(5.9%)
Net debt	236.4	257.3	(20.9)	(8.1%)

Gross operating profit (EBITDA)

€ million	2018	2017	Change	% Change
Gross operating profit (EBITDA) Corporate Segment	(34.9)	(13.7)	(21.2)	155.1 %
EBITDA GROUP	933.2	840.0	93.3	11.1 %
Percentage weight	(3.7)%	(1.6)%	(2.1 p.p.)	

Corporate closes 2018 with a negative EBITDA of € 34.9 million (- € 21.2 million compared to 31 December 2017) due to an administrative fine of € 16.2 million imposed by the Antitrust Authority (for more details, see the details below), for the revision of service contracts to which was added an increase in costs for Information Technology.

The average workforce at 31 December 2018 stood at 663 and was up compared to the previous year (589 employees). This increase

is mainly due to the acquisition of the Facility Management division, which involved the transfer of 55 resources from Acea Elabiori to Acea S.p.A.

Investments amounted to € 10.0 million and, compared to 2017 decreased by € 0.6 million. Investments mainly refer to IT developments and investments in the company offices.

Net debt at 31 December 2018 amounted to € 236.4 million, an improvement of € 20.9 million compared to the closure of 2017.

This change derives from the Group and Acea needs generated by changes in working capital, including the disbursement of payables to suppliers.

SIGNIFICANT EVENTS FOR THE 2018 FINANCIAL YEAR

Order A/513 - Antitrust Authority Fine against Acea, Acea Energia and areti

On 8 January 2019 the AGCM antitrust authority notified the Company of the final Order of Procedure A/513. In this order, the Authority ruled that Acea S.p.A., Acea Energia S.p.A. and areti S.p.A. 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 € 16.2 million.

Because of this solidarity and 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 Acea which simultaneously relieved the subsidiaries areti S.p.A. and Acea Energia S.p.A., waiving any challenges or claims against the aforementioned subsidiaries.

The Company is considering filing an appeal with the regional administrative court against the aforementioned fine, and, at the same time, is assessing the measures to be implemented in compliance with the provisions of the AGCM.

SIGNIFICANT FACTS OCCURRING DURING THE REPORTING PERIOD

Acea S.p.A. and Open Fiber: agreement for the evolution of networks and the development of innovative services for the city of Rome

On 12 January 2018 the Chief Executive Officer of Acea S.p.A. Stefano Donnarumma and Elisabetta Ripa, CEO of Open Fiber, following the Memorandum of Understanding signed on 3 August 2017, signed an agreement defining the terms and conditions of the overall industrial agreement for the development of an ultra-broadband communications network in the city of Rome.

Acea S.p.A. Placement of bond issues for 1 billion

On 1 February 2018, Acea S.p.A. completed the placement of bond issues for an amount of € 300 million, respectively, with a 5-year maturity at floating rates (Euribor 3 months + 0.37%) and € 700 million with a fixed and maturity of 9 years and a half (1.5%), based on the € 3 billion *Euro Medium Term Notes* (EMTN) programme. The issue of the debenture loan, intended exclusively for institutional investors on the Euromarket, was successful, receiving requests equal to more than 2.5 times the amount of the Bonds offered. Fitch Ratings and Moody's gave the issue a rating of BBB+ and Baa2 respectively, in line with that of Acea.

Acea S.p.A. The Shareholders' Meeting approved the 2017 Financial Statements and the distribution of a dividend of 0.63 per share

On 20 April 2018, the Shareholders' Meeting of Acea S.p.A. approved the 2017 financial statements and the distribution of a dividend of € 0.63 per share, assigned for payment starting 20 June 2018 (coupon payment 18 June, record date 19 June).

Acea S.p.A. Appointment of director Michaela Castelli as Chairwoman of the Board of Directors

On 21 June 2018, the Board of Directors of Acea S.p.A., confirming their appreciation for the work of the CEO and in the spirit of continuity of management and business objectives, unanimously decided to appoint the director Michaela Castelli as Chairwoman of the Board of Directors.

Acea S.p.A. Acea enters the gas distribution sector

On 11 October 2018 Acea signed an agreement with the companies Alma C.I.S. S.r.l. and Mediterranea Energia SCARL for the acquisition of 51% of the share capital held by them in the company Pescara Distribuzione Gas S.r.l., active in the distribution of methane gas in the Municipality of Pescara. The two seller companies, which will retain 49% of the capital, will participate in synergy with Acea in the industrial management of the infrastructure. Pescara Distribuzione Gas governs the entire distribution network of the Municipality of Pescara and owns about half of it, the remainder belongs to the municipality, for a total of 325 km of network and about 62 thousand grid points. The economic value of the transaction, in terms of enterprise value for 100% of the company, is € 17 million. Following the transaction it will be consolidated by Acea at 100%, with an expected annual contribution to the EBITDA of approximately € 1.8 million.

Acea S.p.A. Moody's confirms Acea's "Baa2" rating and "stable" outlook

On 11 October 2018 Moody's confirmed Acea's "Baa2" rating with a "stable" outlook. The confirmation of the outlook is mainly due to the following reasons: the business mix primarily focused on regulated activities with limited exposure to price and volume risk; the strategic plan focused on regulated activities likely to ensure financial flexibility.

Acea S.p.A. GORI, agreement signed with the Campania Region and the Campania Water Authority

On 8 November 2018, GORI S.p.A., manager of the IWS (integrated water service) in the Sarnese-Vesuvian District of the Campania Region and 37% owned by Acea through the subsidiary Sarnese Vesuviano S.r.l., finalised a long-term industrial agreement with the Campania Region and the Campania Water Authority that sets the terms and conditions based on which the Company will complete the acquisition of the plants and the management of the IWS in the area. This agreement is part of the renewed cooperation commitment between regional institutions and Acea, with a view to finding the resources needed for better management of the IWS and full consolidation of the Company.

SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

Acea S.p.A. AGCM Antitrust Authority Order - Proceeding no. A 513

On 8 January 2019, the Acea Group was notified of an order of the Italian Antitrust Authority with an administrative fine of €16,199,879.09 against Acea S.p.A., Acea Energia S.p.A. and areti S.p.A., jointly and severally among them, with reference to proceeding no. A 513 for abuse of a dominant position in the electricity sales market. Confident that it has always acted properly, the Acea Group reserves the right to take any action necessary to defend itself.

Acea S.p.A. Completion of the acquisition of 51% of the share capital of the company - Pescara Distribuzione Gas

On 18 March 2019 Acea S.p.A. and the companies Alma CIS srl and Mediterranea Energia Soc. Cons.a.r.l., having obtained approval from the Municipality of Pescara, completed Acea's acquisition of 51% of the share capital of the company Pescara Distribuzione Gas srl, a business engaged in the distribution of methane gas in the Municipality of Pescara.

MAIN RISKS AND UNCERTAINTIES

Due to the nature of its business, the Group is exposed to various types of risks, in particular regulatory risks, operational and environmental risks, market risks, liquidity risk, credit risk and rating risks. In order to limit these risks, the Group has carried out analysis and monitoring activities detailed below.

Note that, on the date of preparation of the current Report on Operations, we do not expect the Acea Group to be exposed to further risks and uncertainties that may have a significant impact on the results of the Acea Group's operations, equity or financial position, other than those mentioned in this document.

REGULATORY AND LEGISLATIVE RISKS

As is known, the Acea Group operates mainly in regulated markets, and changes to the rules in these markets as well as regulations and obligations can have a significant effect on results and operating performance. Therefore, the Group has a structure that can consolidate its relations with local and national governments and regulatory bodies.

This structure monitors regulatory developments in terms of providing support in the preparation of comments in the response to the Consultation Paper, in line with the interests of Group companies, and in the consistent application of regulations in corporate procedures and within the electricity, gas and water businesses.

The nature of the business also exposes the Acea Group to the risk of non-compliance with consumer protection regulations pursuant to Italian Legislative Decree no. 206/2005, i.e. the risk mainly connected to the commission of consumer offences/unfair trade practices or misleading advertising (through activities like omission of relevant information, dissemination of untrue information/forms of undue influence, unfair terms in commercial relations with consumers, as well as risks of non-compliance with the regulations for the protection of competition, i.e. the risk associated mainly with the prohibition of companies to establish restrictive agreements and to abuse their dominant position in the market (through activities like market allocation, manipulation of tenders, restrictive agreements and other types of anti-competitive agreements, exchange of commercial/competitive information that potentially constitutes the creation of a cartel).

The rules of territorial planning and governance of the integrated water service continue to be subject to specific regulatory measures. In fact, two different bills have been drafted (AC52, first signatory Hon. F. Daga, and AC 773, first signatory Hon. F. Braga) which, taking up previously proposed topics, intend to deal with the government and public management of the integrated water cycle in different ways. The two bills, whose examination was joint and declared urgent, are currently being examined by the Appointee of the Chamber's Environmental Commission.

Regulatory risks include all non-conformities, with particular regard to the environmental impact of Acea Group (generated for example by the activities of production and / or treatment of urban waste and waste, and of health and safety). At work, mitigated through the adoption of certified management systems, respectively UNI EN ISO 14011: 2015 and BS OHSAS 18001: 2007), which may result in the application of administrative and / or criminal penalties, including those of a disqualifying nature.

In this regard, newly introduced crimes expand the catalogue of predicate offences capable of activating the responsibility of the

bodies pursuant to Italian Legislative Decree no. 231/2001, thus requiring an update of the organisational models.

Italian Law 199 of 2016 in force since 4 November 2016, amended art. 603-bis of the penal code, "*Illicit brokering and exploitation of labour*" and has included it among the predicate offences under art. 25-d.

of Italian Legislative Decree 38 of 2017, effective from 14 April 2017, amended art. 2635 "*Corruption between private individuals*" of the Italian Civil Code and has introduced art. 2635 bis "*Instigation to corruption among private individuals*" by adding it to the catalogue of predicate offences of Italian Legislative Decree no. 231/2001 to art. 25-ter, paragraph 1, letter s-bis).

Italian Law no. 179 of 30 November 2017 in force since 29 December 2017 introduced in Italian Legislative Decree no. 231/2001 at paragraphs 2-bis, 2-ter and 2-quater of art. 6 the protection of the employee or contractor that reports illegal actions or violations related to the organisation and management model of the body that come to his or her attention while working (so-called "whistleblowing").

Further crimes introduced during 2017 include:

- Italian Law no. 161 of 17 October 2017 in force since 19 November 2017, that at art. 30, para. 4 added paragraphs 1-bis, 1-ter and 1-quater in art. 25-duodecies "*Employment of foreigners without resident documentation*" of Italian Legislative Decree no. 231/01;
- the European Law 2017, definitively approved on 8 November 2017 and entered into force on 12 December 2017, which, in art. 5, paragraph 2 introduces into Italian Legislative Decree no. 231/01 art. 25-terdecies "*Racism and xenophobia*", punishing the institution in case of commission of crimes pursuant to art. 3, paragraph 3-bis, of Italian law no. 654 of 13 October 1975;

while these were taken into consideration, they were assessed as being difficult to commit in the context of company activities.

Other regulatory risks that may potentially be of particular importance for the Acea Group include those deriving from the new Privacy Regulation (EU) 2016/679 GDPR; Acea has already started a survey of the most exposed corporate processes, aimed at creating a model of Privacy Governance and the integration of the new principles required by the law.

With Law no. 68 of 22 May, 2015 (published in No. 122 of the Italian Official Gazette of 28 May 2015) new provisions concerning environmental crimes have been approved.

In particular, Law 68/2015 introduces the new Title VI-bis - "*Crimes against the environment*" into the Italian Criminal Code amending art. 152/2006.

Newly introduced crimes expand the catalogue of predicate offences capable of activating the responsibility of the bodies pursuant to Italian Legislative Decree no. 231/2001, thus requiring an update of the organisational models.

The subsidiary Acea Ato 5 is involved in investigations and proceedings that relate to cases falling under Italian Legislative Decree no. 231/2001 regarding the environment and corporate crimes. In particular, with regard to corporate offences, case 2031/16 relates to financial years 2015, 2016 and 2017 and alleges that the crimes of accounting fraud and filing fraudulent financial statements were committed by the Chairmen of the Company and the representatives of the supervisory body of this company. Investigations are ongoing.

It should be noted that some consolidated companies (mainly Acea Ato 5, Acea Ato 2 and Acea Ambiente), as more fully illustrated in the relative financial statements for the year, are subject to investigations or proceedings that relate to significant cases pursuant to

Italian Legislative Decree no. 231/2001, mainly concerning safety and the environment. There is also a complaint for a corporate offence related to Acea Ato 5 alone. In particular, with regard to corporate offences, case 2031/16 relates to financial years 2015, 2016 and 2017 and alleges that the crimes of accounting fraud and filing fraudulent financial statements were committed by the Chairmen of the Company and the representatives of the supervisory body of this company. Investigations are ongoing. On the basis of the information currently available, taking into account the operational autonomy of the companies with respect to the parent company Acea, any responsibilities that may be ascertained upon the final outcome of the aforementioned proceedings are exclusively attributable to the companies themselves, without any repercussions on the Parent Company or other companies of the Group that are not involved.

OPERATING AND ENVIRONMENTAL RISKS

Acea Ato 2 – critical situations concerning irregular discharges

The Operating Agreement signed officially ratified the obligation to transfer the integrated water services of Municipalities in Ato 2 (except for protected services and, subsequently, on the basis of art. 148, paragraph 5 of Italian Legislative Decree no. 152 of 3 April 2006, also municipalities with up to 1,000 residents, which have the right to not subscribe to the I.W.S.) in accordance with the law. In reality the times and procedures for the implementation of said transfer were not observed both due to the unwillingness of some Municipal Authorities to transfer the Service, and as it was impossible for the Operator, in particular from 2007, to take over the management of water, sewerage and waste water treatment plants that did not comply with the provisions of the laws in force to avoid exposing both the Operator and its executives to the consequent criminal charges applied by the magistracy.

The most critical situations in fact are discharges that are still not treated and/or existing waste treatment plants that must be re-qualified and/or upgraded to meet the new emissions limits set by the Supervisory and Control Authorities as a result of a different evaluation of the hydrological structure of receiving water courses, or even the nature of the receiving system (soil instead of water) as some waste water treatment plants discharged onto soil as the water course was dry when inspected. The uncertainty of this situation is due to the fact that the Lazio Region has not yet determined the classification of the regional surface hydrographic network.

The situation of a real environmental emergency also required interventions of an institutional nature. In fact, in 2008 the Regional Authority signed a “*Memorandum of understanding for the implementation of extraordinary reclamation of river, lake and sea resources to solve the discharge emergency in Ato 2 – Central Lazio – Rome*” to allocate specific funds for the implementation of some plans of action to deal with the emergency.

Today, thanks to a noteworthy technical development and economic commitment, 184 of the 246 discharges surveyed have been collected for water treatment. There are still 62 discharges active, of which 35 of Acea Ato 2 and 27 of the Municipal Administrations. Of the latter, 15 discharges were restored with interventions that were subsequently requested of the Manager.

During the first few months of 2018, in the light of ARERA Resolution 918/17, the update of the 2018-2019 Intervention Programme has been drafted with indications until the end of the concession (2032). This Plan is part of the documentation on which the tariff request is based (sent to the Operational Technical Secretariat on 7 September 2018) and will first be subject to approval by the Conference of Mayors and then, if successful, the ARERA. In the first years, from 2003 on, investments financed by the tariff

were made for annual amounts in growth (from € 30 to € 70 million), which in the Integrated Water Service implementation phase discounted the lack of knowledge of the plants being acquired from the Municipalities and the need to draw up a plan aimed at solving the most critical problems, especially in the hygienic-sanitary sector. The time frames resulting from this design and the authorisations necessary for the construction of the works have delayed the performance of investments in the region.

In the following years the investments made went from € 141 million in 2014 to € 189 million in 2015, to € 225 million in 2016 and € 232 million in 2017, almost doubling the value per inhabitant served by around € 36/inhabitant to about € 60/inhabitant, and in fact recovering the gap of previous years by making greater investments than those planned in the previous Plans.

As a result of a process of technological renewal and the implementation of the design activities developed in previous years, it has been possible to increase the production of investments for the construction of new large works. With regard to the difficulties related to the authorisation phase of the projects and the declaration of public utility by the Municipalities and in particular the Municipality of Rome and the consequent infrastructure procedures aimed at acquiring the areas necessary for the works, an effort was made with the Conference of Mayors resolution no. 2-17 of 20 December 2017 with which the power to approve the projects and concurrent declaration of a single opinion on the works in the works programme and to organise the Service Conferences necessary was delegated to the Operational Technical Secretariat.

Acea Ato 2 – critical elements of the drinking water system

From 2002 to date, the flow supplied by the aqueducts of Scheme 66 that supplies Roma Capitale to the Municipalities of the metropolitan area of Roma Capitale has increased from less than 300 to about 2,600 l/s. This increase in distribution was necessary to overcome emergencies, especially qualitative ones, and drastically reduced the reserves available to Roma Capitale and the municipalities themselves.

Two critical elements emerged and continue to emerge following the acquisition of the Integrated Water Service:

- quality of the water flowing out of the source;
- water shortage mainly in the South of Rome.

With respect most importantly to the **first critical issue**, the qualitative crisis caused by the presence in the territory of water sources that do not comply with the chemical parameters such as those for arsenic and fluorine, which are naturally found in underground water sources of volcanic origin, with the consequent critical situation in terms of the quantity and quality of the water supplied (Municipalities in the district of Castelli Romani and in general those in the volcanic areas of the ATO with over 170,000 inhabitant in fourteen Municipalities), resulted in the Company having to draw up restoration plans to put into action to meet the parameters of Italian Legislative Decree 31/2001 as implemented in subsequent investment plans of the Area Plan.

To this end, interventions were planned and implemented:

- replacement of the local qualitatively critical sources with sources characterised by better qualitative properties;
- mixing water sources free of undesired elements;
- construction of drinking water plants using reverse osmosis filtration technology.

As for the **second critical element**, in other words the water shortage mainly affecting the Colli Albani area, which is supplied by the Simbrivio aqueduct, the Doganella aqueduct and over 140 local wells, over the years various interventions have attempted to mitigate this critical situation, such as taking a branch off the Pertuso spring, putting new plants, the Arcinazzo tank and the Ceraso “booster” plant into service.

Finally, it should be noted that in addition to the acquisition of just the water service of Civitavecchia and Morlupo, currently that of the Municipality of Capena is also being acquired.

COMMERCIAL AND TRADING SEGMENT

With regard to the Commercial and Trading Segment, the main operational risks linked to the activities of Acea Energia can be considered material damage (shortcomings of suppliers, negligence), damage to human resources and damage deriving from external systems and events. To mitigate these operational risks, the Company has taken out a series of insurance policies with leading insurance companies from the start of their operations, to cover Property Damage, Third Party Liability and employee injury insurance policies. The Company pays particular attention to the updating of its employees' training and at the same time to the definition of internal organisational procedures and the drafting of specific job descriptions, also implementing a Health/Safety Management System in company workplaces in accordance with BS OHSAS 18001:2007, certified by an accredited external organisation.

ENERGY INFRASTRUCTURES SEGMENT

The main risks falling within this Industrial Segment (which includes, in addition to areti, Acea Produzione, Ecogena and ALL) can be classified as follows:

- risks relating to the effectiveness of the **investments** for the replacement/renewal of grids, in terms of expected effects on the improvement of service continuity indicators;
- risks relating to the **quality**, reliability and duration of works;
- risks relating to the ability to **meet the terms** for obtaining prescribed authorisations, regarding both the construction and start-up of plants (pursuant to Regional Law 42/90 and related regulations) and performing work (authorisations of municipalities and other similar authorisations), according to the need to develop and enhance the plants;
- risks related to **production failure**.

The risk relating to the effectiveness of **investments** basically stems from the increasingly stringent ARERA service continuity regulations. To deal with this risk, areti has strengthened the tools for analysing network performance in order to make increasingly better use of capital expenditure (e.g. ORBT project) and applied new technologies (automation of medium voltage network, smart grids, etc.).

As far as the risk linked to work **quality** is concerned, areti implemented operational, technical and quality control systems, including the creation of the Worksite Inspection Unit, which forms part of the Quality and Safety department. The results of the inspections, which are processed electronically and statistically analysed, give rise to rankings (reputational indicators) and a "vendor rating" system, developed in collaboration with the University of Tor Vergata (Rome). This system ranks contractors according to their reputation, scored on the basis of their ability to meet the quality and safety standards for worksites.

During the year, the good level in the reputation indicator was confirmed for companies that worked for areti.

The risk relating to the ability to **meet deadlines** arises from the number of entities that have to be addressed in the authorisation procedures and from the considerable uncertainty linked to the response times of these entities; the risk lies in the possibility of refusals and/or in the technical conditions set by the above entities (such as the construction of underground rather than above-ground plants, with a subsequent increase in plant and operating costs). It should also be noted that lengthy proceedings result in higher operating costs, are difficult to deal with for operating structures

(drafting and presentation of in-depth project examinations, environmental studies, etc.) and require participation in service conferences with technical meetings at the competent offices. However, the substantial risk is still essentially linked to the failure to obtain authorisations, with the result being the inability to upgrade plants and the subsequent greater risk linked to the technical performances of the service (at present there are delays in upgrading the HV network in the coastal area and the Terna procedure to construct a new Castel di Leva primary substation). Note that a particularly critical point is the long response times of a number of the administrations contacted.

With regard to the risk of **non-production** of the plants, Acea Produzione has taken steps from the beginning of the activities to sign with primary insurance companies policies to limit any damage caused by the lack of production.

ENVIRONMENT SEGMENT

The Terni and San Vittore del Lazio plants were involved in optimisation and revamping projects that typically present risks related to the construction of complex industrial infrastructure (construction and performance defects).

The Orvieto plant recently completed an important redevelopment of the recovery processes for composting and is currently undergoing a project to expand it, while the Latina plants (recently built), Monterotondo Marittimo and Sabaudia are affected by important interventions of expansion and redevelopment.

With regard to the management phase, the possible discontinuity of the waste-to-energy activities carried out in the Terni and San Vittore del Lazio plants and the waste treatment activities carried out by the other plants, if connected to the production of electricity under CIP 6/92 and the performance of services of public importance, could lead to significant negative effects.

This, both from an economic point of view and with respect to responsibility towards public and private suppliers. In this context, therefore, where not planned, a plant shutdown creates a concrete risk of failure to achieve the objectives of the industrial activity.

The waste-to-energy plants, as well as waste treatment plants to a lesser extent, are characterised by a high level of technical complexity, which requires the management of qualified resources and organisational structures with a high level of know-how. Therefore, there are specific risks with regard to the continuity of technical performance of the plants, as well as connected to the possible exodus of professional skills (not easily available on the market) having specific managerial skills in this area.

These risks have been mitigated by implementing specific maintenance and management programmes and protocols, drawn up partly on the basis of the experience acquired in plant management.

Moreover, the plants and the related activities are designed to handle certain types of waste. The failure of incoming material to meet the necessary specifications could lead to concrete operational problems, sufficient to compromise the operational continuity of the plants and give rise to risks of a legal nature.

For this reason, specific procedures have been adopted for monitoring and controlling incoming materials via spot checks and the analysis of samples pursuant to legislation in force.

MARKET RISK

The Group is exposed to various market risks with particular reference to the risk of price/volume oscillations for commodities being bought and sold, interest rate risks and foreign exchange risks to a lesser extent. To reduce exposure to within the defined limits, the

Group enters into contracts drawn up on the basis of the typologies offered by the market.

The **Market Risk** is the risk concerning the unexpected effects on the value of the portfolio of assets due to changes to the market conditions.

In this context, reference is made to the Price Risk and Volume Risk cases as defined:

- **Price Risk:** risk linked to the change in commodities prices due to the difference in the price indices for purchases and sales of Electricity, Natural Gas and EUA Environmental Certificates;
- **Volume Risk:** the risk linked to changes in the volumes effectively consumed by clients compared to the volumes envisaged in the sales contracts (sale profile) or, in general, the balancing of positions in the portfolios.

Commodity price risk

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 management of risks is carried out according to a second-level control process that involves the execution of activities throughout the year with different frequency by type of limit (annual, monthly and daily), carried out by the Commodity Risk Control Unit and by risk owners.

Specifically:

- **every year**, the measures of the risk indicators, i.e. the limits in force, must be reviewed and respected in the management of the risks;
- **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.

The reports are sent to the Top Management on a daily and monthly basis. When requested by the Internal Control System, Commodity Risk Control prepares the information requested and available to the system in the format appropriate to the procedures in force and sends it to Acea S.p.A.'s Internal Audit Unit.

The management and mitigation of commodity risk are functional to achieving the economic and financial objectives of Acea Group, as indicated in the budget, in particular:

- to protect the primary margin against unforeseen and unfavourable short-term shocks in the energy market which affect revenues or costs;
- to identify, measure manage and represent exposure to risks;
- to reduce risks through the preparation and application of adequate internal controls, procedures, information systems and expertise.

Forward contracts (for physical transactions for the purchase and sale of commodities) are stipulated to meet the expected requirements deriving from the contracts in the portfolio or for transactions not involving sales to end customers.

The risk hedging strategy adopted by the Commercial and Trading Industrial Area also aims to minimise the risk associated with the volatility of the Income Statement deriving from the variability of market prices and ensure correct application of the Hedge Accounting (in accordance with current International Accounting Standards) to all derivative financial instruments used for such purpose.

As regards the commitments undertaken by the Acea Group to stabilise the cash flow from purchases and sales of electricity for

the next year, it should be noted that all of the ongoing hedging operations are recorded in the accounts using the flow hedge method, as far as the effectiveness of hedging can be demonstrated. The financial instruments used are of the swap and contracts for difference (CFD) type.

The evaluation of risk exposure involves 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, CO₂), purpose of the activity (Trading, Sourcing on the wholesale market, Portfolio Management, Sale to internal clients inside and outside the Acea Group) and nature of the operations (physical, financial);
- accurate analysis of the time profile of the purchases and sales containing the open positions, in other words exposure of the physical purchase and sale of single commodities, within set volume limits;
- creation of scenarios of reference (prices, indices);
- calculation of risk indicators/metrics (Volumetric exposure, VAR, PAR, price range);
- verification of compliance with current risk limits.

The activity performed by the Commodity Risk Control Unit provides for daily codified checks at "event" on compliance with risk procedures and limits (also for purposes of compliance with Law 262/05) and reports to the Top Management any discrepancies detected during the phases of checks, so that measures can be adopted to be within the established limits.

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 Acea Group's approach to managing interest rate risk is, therefore, prudent and the methods used tend to be static in nature. A static (as opposed to dynamic) approach means adopting a type of interest rate risk management that does not require daily activity in the markets, but periodic analysis and control of positions based on specific needs. This type of management therefore involves daily activity in the markets, not for trading purposes but in order to hedge the identified exposure in the medium/long term.

Acea S.p.A. 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.

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.

Liquidity risk

The Group policy for managing liquidity risk, for both Acea and its subsidiaries, involves the adoption of a financial structure which, coherent with business objectives and within the limits defined by the Board of Directors, guarantees a suitable liquidity level that can meet financial requirements, while maintaining an appropriate balance between maturity and composition of debt.

The liquidity risk management process, using financial instruments

for planning suitable expenditure and income for optimal treasury management and to monitor the group debt trend, adopts a centralised treasury management system, which provides financial assistance to the subsidiaries and associates not covered by a centralised finance contract.

Credit risks

Acea emanated some time ago the credit policy guidelines, currently being revised to make them more compliant with current organisational changes and the Credit Risk Profiling project, in which different credit management strategies have been identified.

The Collection Strategy envisages that credit is managed taking into account both the type of customer (public and private) and the conduct of the individual customers (behaviour score). The credit check system, operating on markets that have not been regulated for more than 2 years, and with which subjects to verification, through personalised scorecards, all new mass-market and small business customers integrated with the SAS platform and with the Siebel system. The assessment of Large Business customers continues to be managed through an approval workflow with decision-making bodies consistent with the level of exposure expected from the supply.

The dynamic management of recovery strategies is carried out in the billing system for active customers and through a dedicated management system for those discontinued. There is also a full review of the credit management process both in terms of the application map and the standardisation of activities for all Group companies, with the definition of a new Collection Strategy, fully integrated into the systems.

From the organisational point of view, in 2016 a further strengthening of the centralised management was achieved through the establishment of a new unit within the Parent Company, responsible for credit policies and the recovery of receivables from customers discontinued or with significant exposures. The structures of each single company responsible for managing credit reported functionally to the Acea Unit that guarantees end-to-end supervision of the entire process.

At the end of 2018, once the extraordinary design review and recovery processes had been completed, the mass management of receivables that had ceased – of a limited amount – was transferred to the operating companies.

As in previous years, this year the Group assigned revolving and spot credit without recourse, to private customers and Public Administrations. These transactions led to the de-recognition of all the sold assets from the financial statements as all the associated risks and benefits had been transferred.

Risks relating to the rating

Access to the capital market and other forms of funding and the related costs, depends amongst other things on the Group's credit rating. A reduction in the credit rating by rating agencies could represent a limiting factor for access to the capital market and increase collecting costs with the consequent negative effects on the equity, economic and financial standing of the Group.

Acea's current rating is shown in the following table.

Company	M/L Term	Short Term	Outlook	Date
Fitch	BBB+	F2	Stable	28/01/2018
Moody's	Baa2	Na	Stable	26/10/2018

OPERATING (AND FINANCIAL) OUTLOOK

The results achieved by the Acea Group at 31 December 2018 are better than the forecasts.

The Group is determined to carry out significant investments in infrastructure that, without affecting the solidity of the consolidated financial structure, have an immediate positive impact on performance, EBITDA and billing and collection processes.

The Group's financial structure is solid for the years to come. At 31 December 2018, 78.9% of debt is fixed rate in order to ensure protection against any increases in interest rates as well as any financial or credit volatility. At 31 December 2018 the average dura-

tion of medium/long-term debt stood at 5.8 years. It should be noted that the reduction of its average cost went from 2.59% of 31 December 2017 to 2.21% of 31 December 2018.

For the year 2019 Acea expects:

- an increase in EBITDA between 4% and 6% compared to 2018;
- an increase in investments up by over 10% compared to 2018;
- a net financial debt at the end of the year between € 2.85 and € 2.95 billion.

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

Dear Shareholders,

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

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

The Board also resolved to distribute part of the retained earnings reserve for € 10,627,395.35 to the shareholders, corresponding to a unit dividend of € 0.050.

The total dividend (coupon no. 20) of € 150,909,013.97, equal to € 0.71 per share, will be paid starting from 26 June 2019 with coupon detachment on 24 June and record date 25 June.

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

Acea S.p.A.
The Board of Directors



The background image is a composite of two scenes. The top half shows a night view of a city with a prominent church tower and a street lamp. The bottom half shows a daytime view of a road with a metal railing and a chain-link fence. A large, semi-transparent blue circle is overlaid on the right side of the image, containing the text.

ACEA FINANCIAL STATEMENTS

FORM AND STRUCTURE

GENERAL INFORMATION

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

COMPLIANCE WITH IAS/IFRS

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

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

BASIS OF PRESENTATION

The Financial Statements for the year ended on 31 December 2018 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows and the Statement of Changes in Equity - all drafted according to the provisions of IAS 1 - as well as the Explanatory and Supplementary Notes, drafted in accordance with applicable IAS / IFRS provisions.

It is specified that the Income Statement is classified based on the nature of the costs, the Balance Sheet and Financial Position based on the liquidity criterion with the subdivision of items between current and non-current, while the Cash Flow Statement is presented using the indirect method.

The financial statements for the year ended on 31 December 2018 have been drafted in Euro and all amounts are rounded to thousands of Euro unless otherwise indicated.

ALTERNATIVE PERFORMANCE INDICATORS

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

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

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

USE OF ESTIMATES

Drafting of the Financial Statements, in application of the IFRS, requires the making of estimates and assumptions that affect the values of revenues, costs, assets and liabilities in the financial statements and information on potential assets and liabilities reference date. Furthermore, in making the estimates, the main sources of uncertainties that could have an impact on the valuation processes are considered. The actual amounts may differ from such estimates. The estimates were used in the assessment of the impairment test, to determine some sales revenues, for provisions for risks and charges, the allowance for doubtful receivables and other provisions for depreciation, amortisation, valuations of derivative instruments, employee benefits and taxes. The estimates and assumptions are reviewed periodically and the effects of each change are immediately recorded in the financial statements.

The estimates also took into account assumptions based on the parameters and market and regulatory information available at the time the financial statements were drafted. Current facts and circumstances influencing the assumptions on future development and events may change due to the effect, for example, of changes in market trends or the applicable regulations that are beyond the control of the Company. These changes in assumptions are also reflected in the financial statements when they occur.

In addition, it should be noted that certain estimation processes, particularly the more complex such as the calculation of any impairment of non-current assets, are generally performed in full only when drafting the annual financial statements, unless there are signs of impairment that call for immediate impairment testing.

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

ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

The most significant principles and criteria are explained below.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (and discontinued operations groups) classified as held for sale are valued at the lower of their previous carrying amount and market value less costs to sell.

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

EXCHANGE DIFFERENCES

The functional and presentation currency adopted by Acea S.p.A. and by subsidiaries in Europe is the Euro (€). Transactions in foreign currencies are initially recognised at the exchange rate in force on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies were reconverted into the functional currency at the exchange rate prevailing at the balance sheet date. All exchange differences are recorded in the Income Statement of the financial statements, with the exception of differences deriving from loans in foreign currency that have been entered into to hedge a net investment in a foreign company. These differences are recognised directly in equity until the net investment is disposed of and at that time any subsequent exchange rate difference is recognised in the Income Statement. The tax effect and receivables attributable to the exchange differences deriving from this type of loan are also attributed directly to equity. Non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate in force on the date of initial recognition of the transaction. Non-monetary items recorded at fair value are converted using the exchange rate on the date of calculation of this value.

The currency used by Latin American subsidiaries is the official currency of their country. On the balance sheet date, the assets and liabilities of these companies are converted into the presentation currency adopted by Acea S.p.A. using the exchange rate in effect on the balance sheet date, and their Income Statement is converted using the average exchange rate for the year or the exchange rates prevailing on the date of execution of the relevant transactions. Differences in translation emerging from the different exchange rates used for the income statement with respect to the balance sheet are recorded directly in equity and are shown separately in one of its specific reserves. At the time of disposal of a foreign economic entity, the accumulated foreign exchange differences recorded in the shareholders' equity in a specific reserve will be recognised in the Income Statement.

REVENUE RECOGNITION

In accordance with the provisions of IFRS 15 "Revenues from con-

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

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

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

FINANCIAL INCOME

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

DIVIDENDS

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

CONTRIBUTIONS

Contributions obtained for investments in plants, both by public bodies and by private third parties, are recognised at fair value when there is a reasonable certainty that they will be received and that expected conditions will be met. Contributions received for specific plants whose value is recorded under fixed assets are recorded among other non-current liabilities and progressively released to the Income Statement in constant instalments over a period equal to the useful life of the reference asset.

Operating grants (granted for the purpose of providing immediate financial assistance to the company or as compensation for expenses and losses incurred in a previous year) are recognised in full in the Income Statement when the conditions for recognition are met.

CONSTRUCTION CONTRACTS IN PROGRESS

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

the percentage of completion criterion (the so-called cost to cost), so as to attribute the revenues and the economic result of the contract to the individual financial years in proportion to the progress of the works. The positive or negative difference between the value of the contracts and the advances received is recorded respectively in the assets or in the liabilities side of the balance sheet.

Contract revenues, in addition to contractual fees, include variants, price revisions and recognition of incentives to the extent that they are likely to represent actual revenues and if these can be determined reliably. Ascertained losses are recognised regardless of the progress of orders.

COSTS RELATED TO BORROWING

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

EMPLOYEE BENEFITS

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

TAXES

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

Current taxes are based on the taxable results for the year. Taxable

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

Deferred taxes are the taxes that are expected to be paid or recovered on temporary differences between the book value of assets and liabilities in the financial statements and the corresponding tax value used in the calculation of the taxable income, recorded according to the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, while deferred tax assets are recognised to the extent where it is probable that there will be future taxable results that allow the use of deductible temporary differences.

The carrying amount of deferred tax assets is revised at each balance sheet date and reduced to the extent that, based on the plans approved by the Board of Directors, the existence of sufficient taxable income is not considered likely to allow all or partly the recovery of these assets.

Deferred taxes are calculated based on the tax rate that is expected to be in effect at the time the asset is realised or the liability is relieved. Deferred taxes are charged directly to the Income Statement, with the exception of those relating to items recognised directly in equity, in which case the relevant deferred taxes are also recognised in equity.

TANGIBLE ASSETS

Tangible assets are recognised at cost, including ancillary costs directly attributable and necessary for putting the asset into service for the use for which it was purchased, net of the relevant accumulated depreciation and any accumulated impairment losses.

The cost includes the costs of the dismantling and removal of the assets and the costs of reclamation of the site on which the tangible assets stand, if they comply with the provisions of IAS 37. Assets composed of components of a significant amount with a different useful life.

The costs for improvements, modernisation and transformation that increase the value of tangible assets are recognised as assets when it is probable that they will increase the expected future economic benefits of the asset.

Land, whether free of construction or annexed to civil and industrial buildings, is not depreciated as it has an unlimited useful life.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset by applying the following percentage rates:

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

Systems and equipment under construction for production purposes are recorded at cost, net of write-downs for losses in value. The cost includes any professional fees and, for some assets, financial charges capitalised in accordance with the Company's accounting policies. The depreciation of these assets, as for all other assets, begins when the assets are ready for use. For some types of complex goods for which long-lasting functional tests are required, the suitability for use is attested by the positive passing of these tests.

Tangible assets are subjected annually to a recoverability analysis in order to detect any loss in value: this analysis is carried out at the level of individual tangible assets or, possibly, at the level of the cash-generating unit.

Assets held as financial leases are depreciated in relation to their estimated useful life as for assets held as property or, if lower, based on the expiry dates of leases.

Profits and losses deriving from the sale or disposal of assets are determined as the difference between the sale revenue and the net book value of the asset and are recorded in the Income Statement for the year.

REAL ESTATE INVESTMENTS

Real estate investments, represented by properties held for rental and / or capital appreciation, are recorded at purchase cost including negotiation costs net of the relevant accumulated depreciation and any impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The percentages applied are between a minimum of 1.67% and a maximum of 11.11%.

Real estate investments are eliminated from the financial statements when they are sold or when the investment property is permanently unusable and no future economic benefits are expected from its possible sale.

The sale of real estate which results in the leaseback of the assets is recorded on the basis of the substantial nature of the transaction considered as a whole. In this regard, reference is made to what has been explained regarding Leases.

Any profit or loss deriving from the elimination of an investment property is recorded in the Income Statement in the year in which the elimination takes place.

INTANGIBLE ASSETS

Purchases separated or deriving from business combinations

Intangible assets acquired separately are capitalised at cost, while those acquired through business combinations are capitalised at the fair value defined on the purchase date. After the first entry into the category of intangible assets, the cost criterion applies.

The useful life of intangible assets can be qualified as definite or indefinite.

Intangible assets with an indefinite useful life are subjected annually to a recoverability analysis in order to detect any loss in value: this analysis is carried out at the level of the individual intangible asset or, possibly, at the level of the cash-generating unit.

The useful life is reviewed annually and any changes, where possible, are made by means of analytical tables.

Gains or losses deriving from the disposal of an intangible asset are determined as the difference between the disposal value and the carrying amount of the asset and are recorded in the Income Statement at the time of disposal.

Research and development costs

Research costs are allocated to the income statement when in-

curred. Development costs incurred in relation to a given project are capitalised when their future recovery is deemed reasonably certain. Following initial recognition of development costs, these are valued using the cost criterion that can be decreased by any accumulated depreciation or loss.

Any capitalised development costs are depreciated for the entire period in which expected future revenues will be shown in respect of the project itself. The carrying value of development costs is reviewed annually for the performance of an adequacy analysis for the purpose of detecting any impairment losses when the asset is not yet in use, or more closely when an indicator during the period exercise may raise doubts about the recoverability of the carrying amount.

Trademarks and patents

These are initially recognised at purchase cost and depreciated on a straight-line basis based on their useful life.

With regard to depreciation rates, please note that:

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

IMPAIRMENT

At every balance sheet date, Acea S.p.A. revises the carrying amount of its tangible, intangible and equity investments to determine whether there are indications that these assets have suffered impairment. If any indication exists, the Group estimates the recoverable amount of the asset in order to determine the impairment charge.

When it is not possible to estimate the recoverable amount of the individual asset, Acea S.p.A. estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives, including goodwill, are tested for impairment annually and each time there is any indication that an asset may be impaired, in order to determine the impairment charge.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In determining the value in use, estimated future cash flows are discounted to their current value using a pre-tax rate that reflects current market assessments of the value of money and the specific risks of the asset.

If the recoverable amount of an asset (or of a cash-generating unit) is estimated to be lower than the relative book value, it is reduced to the lower recoverable value. An impairment loss is immediately recognised in the Income Statement, unless the asset is represented by land or buildings other than real estate investments recorded at revalued values, in which case the loss is recognised in the respective revaluation reserve.

When an impairment no longer exists, the carrying amount of the asset (or cash-generating unit), with the exception of goodwill, is increased to its new estimated recoverable amount. The reversal must not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment charge been recognised for the asset in prior periods. The reversal of an impairment charge is recognised immediately as income in the Income Statement, unless the asset is carried at a revalued amount, in which case the reversal is recognised in the revaluation reserve.

Where an impairment charge is recognised in the income statement, it is included among amortisation, depreciation and impairment charges.

EQUITY INVESTMENTS

Investments in subsidiaries and associates are recorded in the bal-

ance sheet at the adjusted cost of any impairment losses on the individual equity investments. The cost of acquisition or subscription, for those relating to contributions, corresponds to the value determined by the experts in the estimate pursuant to Article 2343 of the Italian Civil Code.

Losses on equity investments relating to the amount exceeding the amount of shareholders' equity are classified in the provision for risks and charges even if there is a credit exposure and until the eventual formal waiver of the receivable. Charges for settlement of equity investments are recognised through the valuation of the investments themselves regardless of the allocation of charges in the financial statements of investee companies.

Investments in other companies, constituting non-current financial assets and not destined for trading activities, are measured at fair value if they can be determined: in this case, gains and losses deriving from the fair value measurement are booked directly to equity until the moment of the sale when all the accumulated profits and losses are charged to the Income Statement for the period.

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

TREASURY SHARES

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

FINANCIAL INSTRUMENTS

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

Financial assets - debt instruments

Depending on the characteristics of the instrument and the business model implemented for its management, financial assets (which represent debt instruments) are classified into the following three categories: 1) financial assets measured at amortised cost; 2) financial assets measured at fair value with recognition of the effects among the other components of comprehensive income (hereinafter also OCI); 3) financial assets measured at fair value with recognition of the effects in the income statement.

Initial recognition takes place at fair value. For trade receivables without a significant financial component, the initial recognition value is represented by the transaction price.

Subsequent to initial recognition, financial assets that generate contractual cash flows exclusively representing capital and interest payments are valued at amortised cost if held for the purpose of collecting contractual cash flows (so-called "hold to collect" model). According to the amortised cost method, the initial recognition value is subsequently adjusted to take into account capital repayments, any write-downs and the amortisation of the difference between the repayment amount and the initial recognition value.

Amortisation is based on the effective internal interest rate, which represents the rate that makes the present value of expected cash flows and the initial book value equal at the time of initial recognition. Receivables and other financial assets measured at amortised

cost are presented in the balance sheet net of the related provision for bad debts.

The financial assets representing debt instruments whose business model envisages both the possibility of collecting contractual cash flows and the possibility of realising capital gains on disposal (so-called "hold to collect and sell" business model) are valued at fair value with allocation of the effects to OCI (hereinafter also FVTOCI).

In this case, changes in the fair value of the instrument are recognised under shareholders' equity among other components of comprehensive income. The cumulative amount of changes in fair value recognised in the shareholders' equity reserve that includes the other components of the overall profit is reversed in the income statement when the instrument is derecognised. Interest income calculated using the effective interest rate, exchange rate differences and write-downs is recognised in the income statement.

A financial asset representing a debt instrument that is not valued at amortised cost or at the FVTOCI is valued at fair value with the effects being charged to the income statement (hereinafter FVTPL). This category includes financial assets held for trading purposes.

When the purchase or sale of financial assets takes place according to a contract that envisages the settlement of the transaction and the delivery of the asset within a specified number of days, established by the market control bodies or by market conventions (e.g. purchase of securities on regulated markets), the transaction is recognised on the date of settlement.

The financial assets sold are derecognised when the contractual rights associated with obtaining the cash flows associated with the financial instrument expire or are transferred to third parties.

Write-downs of financial assets

The assessment of the recoverability of the financial assets representing debt instruments not valued at fair value with effects on the income statement is made on the basis of the so-called "Expected credit loss model".

In particular, expected losses are generally determined on the basis of the product between: 1) the exposure owed to the counterparty net of the relative mitigating factors (so-called "Exposure at Default"); 2) the probability that the counterparty does not comply with its payment obligation (so-called "Probability of Default"); 3) the estimate in percentage terms of the amount of credit that will not be able to be recovered in the event of a default (so-called "Loss Given Default"), based on past experience and possible recovery actions that can be taken (e.g. out-of-court actions, legal disputes, etc.).

In this regard, the internal ratings already used for the assignment have been adopted to determine the probability of default of the counterparties. For counterparties represented by State Entities and in particular for the National Oil Companies, the probability of default – essentially represented by the probability of late payment – is determined using as input the country risk premiums implemented for the purposes of determining the WACC for the impairment of non-financial assets.

For retail customers not having internal ratings, the assessment of expected losses is based on a provision matrix, constructed where appropriate by grouping the clustered receivables to which write-down percentages apply based on the experience of previous losses, adjusted where necessary to take account of forecast information regarding the credit risk of the counterparty or of clusters of counterparties.

Minority holdings

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

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

Financial assets related to agreements for services under concession

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

Cash and cash equivalents

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

Financial liabilities

Financial liabilities other than derivative instruments – including financial payables, trade payables, other payables and other liabilities – are initially recognised at the fair value less any costs associated with the transaction. Subsequently they are recognised at amortised cost using the effective interest rate for discounting purposes, as illustrated in the previous point “Financial assets”.

Financial liabilities are eliminated when they are extinguished or when the obligation specified in the contract is fulfilled, cancelled or expired.

Offsetting of financial assets and liabilities

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

Derivative financial instruments and hedge accounting

Derivative financial instruments, including implicit ones (Embedded derivatives) are assets and liabilities recognised at fair value according to the criteria specified in the point below, “Fair value valuations”.

As part of the strategy and objectives set for risk management, the qualification of transactions as hedges requires:

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

Changes in risk management objectives, the absence of the conditions specified above for the classification of transactions as hedges or the implementation of rebalancing operations results in the total or partial prospective discontinuation of the hedge.

When hedging derivatives cover the risk of changes in the fair value of the hedged instruments (fair value hedge; e.g. hedging of the variability of the fair value of fixed rate assets/liabilities), the derivatives are recognised at fair value with the allocation of effects in the income statement. Similarly, the hedged instruments in the income statement reflect the changes in fair value associated with the hedged risk, regardless of the provision of a different valuation criterion generally applicable to the type of instrument.

When derivatives hedge the risk of changes in the cash flows of the hedged instruments (cash flow hedge; e.g. hedging of the variability of the cash flows of assets/liabilities due to fluctuations in interest rates or exchange rates), the changes in the fair value of derivatives considered to be effective are initially recognised in the shareholders' equity reserve relating to the other components of comprehensive income, and subsequently recognised in the income statement consistent with the economic effects produced by the hedged transaction. In the case of hedging of future transactions that involve the recognition of a non-financial asset or liability, the accumulated changes in the fair value of hedging derivatives, recognised in equity, are recognised as an adjustment to the carrying amount of the asset./non-financial liability subject to hedging (so-called basis adjustment).

The ineffective portion of the hedge is recorded in the income statement item “Financial (costs)/income”.

Changes in the fair value of derivatives that do not meet the conditions to be qualified as hedges, including any ineffective components of hedging derivatives, are recognised in the income statement. In particular, changes in the fair value of non-hedging derivatives on interest rates and currencies are recognised in the income statement item “Financial (costs)/income”.

Embedded derivatives – embedded in financial assets – are not subject to separate accounting. In these cases, the entire hybrid instrument is classified according to the general criteria for the classification of financial assets.

Embedded derivatives embedded in financial liabilities and/or non-financial assets are separated from the main contract and recognised separately if the embedded instrument:

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

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

Valuation at fair value

The fair value is the consideration that can be received for the sale of an asset or that can be paid for the transfer of a liability in a regular transaction between market operators at the valuation date (i.e. exit price). The fair value of an asset or liability is determined by adopting the valuations that market operators would use in determining the price of the asset or liability. The fair value measurement also assumes that the asset or liability is exchanged in the main market or, in the absence thereof, in the most advantageous market the company has access to.

The determination of the fair value of a non-financial asset is made considering the ability of market operators to generate economic benefits by using this asset in its highest and best use or by selling it to another participant in the market able to use it, maximising its value. The determination of the highest and best use of the asset is made from the point of view of market operators even in the case where the company intends to use it differently. It is assumed that the company's current use of a non-financial asset is its highest and best use unless the market or other factors suggest that a different use by market operators is able to maximise its value.

The valuation of the fair value of a liability, both financial and non-financial or of a capital instrument, takes into account the quoted price for the transfer of an identical or similar liability or equity instrument. If this quoted price is not available, the valuation of the corresponding asset held by a market operator at the valuation date is considered. The fair value of financial instruments is determined considering the credit risk of the counterparty of a financial asset (so-called “Credit Valuation Adjustment” - CVA) and the risk of default by the entity itself, with reference to a financial liability.

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

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

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are made when Acea has to meet a current obligation (legal or implicit) deriving from a past event, where it is probable that an outlay of resources will be required to satisfy the obligation and a reliable estimate can be made on the amount of the obligation.

The provisions are allocated based on the Management’s best estimate for the costs required to fulfil the obligation at the balance sheet date, and if the effect is significant.

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

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

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

IFRS 9 FINANCIAL INSTRUMENTS

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

1. Classification and measurement of financial assets and liabilities

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

- The assessment of the Business Model determines the classification of the instrument based on the objective with which the instrument is held within the company’s portfolio. Financial assets are measured at amortised cost if they are held with the aim of collecting contractual cash flows (Held to Collect). Financial assets are measured at fair value with changes in value charged to Other Comprehensive Income (OCI) if these are held with the aim of both collecting contractual cash flows and being sold (Held to Collect and Sell). Finally, they are measured at fair value with changes in value charged to the income statement if they are not held with the objectives typical of the other Business Models.
- The assessment of the characteristics of the contractual cash flows requires that the financial assets be valued at amortised

cost if the characteristics of the contractual cash flows represent only expected cash flows that provide for the repayment of the principal and interest accrued on that capital. In the event that this condition is not respected, an assessment will be made by determining the fair value.

2. Impairment of Financial Assets

IFRS 9 introduces a new framework related to the calculation of the impairment of financial assets and certain types of off-balance sheet financial instruments (loan commitment and financial guarantees). The new calculation method provides for the estimate of the devaluation of certain financial instruments on the basis of the concept of expected loss which differs from the methodology provided by IAS 39 which provides for the determination of losses based on a concept of incurred loss.

The adoption of the Expected Credit Loss model for impairment of financial assets brings with it the reporting of devaluation of financial assets based on a predictive approach, based on forecast of the counterparty’s default (probability of default) and the ability to recover in cases in which a default event occurs (loss given default). IFRS 9 requires the Group to record expected credit losses on all portfolio obligations, loans and trade receivables, with reference to either a 12-month period or the entire contractual term of the instrument (e.g. lifetime expected loss) according to the adoption of the General or Simplified Model. Given the characteristics and duration of the exposures, the Group will apply the simplified approach for trade receivables and therefore record the expected losses based on their residual contractual duration.

In particular, during 2017 activities have been completed for the definition and the implementation of methods for the impairment of financial assets, through the identification of the following models and parameters:

The expected loss is a function of the probability of default (PD), exposure at default (EAD) and the loss given default (LGD) and

this estimate must be made both by incorporating forward-looking information and through the use of ratings dictated by credit experience in order to reflect factors that are not captured by the models. PD is the probability that an activity has not been paid for and will default, the dimension being determined to be in a period of 12 months (stage 1) or over a lifetime (Stage 2). The PD for each instrument is constructed considering historical data and is estimated considering current market conditions through reasonable and supportable information on future economic conditions, and through the use of Internal Ratings already used for the purpose of assignment.

The EAD represents the credit exposure to the counterparty at the time the default event occurs.

This parameter includes an estimate of any value that is not expected to be recovered at the time of default (like collateral, guarantees, insurance policies, countervailable debts, etc.).

LGD represents the amount that is not expected to be recovered at the time the default event occurs and is calculated both on a historical basis and via supportable and reasonable information regarding future market conditions.

IFRS 9 also grants the possibility of using a further approach, defined as “simplified”. This method can be used only for the categories of financial instruments:

1. Trade receivables;
2. Lease receivables according to IFRS 16;
3. Contract Assets according to IFRS 15.

This approach allows only the use of PD lifetime to calculate the expected losses, eliminating the need to determine the PD at 12 months and to monitor the credit risk at each valuation date.

A further expedient envisaged by IFRS 9 within the simplified approach is the use of the so-called Provision Matrix. This model provides for the utilisation of impairment percentages determined by maturity date based on the historical losses recorded by the Company. These percentages must be subsequently supplemented with forward looking information in order to incorporate market and historical information in the percentages. This model was applied in particular to retail customers without internal ratings.

3. Hedge Accounting

IFRS 9 introduces a new hedge management model that identifies a broader spectrum of hedged instruments and hedged risks in order to create an accounting impact of risk management practices. The new rules also eliminate the need for quantitative efficacy tests and the simultaneous elimination of efficacy thresholds.

IFRS 9 grants those applying International Accounting Standards the possibility of continuing to apply the Hedge Accounting rules established by IAS 39. This option is granted until IFRS 9 is updated with the rules relating to Macro Hedging. The decision to apply Hedge Accounting according to IFRS 9 is irrevocable, while the decision to continue applying IAS 39 will be carried out each year until the accounting rules for hedging transactions are finally issued.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 was issued in May 2014 and amended in April 2016 and introduces a five-phase model that will apply to revenues from contracts with customers. The objective is to create a complete and uniform framework of reference for revenue recognition, applicable to all commercial contracts (with the exception of lease contracts, insurance contracts and financial instruments). The new standard will replace all current requirements in the IFRS regarding revenue recognition, in particular it will replace the following principles:

- IAS 18 - Revenues from sales and services;
- IAS 11 - Multi-year contracts and interpretations;

- IFRIC 13 - Customer loyalty programmes;
- IFRIC 15 - Agreements for the construction of buildings;
- IFRIC 18 - Transfer of customer activities;
- SIC 31 - Exchange transactions and advertising services.

IFRS 15 provides for the recognition of revenues for an amount that reflects the consideration that the entity deems to be entitled to in exchange for the transfer of goods or services to the customer.

The fundamental parts for accounting purposes are:

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

“Amendments to IAS 40 - Transfers of investment property”

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

“Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions”

The document issued in June 2016:

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

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

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

On 08 December 2016 the IASB published the document “Annual Improvements to IFRSs: 2014-2016 Cycle”.

The document introduces amendments to the following standards:

- **IFRS 1 First – time Adoption of International Financial Reporting Standards:** the change removes the exemption envisaged for the transition of new users to IFRS 7, IAS 19 and IAS 10

standards. These transitory dispositions were available for past reporting periods and are therefore no longer applicable.

- **IAS 28 Investments in Associates and Joint Ventures:** the change enables capital companies, joint investment funds, trust units and similar entities to choose whether to record their investments in associates or joint ventures classifying them as fair value through profit or loss (FVTPL). The Board has clarified that these valuations should be made separately for each partner of joint venture at the time of initial recording.

“IFRIC 22 - Foreign currency transactions and advance consideration”

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

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

IFRS 16 LEASES

Issued in January 2016, this standard replaces the previous standard on leases, IAS 17 and the related interpretations, identifies the criteria for the recognition, measurement, presentation and disclosures to be provided with reference to lease agreements for both the lessor and the lessee. IFRS 16 marks the end of the distinction in terms of classification and accounting treatment of operating leases (with off-balance sheet disclosures) and finance leases (recognised in the financial statements).

The right to use the leased asset (“Right of Use”) and the commitment made will result from financial data in the financial statements (IFRS 16 will apply to all transactions involving a right of use, regardless of the contractual form, i.e. lease, rental or hire purchase). The main novelty is the introduction of the concept of control within the definition. More specifically, to determine whether a contract is a lease, IFRS 16 requires a lessee to verify whether it has the right to control the use of a given asset for a specified period of time.

There will be no accounting symmetry with the lessor, which will continue to apply a separate accounting treatment depending on whether the contract is an operating lease or a finance lease (on the basis of current guidelines). On the basis of this new model, the lessee shall recognise:

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

On the lessor’s side, the new standard must have a minor impact on the financial statements (unless so-called “sub-leases” are implemented) as the current accounting will not change, except for the financial disclosure that must be quantitatively and qualitatively higher than the previous one. The standard, which ended its endorsement process in October 2017, applies from 1 January 2019, however early application is permitted if IFRS 15 – Revenue from contracts with customers is also adopted.

In the context of the first application of the standard the Group undertook an analysis starting from 1 January 2019, currently in the finalisation phase and which may be subject to changes. The transition approach that will be applied will be a modified retrospective and therefore the contracts whose leases – including renewals – will end within twelve months from the date of first application will

not be included. The Group has also used the possibility envisaged by the principle of not accounting separately for the non-lease component of mixed contracts, therefore choosing to treat these contracts as a lease. The impacts estimated by the company in this phase presuppose the recording at 1 January 2019 of assets and liabilities for an amount of approximately € 11 million, while on the economic side there is an improvement in EBITDA of approximately € 3 million.

“IFRIC 23 – UNCERTAINTY OVER INCOME TAX TREATMENTS”

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

“CONCEPTUAL FRAMEWORK”

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

“AMENDMENTS TO IAS 19”

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

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

On 12 December 2017 the IASB published the document “Annual Improvements to IFRSs: 2015-2017 Cycle”.

The document introduces amendments to the following standards:

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

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

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

On 8 December 2016 the IASB published the document “Annual Improvements to IFRSs: 2014-2016 Cycle”.

The document introduces amendments to the following standards:

- **IFRS 1 First – time Adoption of International Financial Reporting Standards:** the change removes the exemption envisaged for the transition of new users to IFRS 7, IAS 19 and IAS 10 standards. These transitory dispositions were available for past reporting periods and are therefore no longer applicable.

- **IAS 28 Investments in Associates and Joint Ventures:** the change enables capital companies, joint investment funds, trust units and similar entities to choose whether to record their investments in associates or joint ventures classifying them as fair value through profit or loss (FVTPL). The Board has clarified that these valuations should be made separately for each partner of joint venture at the time of initial recording.

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

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

On 12 December 2017 the IASB published the document “Annual Improvements to IFRSs: 2015-2017 Cycle”.

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

INCOME STATEMENT

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

Amounts in €

STATEMENT OF COMPREHENSIVE INCOME

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

Amounts in € thousand

STATEMENT OF FINANCIAL POSITION

Ref. Note	ASSETS	31/12/2018	Related Parties	31/12/17	Related Parties	Change
11	Tangible Fixed Assets	97,469,362	0	95,852,276	0	1,617,087
12	Real Estate Investments	2,489,046	0	2,547,404	0	(58,358)
13	Other intangible fixed assets	11,762,938	0	11,623,698	0	139,240
14	Investments in subsidiaries and affiliate companies	1,792,037,627	0	1,784,245,718	0	7,791,908
15	Other equity investments	2,352,061	0	2,352,061	0	0
16	Deferred tax assets	20,069,011	0	23,623,020	0	(3,554,008)
17	Financial assets	227,385,241	227,259,741	237,975,029	237,849,529	(10,589,788)
18	Other non-current assets	560	0	560	0	0
	NON-CURRENT ASSETS	2,153,565,846	227,259,741	2,158,219,766	237,849,529	(4,653,920)
19.a	Contract work-in-progress	0	0	0	0	0
19.b	Trade receivables	731,449	541,305	953,897	526,640	(222,448)
19.c	Intragroup Trade Receivables	88,212,898	88,212,898	98,771,878	98,771,878	(10,558,980)
19.d	Other current assets	31,900,595	1,931,369	36,395,068	1,942,792	(5,053,474)
19.e	Current Financial Assets	5,791,425	0	105,647,961	0	(99,856,537)
19.f	Intragroup current financial assets	2,074,601,428	2,074,601,428	1,918,406,576	1,918,406,576	156,194,852
19.g	Current tax assets	13,396,660	12,185,412	23,140,874	4,288,048	(9,744,214)
19.h	Cash and cash equivalents	978,551,644	0	527,422,879	0	451,128,765
19	CURRENT ASSETS	3,193,186,099	2,177,472,413	2,711,298,133	2,023,935,935	481,887,966
	Total Assets	5,346,751,945	2,404,732,154	4,869,517,899	2,261,785,464	477,234,046

Amounts in €

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

Amounts in €

STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2017

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

Amounts in € thousand

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2018

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

Amounts in € thousand

STATEMENT OF CASH FLOW

Ref. Note	31/12/2018	Related Parties	31/12/17	Related Parties	Changes
Cash flow from operating activities					
	161,708		229,809		(68,101)
5	13,125		24,142		(11,017)
5	(162,466)		(213,484)		51,018
22	423		(22,018)		22,442
21	(507)		(1,226)		719
8	0		268		(268)
6-7	(59,446)		(49,552)		(9,893)
	(56,638)		(104,874)		48,236
	(103,800)	0	(136,935)	0	33,135
Financial flows generated by operating activities before changes					
19.b - 19.c	11,174	10,544	(43,241)	(40,976)	54,415
26.b	(22,247)	(23,495)	(14,770)	1,519	(7,478)
19.a	(0)		270		(270)
	(11,073)	(12,951)	(57,740)	(39,457)	46,667
	44,027	(7,919)	148,682	31,789	(104,654)
	(70,846)	(20,870)	(45,994)	(7,668)	(24,852)
Cash flow from investment activities					
11-13	(14,823)		(25,120)		10,297
14-15	(2,438)		(2,782)		344
26.a	(26,395)	(145,605)	(427,874)	(418,786)	401,479
	160,105	160,105	231,810	231,810	(71,705)
	118,380	(22,636)	25,145	(103,892)	93,235
	234,829	(8,136)	(198,820)	(290,868)	433,650
Cash flow from financing activities					
23	(382,891)		(508,052)		125,161
26.a	1,000,000		450,000		550,000
26.a	(165,325)	33,153	437,726	(53,079)	(603,051)
	(30,014)	(2,832)	(52,991)	(3,037)	22,977
	(133,905)	(133,905)	(131,780)	(131,780)	(2,125)
	287,865	(103,584)	194,903	(187,896)	92,962
	(719)	0	0	0	(719)
	451,848	(132,590)	(49,911)	(486,432)	501,759
	527,423	0	577,334	0	(49,911)
	978,552	(132,590)	527,423	(486,432)	451,129

Amounts in € thousand

NOTES TO THE INCOME STATEMENT

REVENUES

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

Revenues from sales and services are as follows:

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

The reduction in *revenues from customer services* of € 17,539 thousand is attributable to the reduction in the consideration for the public lighting service performed in the Municipality of Rome.

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

1. from the fees for service activities rendered in the interest of the Group companies relating to facility management and

the adjustment of the service contract for the management of the IT platform, only partially offset by a reduction in other administrative, financial, legal and technical services (totaling € 5,187 thousand);

2. the overall increase in revenues deriving from other services provided to subsidiaries (€ 4,110 thousand) mainly due to revenues for out-of-service contracts relating to the Acea branch of facility management acquired in January 2018 from the subsidiary Acea Elabori.

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

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

Below is the composition.

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

COST

3. Personnel costs – € 57,196 thousand

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

The change in the cost of labour, including capitalised costs of € 5,899 thousand derives from the average outstanding amounts, as also highlighted in the table below. This increase is mainly due to the acquisition of the Facility Management division, which involved the transfer of 55 resources from Acea Elabiori to Acea S.p.A. The cost of personnel is netted, as well as capitalised costs, also €2,588 thousand (- €1,341 thousand compared to 31 Decem-

ber 2017) representing the total amount of personnel costs used in the IT projects for all group companies participating in the “communion” of the IT platform.

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

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

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

Compared to 31 December 2017, total external costs increased by

€5,088 thousand (+ 3.41%). The following is the composition and changes in external costs by nature

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

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

(follows)

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

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

- the increase in external costs for professional services, including those of an IT nature (+ € 2,481 thousand) and maintenance fees (+ € 1,808 thousand), are due to the costs of managing the IT platform in common with the other companies in the group;
- the increase in administrative consulting costs (+ € 1,231 thousand);
- sustaining of costs for debt recovery + € 880 thousand;
- the increase in external costs relating to the management of the facility management service (e.g. cleaning, transport and portage services for € 2,588 thousand and works for € 3,705 thousand) sold in January 2018 by the subsidiary Acea Elabori, partly offset by the reduced costs of the facility management service contract for the portion relating to Acea (€ 2,558 thousand);
- the registration of a pecuniary administrative fine amounting to € 16,200 thousand imposed by the Antitrust Authority; for further details see what is specified in the paragraph "Legal disputes";

- the reduction in the overall cost of the public lighting management service in the Municipality of Rome of € 17,269 thousand is due to the electricity consumption related to the service (- € 3,307 thousand) resulting from the efficiencies generated by the installation of LEDs instead of traditional lighting fixtures and the reduction in the fees envisaged in the contract (- € 13,962 thousand), in particular for the share relating to the mass installation of lighting with LEDs financed by Roma Capitale partially offset by the increase in fees related to other items of the contract;
- savings on the warehouse rent fees of - € 648 thousand;
- decrease in ordinary contingent liabilities equal to - € 2,939 thousand.

Please note that other rentals and charges refer mainly to hardware and software for the company data centre.

Please note that, pursuant to Article 149-duodecies of the CONSOB Issuer Regulations, the fees accrued by the PwC Auditing Company are shown in the table below.

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

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

identified by Acea, and 2) benchmark analysis of some services provided between related parties.

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

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

Depreciation totalled € 13,125 thousand and refers to € 6,170 thousand for intangible assets and € 6,956 thousand for property, plant and equipment. The reduction in depreciation relates essentially to intangible assets for software that ended depreciation in 2017.

The write-downs of receivables amount to a total of € (392) thousand and mainly refer to risks associated with the recoverability

of receivables for interests registered with Roma Capitale.

The change compared to the previous year is due to allocations to other companies of the group, in particular Sienergia S.p.A. in liquidation.

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

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

Compared to the previous year, there was an increase in the overall level of provisions originated by the combined effect of lower allocations linked to the charges necessary to deal with voluntary redundancy and early retirement measures (- € 6,775 thousand) and by lesser redundancy funds (in 2017 there was a release of the investees provision relating to the subsidiary GORI for € 22,127

thousand) offset by the provision of € 2,700 thousand relating to the tax dispute.

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

6. Financial income - € 130,272 thousand

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

The increase in financial income for € 15,909 thousand is attributable for € 16,128 thousand to income from intragroup transactions. This change is mainly due to the increase in inter-

est income on the revolving credit line for € 16,174 thousand.

7. Financial costs - € 70,827 thousand

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

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

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

8. Income from investments - € 177,966 thousand

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

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

9. Expense from investments - € 15,893 thousand

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

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

10. Taxes - € 13,932 thousand

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

The balance consists of the algebraic sum of the following items.

CURRENT TAXES

Current taxes amounted to € 92,134 thousand (€ 71,318 thousand at 31 December 2017) and refer to consolidated Ires calculated

on the sum of taxable income and tax losses of the companies consolidated on a tax basis and Irap.

It should be noted that this effect is cancelled by the recognition of income deriving from the attribution of the taxable income of the companies participating in the tax consolidation.

As part of the project to transfer the foreign subsidiaries from Acea to Acea International, in February Acea sold all the shares held in Consorcio Agua Azul to Acea International and paid taxes on the capital gain to the SUNAT (revenue agency) for € 2,214 thousand.

DEFERRED TAXES

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

CHARGES AND INCOME FROM TAX CONSOLIDATION

These amount to € 80,145 thousand and represent the positive

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

The compensation for the loss, as per the general consolidation regulation, is determined by applying the current IRES rate to the amount of the tax loss transferred.

The table below shows the reconciliation between the theoretical and actual tax rates.

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

* They mainly include the taxed portion of dividends

** Including deferred tax

NOTES TO THE BALANCE SHEET - ASSETS

11. Tangible fixed assets - € 97,469 thousand

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

There is an increase of € 1,617 thousand compared to the value of 31 December 2017.

The change mainly refers to the net effect between investments, totalling € 8,550 thousand, and the amortisation charges that amounted to € 6,897 thousand.

Investments during the period include the Telecontrol devices of the public lighting network in the Municipality of Rome, created by Acea at the request of Roma Capitale in fulfilment of the service contract.

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

The table below summarises the changes occurred in the period.

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

12. Investment property - € 2,489 thousand

These amount to € 2,489 thousand, a reduction of € 58 thousand due to the depreciation of the year and consist mainly of land and

buildings not used for production and held for rental purposes.

13. Tangible fixed assets - € 11,763 thousand

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

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

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

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

costs incurred for the new brand of Acea Group.

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

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

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

Shares held in subsidiaries

Changes for 2018 are summarised below.

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

The changes occurred mainly concern:

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

For purposes of verifying the recoverable value of investments, the impairment test was carried out substantially on all its direct and indirect subsidiaries – Acea Ato 2, Acea Ato 5, Acea Ambiente, Acea Produzione, Acea Energia, areti and Ecogena – and indirect subsidiaries – GORI, Publiacqua, Acque, Acquedotto del Fiora, Umbra

Acque and Nuove Acque. The companies subject to impairment were selected based on qualitative and quantitative criteria as well as in consideration of the riskiness of their business sector.

The impairment procedure of investments compares the accounting value of the investment with its economic value.

The verification of the maintenance of the value of an equity investment can be conducted by determining the difference between the recoverable value, identified as the highest value between the value in use and the fair value, net of selling costs, and the carrying amount.

The value in use represents the present value of expected cash flows that are expected to derive from the continuous use of all assets relating to the investment. The fair value, net of sales costs, represents the amount obtainable from the sale in a free transaction between knowledgeable and willing parties.

The 2018 impairment process provides the estimate of an interval relative to the recoverable value of individual investments in terms of value in use in methodological continuity with respect to the previous year, or through the financial method that recognises the ability to generate cash flows the essential element for assessing the reference entity. For the purpose of discounting operating cash flows, the weighted average cost of post-tax capital is used.

The estimate of the recoverable value of investments - expressed in terms of value in use - was estimated by the combined use of the financial method and sensitivity analyses.

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

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

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

The Terminal Value was determined:

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

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

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

Shares held in affiliate companies

Amount to € 21,470 thousand and the sale of Consorzio Agua Azul's stake in Acea International was reduced.

We also report the write-down for adjustment to the exchange rate of foreign equity investments (€ 463 thousand).

The changes occurred during the year are shown below.

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

15. Other equity investments - € 2,352 thousand

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

16. Deferred tax assets - € 20,069 thousand

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

The following table shows the changes and the balance as at 31 December 2017, distinguishing the Assets for Prepaid Taxes from the Provision for Deferred Taxes.

With regard to the recoverability of deferred tax assets, it must be noted that the valuation of deferred tax assets was carried out on the basis of Acea's business plans and, with regard to the time scale, considering a reasonable estimate of the reversal period.

Changes in the period

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

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

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

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

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

Financial receivables from subsidiaries decreased compared to 31 December 2017 by € (2,530) thousand due to the cancellation of the write-down of the interest-free loan to the subsidiary Acea

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

These receivables are considered entirely recoverable.

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

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

18. Other non-current assets - € 1 thousand

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

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

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

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

The balance as at 31 December 2018 is zero.

19.b - Trade receivables - € 731 thousand

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

Trade receivables

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

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

Receivables due to the parent company - Roma Capitale

The following table shows together the amounts resulting from the relations with Roma Capitale from Acea, both with regard to the

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

Provision for doubtful debts

Equal to € 3,801 thousand and increased by € 1,963 thousand compared to the previous year.

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

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

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

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

borrowing and lending due within and beyond the following year, including items of a financial nature.

€ thousand	31/12/2018	31/12/17	Change
Trade payables	0	0	0
Total payables due within the next financial year (B)	0	0	0
Total (A) - (B)	103,508	139,733	(36,225)
Other financial receivables/(payables)	(420)	(767)	347
Other trade receivables/(payables)	(2)	(24)	22
Total other receivables/(payables) (C)	(422)	(791)	369
Net balance	103,086	138,942	(35,856)

The change in receivables and payables is due to the accrual of the period and the effects of compensations and receipts.

The stock of receivables as at 31 December 2018 recorded a decrease of €10,829 compared to the previous year, to be entirely attributed to financial receivables from public lighting. The decrease refers to the combined effect of receipts and compensations occurred during the year offset by the accrual of the annual fee, the modernisation of the safety net, extraordinary maintenance and finally the receivables deriving from the agreement relating to the LED Plan concerning the replacement of old street lamps.

In 2018, a total of € 65,305 thousand was collected and offset. The types of receivables collected are listed below:

- € 36,327 thousand for receivables relating to payments of the public lighting contract, of which € 21,356 thousand relating to the period from April to December 2017 and already recorded in the previous year and € 14,971 thousand relating to the period from January to July 2018;
- € 19,894 thousand for receivables of the public lighting contract already recognised by the 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 accrued receivables relating to the items of the LED Plan supplementary agreement;
- € 2,898 thousand for loans relating to network modernisation and security (1st, 2nd and 3rd quarter 2016);

- € 936 thousand for reimbursements related to cable theft (2014, 2015, 2016);
- € 444 thousand for receivables relating to public street lighting works.

Furthermore, as regards the 2018 debts, during the year Acea paid a portion of the dividends accruing in the year 2017 and entered in April by means of offsetting and the remainder through direct payment (total € 68,425 thousand).

Following some disputes raised by Roma Capitale for the period 2008-2018 with reference to the Public Lighting service, and given the uncertainty over the full recovery of receivables from the Municipality, the Company prudently drew up its best estimate of recovery, updating the assessments already carried out, in particular with reference to the receivables relating to the Public Lighting service for the periods prior to 31 December 2017 by proceeding with the entry of a Provision equal to € 15,386 thousand.

Receivables from subsidiaries

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

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

Receivables from associates

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

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

Below is their composition:

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

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

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

Beyond one year: € 23,723 thousand.

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

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

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

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

VAT receivables derive from the Group VAT settlement proce-

dure; the amount represents the receivable for the side paid at the end of December 2018.

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

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

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

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

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

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

Receivables from parent companies - Roma Capitale

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

Receivables from subsidiaries

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

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

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

Receivables from associates

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

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

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

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

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

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

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

NOTES TO THE BALANCE SHEET - LIABILITIES

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

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

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

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

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

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

20.b - Legal reserve € 111,948 thousand

It includes 5% of the profits of the previous financial years as required by Article 2430 of the Italian Civil Code.

At 31 December 2018 there was an increase of € 11,329 thousand compared to the previous year, due to the allocation of profit achieved in 2017.

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

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

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

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

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

The reserve for differences in exchange records a decrease of € 8,438 thousand and represents the effect of the valuation at the exchange rate on 31 December 2018 of the private placement in YEN stipulated in 2010.

The cash flow hedge reserve is negative and stands at € 20,658 thousand. This reserve includes € 3,333 thousand for the negative difference deriving from the delta of conversion rates between that

provided for in the hedging contract and that recorded on the adjustment date of the bond (3 March 2010).

The registration of the FTA following the first application of the new IFRS 9 international standard should also be noted. This entry net of tax effects amounts to a total of - € 719 thousand.

The table below shows available and unavailable reserves.

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

*Legend:

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

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

It decreased by € 952 thousand and reflects severance indemnities and other benefits to be paid subsequently to the perfor-

mance of the work activity to employees. Within the obligations that make up this item, we need to highlight the defined contribution plans and defined benefit plans. The following table shows the composition:

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

With regard to the calculation method, it must be noted that the benefits due at the time of termination of the employment relationship are determined according to actuarial criteria; with reference to post-employment benefits, the calculation is based on the "projected unit credit method" which is based on assessments that express corporate liability as the current average value of fu-

ture benefits, pro rated based on the service provided by the employee at the time calculation with respect to that corresponding at the time of payment of the service.

The change is affected 1) by the provisions for the period, 2) by the outflows that occurred during the period and 3) by the increase in the rate used for the valuation of the liabilities.

In particular, with regard to the economic-financial scenario, the discounting rate used for the valuation was of 1.57% against a rate used last year of 1.30%.

As required by paragraph 78 of IAS 19, the interest rate used to determine the current value of the obligation was determined with reference to the yield on the valuation date of securities of primary companies in the financial market to which Acea belongs and to the return on outstanding government bonds on the same date

with a duration comparable to the residual duration of the collective of workers analysed; it must be noted that, due to internal consistency of assessment and alignment with the requirements of IAS 19, the same technical bases have been maintained for the various types of plans.

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

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

In reference to Group Employee Benefits (Severance Plan, Additional Salary Payment, Rates Rebates for active and pensioned employees) a sensitivity analysis was performed in order to value

the variations in liability resulting from the flat variations, both positive and negative, of the rates' curve (shift + 0.5% - shift -0.5%). The results of this analysis are summarised below.

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

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

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

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

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

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

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

The main changes concerned:

- the provision for risks linked to legal disputes was used for € 280 thousand for unfavourable rulings, generating at the same time a redundant release of € 346 thousand and a provision for the year of € 192 thousand,
- the provision set aside for redundancy and mobility plans used for € 6,558 thousand as the relevant procedures have been completed. In addition, € 5,625 thousand was also set aside for the same plan,
- the provision for tax litigation risks was set aside for € 2,700 thousand.

- during the year € 904 thousand were issued for surplus procurement and supply provisions;
- the provision for investee risks was affected by a release of provisions of € 432 thousand and a provision of € 1,000 thousand to cover the risks of the Marco Polo company.

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

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

The breakdown is as follows:

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

Medium and long-term bonds

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

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

- **€ 595,806 thousand** (including the long-term portion of the contract related costs) relating to the 10-year fixed rate bond issued by Acea in July 2014, as part of the Euro Medium Term Notes (EMTN) programme of € 1.5 billion. The bonds, which have a minimum denomination of € 100,000 and expire on 15 July 2024, pay an annual gross coupon of 2.625% and were placed at an issue price of 99.195%. The effective gross yield at maturity is equal to 2.718%, corresponding to a yield of 128 basis points above the 10-year midswap rate. The bonds are governed by English law. The settlement date was 15 July 2014. Interest accrued during the period amounted to € 15,750 thousand;
- **€ 492,768 thousand** (including the long-term portion of the costs attached to the contract) relating to the bond issued by Acea in October 2016 for the EMTN programme for a total amount of €500,000 thousand with a 10-year fixed-rate duration. The bonds, which have a minimum denomination of € 100,000.00 and expire on 24 October 2026, pay an annual gross coupon of 1% and were placed at an issue price of 98.377%. The bonds are governed by English law. The settlement date was 24 October 2016. Interest accrued during the period amounted to € 5,000 thousand;
- **€ 422,672 thousand** (including the long portion of the costs associated with the stipulation) relating to the bond loan issued by Acea in March 2010, with a maturity of 10 years due on 16 March 2020. Bonds issued have a minimum denomination of € 50 thousand and pay an annual gross coupon of 4.5% and have been placed at an issue price of € 99,779. The effective gross yield on maturity is therefore equal to 4.528% corresponding to a yield of 120 basis points above the reference rate (10-year mid-swap). The bonds are governed by English law. The settlement date was 16 March 2010. Interest accrued during the period amounted to €

19,025 thousand. This debt remains, after the purchase and cancellation of bonds for a nominal value of € 77,225 thousand on 24 October 2016;

- **€ 158,847 thousand** relating to the Private Placement which, net of the Fair Value of the hedge, a negative € 21,747 thousand, amounted to **€ 180,634 thousand**. This fair value is allocated to a specific equity reserve. A suitable exchange reserve includes the exchange rate difference, a negative € 6,208 thousand, of the hedged instrument calculated on 31 December 2018. The exchange rate at the end of 2017 stood at € 125.83 against € 135.28 as at 31 December 2017. Interest accrued during the period amounted to € 3,940 thousand. This is a private bond (Private Placement) for an amount of 20 billion Japanese Yen) and with a maturity of 15 years (2025). The Private Placement was underwritten entirely by a single investor (AFLAC). Coupons are paid on a semi-annual basis every 3 March and 3 September applying a fixed rate in Yen of 2.5%. At the same time, a cross currency transaction was carried out to transform the Yen currency into Euro and the Yen rate applied in a fixed rate in Euro. The cross currency transaction requires the bank to pay Acea, with a deferred semi-annual maturity, 2.5% out of 20 billion Japanese Yen, while Acea must pay the bank the coupons on a quarterly basis postponed to a fixed rate of 5.025%. The loan agreement and the hedging contract contain an option, respectively, for the investor and the agent bank, connected to the trigger rating: the debt and its derivative can be recalled in their entirety in the event that Acea's rating falls below the level of investment grade or in the event that the debt instrument loses its rating. At the end of the year the conditions for the possible exercise of the option did not occur;
- **€ 299,173 thousand** (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 1 February with a maturity of 5 years at a variable rate (Euribor 3 months + 0.37%) under the EMTN programme. Interest accrued during the period amounted to € 127 thousand;
- **€ 687,339 thousand** (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 1 February, with a fixed rate of 1.5% for the duration of 9.5 years under the EMTN programme. Interest accrued during the period amounted to € 9,406 thousand.

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

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

(*) Including amortisation cost

(**) Including rates on hedging instruments

Medium/long-term borrowings

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

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

- loan stipulated on 25 August 2008 for an amount of € 200,000 thousand for the investment plan in the water sector (Acea Ato 2) with a duration of 15 years. This loan at 31 December 2017 amounted to € 67,483 thousand. The first tranche of € 150,000 thousand was disbursed in August 2008 and the interest rate is equal to the 6-month Euribor plus a spread of 7.8 basis points. In 2009, a second tranche was disbursed for an amount of € 50,000 thousand, which provides for an interest rate equal to the 6-month Euribor plus a spread of 0.646%, with a maturity of 15 June 2019. The latter was extinguished early in March 2018;
- loan agreement for an initial amount of € 100,000 thousand, entered on 31 March 2008 expiring on 21 December 2021. The rate applied by the bank is a variable rate and the instalments are six-monthly and repayment will be made in half-yearly instalments; the first was paid on 30 June 2010. The residual amount of the loan at 31 December 2018 amounts to € 27,054 thousand. The risk of fluctuations in interest rates associated with the loan was hedged through the subscription of an Interest Rate Swap with the aim of transforming the cost of the underlying loan from variable to fixed. The swap follows the performance of the underlying depreciation plan. Based on IAS 39, the company has assessed the effectiveness of the hedging instrument according to the hedge accounting method based on the cash flow hedge

model. The test result is 99.29% effective, which means that no portion is recorded in the Income Statement that reflects the ineffectiveness of the instrument; in the appropriate equity reserve, the negative fair value of the hedging instrument equal to € 2,061 thousand was recorded;

- loan contracted by the EIB on 23 December 2014 of € 200,000 thousand, aimed at supporting the needs of the multi-year investment plan in the water area. The interest rate applied is equal to the 6-month Euribor with a spread of 0.45% with maturity in June 2030;
- financing contracted with the EIB on 2 May 2017 for € 200,000 thousand as part of the Network Efficiency III Project. The interest rate is variable. The loan repayment plan envisages a period of pre-amortisation up to 15 June 2021 and amortisation in constant semi-annual instalments up to 31 December 2030;
- €150,000 thousand loan line from Intesa San Paolo S.p.A. disbursed on 22 December 2017 with final maturity on 21 June 2019. The interest rate is fixed and the repayment is in a single payment;
- a € 100,000 thousand loan line disbursed on 28 December 2017 by UBI Banca S.p.A. with final maturity on 2 January 2019. The interest rate is fixed and the repayment is in a single payment.

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

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

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

For information on financial instruments, please refer to the paragraph "Supplementary information on Supplementary information

on financial instruments and risk management policies".

24. Other non-current liabilities - € 0 thousand

These are zero at 31 December 2018.

25. Current liabilities - € 609,214 thousand

These amounted overall to € 609,214 thousand and dropped

by € 183,331 thousand.

The comparative values were the subject of reclassifications in respect of published data for the purpose of better understanding the changes.

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

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

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

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

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

The increase in amounts payable to banks for mortgages totalling € 158,305 thousand is due to the combined effect of the reclassification to the short-term portion of the two financing lines of Intesa SanPaolo and UBI Banca, respectively due on 21 June and 2

January 2019 totalling € 250,000 thousand, offset by the repayment at March 2018 of the EIB loan of € 100,000 thousand.

The changes concerning payables to subsidiaries and associates relate to centralised treasury transactions, which increased by € 33,426 thousand due to the greater financial exposure recorded during the year by Group companies.

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

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

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

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

Results are as follows.

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

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

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

With regard to payables to suppliers for invoices received for € 51,214 thousand, it must be noted that the expired component

amounts to € 14,302 thousand, the remaining amount is due within the next twelve months.

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

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

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

These are reduced by €7,325 thousand and are composed as shown in the following table. In this regard, the comparative values

were the subject of reclassifications in respect of published data for the purpose of better understanding the changes.

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

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

These are composed as follows: In this regard, the comparative values

were the subject of reclassifications in respect of published data for the purpose of better understanding the changes.

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

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

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

INFORMATION ON RELATED PARTIES

ACEA AND ROMA CAPITALE

The controlling entity holds an absolute majority with 51% of Acea's shares.

There are commercial relations between Acea and Roma Capitale, as the company provides services to the Municipality with regard to maintenance and upgrading of public lighting systems.

With regard to the public lighting service, we inform you that it is provided exclusively in the Rome area. As part of the thirty-year free grant issued by the Municipality of Rome in 1998, the economic terms of the services subject to the concession are currently governed by a service contract between the parties in force since May 2005 and until the concession expires (31 December 2027), pursuant to the supplementary agreement signed between Acea and Roma Capitale on 15 March 2011 modified in June 2016 with a private deed aimed at regulating commitments and obligations deriving from the implementation of the LED Plan.

The additions of the supplementary agreement of 2011 concern the following aspects:

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

Furthermore, the investments required for the service may be 1) applied for and funded by the Municipality or 2) financed by Acea. In the former case, such works will be paid based on a price list agreed by the parties (and subject to review every two years) and will result in a percentage decrease in the ordinary fee. In the latter case, the Municipality is not bound to pay a surcharge; however, Acea will be awarded all or part of the savings expected in both energy and economic terms according to pre-established methods. On the due or early termination date Acea is entitled to an indemnity corresponding to the residual book value of the assets that will be paid by the Municipality or the incoming operator upon express provision of this obligation in the call for tenders for the selection of the new operator.

Finally, the contract establishes a list of events that represent a cause for the early cancellation of the concession and/or the termination of the contract by the will of the parties. Among these events, the one relating to supervening needs related to the public interest appears relevant, expressly included as foreseen by article 23 bis of Italian Legislative Decree no. 112/2008, repealed following the referendum of 12 and 13 June 2011, which gave Acea the right to an indemnity commensurate with the product discounted by a value between a defined percentage of the annual contractual amount and the number of years left until the expiry of the concession.

The supplementary agreement, exceeding the materiality thresholds defined by the Company in relation to Transactions with Related Parties, was submitted to the analysis of the Board of Direc-

tors and obtained approval at the meeting on 1 February 2011, after obtaining the favourable opinion by the Committee for Transactions with Related Parties.

Reciprocal claims and liabilities – with reference to payment methods and terms – are governed by individual contracts:

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

The private agreement signed in June 2016 between Acea and Roma Capitale regulated commitments and obligations deriving from the implementation of the LED Plan modifying Art. 2.1 of the Supplementary Agreement signed in 2011.

More specifically, the agreement provides for the installation of 186,879 fittings (which became 182,556 at the request of Roma Capitale), in the number of 10,000 per month starting thirty days after the signing of the agreement; the price was set at € 48 million for the entire LED Plan. 10% of the price will be paid in advance and the remaining part on the basis of specific bimonthly progress certificates, to be paid by Roma Capitale within thirty days following the closing of the progress certificate for 80%, and within fifteen days after verification of the same progress certificate for the remaining 15%. The agreement also provides for incentive/penalty mechanisms based on higher/lower than planned installations every two months and for a reduction of the fee paid by Roma Capitale to the extent of 50% of the economic value of Energy Efficiency bonds due to Acea for the LED Project.

As a result of the implementation of the LED Plan, the parties partially modified the price list and the composition of the fee for the management of the service.

New constructions and investments contribute to the increase in the lump-sum payment due to the annual rate calculated according to the mechanism of tax depreciation envisaged for the plants underlying the specific intervention and to the percentage reduction of the ordinary rent due from Roma Capitale whose amount is defined in the technical-economic project document.

A variable interest rate is envisaged to remunerate the invested capital. With regards the extent of the relationship between Acea and Roma Capitale, reference must be made to what has been explained and commented on receivables and payables to the parent company in note no. 19.c of this document.

From the point of view of economic relations, instead, the costs and revenues at 31 December 2018 are summarised below with reference to the most significant transactions

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

ACEA AND THE ROMA CAPITALE GROUP

Even with companies, special companies or institutions controlled

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

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

ACEA AND ITS SUBSIDIARIES

Financial reports

Acea S.p.A., in its function as an industrial holding company, defines the strategic objectives at the Group and subsidiary level and coordinates its activities.

As part of the centralised management of financial services, the parent company Acea has long since adopted a Group intercompany treasury system, including an inter-company finance relationship, making it available to many Group companies with which a special multi-year inter-company finance contract was signed.

On 1 April 2016 a new inter-company finance contract was approved for three years, considering the previous one obsolete under the renewal adopted according to the Acea2.0 project.

On the basis of this contract, Acea makes available a medium-term revolving loan, so-called "Intercompany Finance Line", up to a pre-determined credit limit for financing the financial needs for 1) working capital requirements and 2) the execution of investments. In addition, Acea makes credit lines available to its own companies for signature, for an amount equal to the Plafond for bank guarantees or through the direct issuing of corporate guarantees for an amount equal to the Plafond for Corporate Guarantees.

The operation of this contract provides that in a permanent and daily manner each company, holder of specific peripheral bank current accounts, daily credit or debit the Parent Bank's current account to zero the balance on its current accounts.

In the case of daily intercompany balance due by currency, companies recognise the interest expense calculated, for each year, on the basis of a market interest rate, defined as the weighted average of the rates applied on the capital market for the so-called issues, hybrid or similar, in the utilities sector (revisable annually, possibly increased by an additional margin linked, substantially, to the level of exposure of the beneficiary company with respect to the total limits granted to companies with cash pooling). For 2018, the interest rate applied is between a minimum of 4.62% and a maximum of 5.78%.

In the case of a daily intercompany credit balance by currency, Acea recognises calculated interest rates for each quarter by applying the interest rate resulting from the arithmetic average of the "3 month EURIBOR" rates (source Bloomberg) in the previous quarter.

Contractual terms applied are, with the same credit standing and type of financial instrument, in line with those resulting from the reference market, also supported by the evidence of a benchmark developed by a leading consulting firm.

Reports of a commercial nature

Acea also provides subsidiaries and associated companies with administrative, financial, legal, logistics, management and technical services in order to optimise the resources available within the Company and to optimally use existing know-how in a logic of affordability.

These services are governed by specific service contracts.

With regard to service contracts, starting from 1 January 2017 and with a three-year duration. These prices are aligned with market fees as resulting from the benchmarking activity carried out by a leading company in the sector specifically appointed. These contracts, such as those expired, are compliant for regulatory purposes and of the Organisation, management and control model and envisage SLAs (Service Level Agreements) with a view to improving the level of service offered, to relate to relevant KPIs (Key Performance Indicators).

As part of the Template project, Acea and the companies in the area approved a contract that allows the implementation of the main technological development initiatives (cross-cutting and business) through the communion institute. The aforementioned contract contains rules of an economic - financial nature and of participation in the communion.

Acea also provides operating services, application management and maintenance related to accessing the Template project regulated by a specific contract.

The contractual terms applied are, for the same type of service rendered, in line with those resulting from the market.

ACEA AND THE MAIN COMPANIES OF THE CALTAGIRONE GROUP

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

ACEA AND THE MAIN COMPANIES OF THE SUEZ ITALIA GROUP

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

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

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

IMPACT ON THE STATEMENT OF FINANCIAL POSITION

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

IMPACT ON THE ECONOMIC RESULTS

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

IMPACT ON THE CASH FLOW STATEMENT

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

LIST OF TRANSACTIONS WITH RELATED PARTIES

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

UPDATE ON MAJOR DISPUTES AND LITIGATION

TAX ISSUES

On 17 April 2018 the Regional Directorate of Lazio - Large Tax-payers Office initiated a general tax audit of the Company. The audit was concluded on 31 October 2018 with the drafting of the PVC (Audit Report) that alleged substantial VAT violations by the Company for the 2014 tax period.

It is also noted that as part of the controls carried out, on 12 October 2018 the Inland Revenue sent Company questionnaire no. Q00044/2018 relating to the determination of non-deductible costs, with the aim of extending the audit to the 2013 tax period. The Company's response was sent to the relevant bodies on 7 December 2018.

Finally, it is acknowledged that following a joint consultation report (protocol no. 115820), with an assessment with acceptance on 18 December 2018 the Company accepted pursuant to and for the purposes of art. 6, para. 1 of Italian Legislative Decree no. 218/97 the proposal made by the Revenue Agency, which, pursuant to art. 54, paragraph 4, of Italian Presidential Decree 633/1972, defined without prejudice to further possible audits under the terms established by art. 57 of the same decree, VAT due for € 433,509 for undue deduction of VAT in violation of art. 19, paragraphs 2 and 4 of Italian Presidential Decree no. 633/1972. Penalties were calculated on the taxes due for a total amount of € 166,315.88 along with interest equal to € 73,871.59. Subsequently, on 19 December 2018 the Company fully paid the sums due for the 2013 tax period.

Finally, with regard to the 2014 tax period, a discussion with the Office was scheduled for 24 January 2019 in order to reach an assessment with acceptance for this tax period as well.

OTHER ISSUES

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

E.ON. Produzione S.p.A., Enel's successor of some concessions for the derivation of public waters of the springs of Peschiera for the production of energy, filed a case against the joint defendants (Acea, Acea Ato 2 and AceaElectrabel Produzione) requesting payment of the 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. – SASI

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

Acea S.p.A. - SMECO

With a writ served in the autumn of 2011, Acea was summoned to court to answer for alleged damages that its alleged non-compliance with unproven and non-existent obligations that are assumed to have been part of the shareholders' agreement regarding the subsidiary A.S.A. - Acea Servizi Acqua - is alleged to have produced on minority shareholders and their respective stakeholders. The petition is for more than € 10 million.

The court, accepting SMECO's request, deemed necessary expert accounting consulting aimed at quantifying the costs incurred, the loss of earnings and any payment due as a result of sale option envisaged in the shareholders' agreements.

With sentence no. 17154/15 of 17 August 2015, the Court rejected the application in its entirety and sentenced the parties jointly and severally to the reimbursement of Acea for expenses of 50,000.00 plus accessory costs. On 1 October 2015, SMECO lodged an appeal to the 2nd Section of the Court of Appeals of Rome. At the hearing of 3 February 2016 the case was postponed for the clarification of the pleadings to 11 April 2018. On this occasion, the matter was further postponed until 29 January 2020.

Acea S.p.A. - Milano '90

This issue concerns Milano '90's failure to pay € 5 million due for the balance of the sale price of the area in the municipality of Rome with access from via Laurentina No. 555, formalised on 28 February 2007 and with a subsequent supplementary deed of 5 November 2008. With the supplementary deed, the parties agreed to change the fee from € 18 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. 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-T02 and AATO3, and that the conferences of the unions of both area entities have approved this scheduled and, on 02 February 2018, signed the agreement for the management of hydraulic interference of the aqueduct system of Peschiera - Le Capore. This Agreement envisages, under Art. 16, waiver of pending proceedings, including this one. Therefore, the main opposing parties presented the amicable settlement of the dispute and at the hearing of 8 May 2018, it being clear that the parties had an interest in reaching a conclusion, the court once again reserved its decision.

With sentence no. 9455/2018 of 10 May 2018 the matter of the dispute was therefore declared terminated.

Acea S.p.A. - Antonella Illuminati

With similar actions brought before the Court Employment Division, former Director Antonella Illuminati summoned Acea itself to request that the Company be ordered to pay the remuneration unpaid and due to her, amounting to about € 190 thousand 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 judgements relating to the *an debeatur*, victorious workers (who were recognised as having a subordinate employment relationship with Acea) then petitioned for quantification of the claim, with which Acea was ordered to pay the salaries due as a result of the relationship established. Given

that there are multiple cases, and that they were undertaken by the same six workers, but referring to different periods in which the presumed receivables matured and have led to differing sentences pending at various levels of jurisdiction. In detail, with regard to the number of cases currently pending at the Supreme Court of Cassation, a first judgement was settled with a sentence in favour of Acea on 31 October 2018, and two further cases are still pending.

Finally, another judgement filed by the same six workers is pending before the Court of Appeals of Rome, and during the last hearing, held on 25 June 2018, the Court of Appeals considered it appropriate to suspend its judgement while awaiting the rulings of the Cassation on the validity of the claim following the hearing now scheduled for 4 April 2019.

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

This is a challenge to the injunction issued by the Court of Rome - General Docket 58515/14 against 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.

At the hearing on 17 February 2016, the Court joined these proceedings with the other proceedings General Docket 30056/2014 pending before the Court of Rome - brought by Acea and by areti (the assignee of the lease) seeking a declaration of termination of the lease agreement.

In the latter proceedings, MP 31 also filed a counter-claim for damages in consideration of the state of degradation of the property at the time it was released by 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. - CO.LA.RI

With a writ of summons served on 23 June 2017, Co.La.Ri. Consortium and E. Giovi S.r.l. - manager of the landfill at Malagrotta (RM) and executor respectively - summoned Acea and Acea Ato 2 in order to obtain from the defendants the payment of the portion of the tariff for accessing the landfill to be allocated to hedge the thirty-year management costs for same - established by Legislative Decree 36/2003 - assertively due for the conferment of waste during the period of contractual validity 1985-2009. 36/2003 - allegedly due for the conferment of waste occurred during the period of contractual validity 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.

Proceeding AGCM A/513

On 8 January 2019, the Antitrust Authority notified Acea S.p.A., Acea Energia S.p.A. and Areti S.p.A. of the final order for Proceeding A/513.

With this order, the Authority ruled that the aforementioned Group companies had committed an abuse of a dominant position - qualified as very serious and of duration quantified in 3 years and 9 months - consisting in the adoption of a broad exclusionary strategy realised through the illegitimate use of a series of prerogatives possessed solely by virtue of its position as an integrated operator in distribution, in order to compete with its competitors in the acquisition of electricity sales contracts in free market conditions.

In view of the gravity and duration of the infringement, the Authority ordered Acea S.p.A., Acea Energia S.p.A. and areti S.p.A. to pay an overall pecuniary administrative fine of € 16,199,879.09.

In consideration of the fact that the preliminary investigations made it possible to ascertain that the disputed conduct fell within the more general context of the strategic plan defined and controlled at the Parent Company level, and, nevertheless, the two commercial companies involved carry out their activities under the direction and coordination of Acea S.p.A., and, finally, since the Authority did not define the amount of the fine for each individual entity, the entire amount was recorded in the financial statements of the Parent Company.

It should be noted that the companies involved consider the assessment to be groundless and illegitimate and that they intend to challenge it before the administrative judge pursuant to the law.

ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

CLASSES OF FINANCIAL INSTRUMENTS

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

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

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of securities not listed on an active market is determined using the valuation models and techniques prevailing on the market or using the price provided by several independent counterparties.

The fair value of medium / long-term financial receivables and payables is calculated on the basis of the risk-less and risk-less adjusted rates. It must be noted that for trade receivables and payables with contractual expiry within the financial year, the fair value has not been calculated as their book value approximates the same.

In addition, fair value is not calculated when the fair value of financial assets and liabilities cannot be objectively determined.

TYPES OF FINANCIAL RISKS AND RELATED HEDGING ACTIVITIES

Foreign exchange risk

Acea is not particularly exposed to this type of risk which is concentrated on the conversion of the financial statements of foreign subsidiaries.

As regards the 20 billion yen Private Placement, the exchange rate risk is hedged through a cross currency swap described in the section on interest rate risk.

Liquidity risk

As part of the Group's policy, the objective of managing liquidity risk for Acea is to have a financial structure that, in line with the business objectives and with the limits defined by the Board of Directors, ensures a level of liquidity appropriate to the financial needs, maintaining a correct balance between duration and composition of the debt.

The liquidity risk management process, which uses financial planning tools for outflows and receipts suitable to manage treasury hedges and to monitor the trend of consolidated financial debt, is carried out both through cash pooling management both through the support and assistance provided to the subsidiaries and associated companies with which there is no centralised finance contract. At 31 December 2018, the Parent Company had uncommitted credit lines for € 679 million, of which € 529 million not used. No guarantees were granted in obtaining these lines.

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

At the end of the financial year, Acea has no outstanding investments in deposits with maturity and the like.

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

Interest rate risk

The Acea Group's approach to managing interest rate risk, which takes the structure of assets and the stability of the Group's cash flows into account, has essentially been targeted, up to now, at hedging funding costs and stabilising cash flows, in such a way as to safeguard margins and ensure the certainty of cash flows deriving from ordinary activities.

The Group's approach to managing interest rate risk is, therefore,

prudent and the methods used tend to be static in nature.

In particular, for static management (to be opposed to the dynamic one) we mean a type of management of interest rate risk that does not provide for daily operations on the markets but an analysis and control of the position carried out periodically on the basis of specific needs. This type of management therefore involves daily activity in the markets, not for trading purposes but in order to hedge the identified exposure in the medium/long term.

Acea has, up to now, opted to minimise interest rate risk by choosing a mixed range of fixed and floating rate funding instruments.

As it is known, fixed rate funding protects a borrower from cash flow risk in that it stabilises the financial outflows in the income statement, whilst heightening exposure to fair value risk in terms of changes in the market value of the debt.

An analysis of the consolidated debt position shows that the risk Acea is exposed to is mainly in the form of fair value risk, being composed of hedged fixed rate borrowings (79.0%) as at 31 December 2018, and to a lesser extent to the risk of fluctuations in future cash flows.

Acea is consistent with its decisions regarding interest rate risk management that essentially aims to both control and manage this risk and optimise borrowing costs, taking account of Stakeholders' interests and the nature of the Group's activities, and based on the prudence principle and best market practices. The main objectives of these guidelines are as follows:

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

Please note that Acea has:

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

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

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

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

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

This analysis was also carried out with the “risk-adjusted” curve, i.e. a curve adjusted for the level of risk and the business sector of Acea. A curve populated with fixed rate bonds denominated in EUR, issued by domestic companies in the public utilities sector with a composite rating ranging from BBB+ and BBB- was used. A sensitivity analysis has been carried out on medium/long-term financial liabilities using stress testing, thus applying a constant spread over the term structure of the risk-free interest rate curve.

This makes it possible to evaluate the impact on fair value and on future Cash Flows for both the individual instruments in the portfolio and the overall portfolio.

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

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

With regard to the type of hedging of which the fair value is determined and with reference to the hierarchies required by the IASB, it should be noted that, since these are composite in-

struments, the level is type 2 and that during the period there were no reclassifications from or to other levels of fair value as defined by IFRS 13.

COMMITMENTS AND CONTINGENCIES

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

ENDORSEMENTS AND SURETIES ISSUED AND RECEIVED

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

LETTERS OF PATRONAGE ISSUED AND RECEIVED

The balance is positive for € 559,386 thousand, consisting of letters of patronage issued for € 559,589 thousand and letters of patronage received for € 203 thousand.

During the year they underwent a total reduction of € 9,919 thousand. The main changes concerned:

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

THIRD-PARTY ASSETS UNDER CONCESSION

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

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

Dear Shareholders,

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

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

The Board also resolved to distribute part of the retained earnings reserve for € 10,627,395.35 to the shareholders, corresponding to a unit dividend of € 0.050.

The total dividend (coupon no. 20) of € 150,909,013.97, equal to € 0.71 per share, will be paid starting from 26 June 2019 with coupon detachment on 24 June and record date 25 June.

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

Acea S.p.A.

The Board of Directors

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

ANNEX 1: NET FINANCIAL POSITION

ANNEX 2: CHANGES OF INVESTMENTS AT 31 DECEMBER 2018

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

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

ANNEX 5: SEGMENT INFORMATION (IFRS 8)

ANNEX 1 - NET FINANCIAL POSITION AT 31 DECEMBER 2018

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

ANNEX 2 - CHANGES IN HOLDINGS AS AT 31 DECEMBER 2018

CHANGES IN THE PERIOD

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

CHANGES IN THE PERIOD

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

CHANGES IN THE PERIOD

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

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

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

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

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

ANNEX 5 - SEGMENT INFORMATION (IFRS 8)

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

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

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

Report of the Board of Statutory Auditors to the Shareholders Meeting

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

Dear Shareholders,

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

This report concerns the activity carried out by the Board of Auditors of Acea S.p.A. in the financial year closing on 31 December 2018.

Introduction

During the financial year which closed on 31 December 2018, the Board of Auditors carried out the activity of supervision provided by the law, considering the principles of conduct recommended by the National Council of Chartered Accountants and Accounting Experts, Consob provisions regarding corporate controls and the indications contained in the Self-Governance Code for listed companies issued by Borsa Italiana S.p.A.

The activities described hereunder, which were also performed jointly with the Control and Risks Committee, have been acknowledged in the minutes of the 23 meetings of the Board of Auditors which were held over 2018.

The Board of Auditors has always attended the meetings of the Board of Directors and the Control and Risks Committee. It also attended the meetings of the Appointments and Remuneration Committee.

By resolution of the Shareholders’ Meeting of 27 April 2017, the assignment to audit the separate and consolidated financial statements was given to PricewaterhouseCoopers S.p.A. (hereinafter also “PwC” or “Auditing Firm”) for the period 2017-2025.

Appointment of the Board of Auditors

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

Carlo Schiavone and Lucia Di Giuseppe are alternate auditors.

Supervisory activity in accordance with Art. 149 of the TUF

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

- the observance of law and the articles of association;

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

Supervision of the observance of law and the articles of association

The Board of Auditors acquired information instrumental to performing the supervisory duties attributed to it by means of attending meetings of the Board of Directors and the Committees internal to the board, listening to the Management of the Company and the Group, meetings with the Audit Company, as well as other control activities.

Specifically, the Board of Auditors:

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

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

The Board of Auditors:

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

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

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

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

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

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

Supervision over the effective implementation of corporate governance regulations

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

- the processes of effective implementation of the corporate governance regulations provided under the codes of conduct drawn up by regulated market management or by category associations with

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

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

The Board of Auditors states, moreover: (I) that it has verified, as recommended by the Self-Governance Code of Borsa Italiana S.p.A., that its members possess the same requirements of independence as requested for the directors of said Code; (II) that it has established the correct application of the criteria and procedures for ascertaining the requisites of independence adopted by the Board of Directors in order to annually assess the independence of its members, as well as an appraisal performed by the Board of Directors which is based on the substantial profiles and consistently with decisions taken on the matter of identifying Acea's related parties and has no observations to make in relation thereof.

Finally, the Board of Statutory Auditors acknowledges that it carried out its self-assessment in accordance with the Rules of Conduct of the Board of Statutory Auditors of listed companies of the National Council of Chartered Accountants and Accounting Experts and that it has no relevant information on the related results to be mentioned in this report.

Supervision of the adequacy of the instructions given by the company to its subsidiaries

Pursuant to article 114, paragraph 2, of the TUF: (I) the listed issuers lay down the necessary provisions for the subsidiaries to provide all information required in order to fulfil the obligations of communication provided by the law; (II) the subsidiaries send the required information in a timely manner.

The Board of Auditors has monitored the adequacy of the provisions laid down for the subsidiaries, having established that the Company is able to promptly and regularly comply with the obligations of communications provided under the law. This is also by means of collecting information from the organisational function managers and holding periodic meetings with the Audit Company, for the purposes of a reciprocal exchange of relevant data and information. In relation thereto, there are no particular observations to make.

Furthermore, Directors and/or Managers from the Parent Company are present in the Boards of Directors of the subsidiaries, with operational delegation, thus guaranteeing coordinated management and an adequate flow of information, also supported by accounting information.

* * *

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

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

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

Furthermore, as regards corporate bodies and functions, the Board of Auditors points out that:

- the Board of Directors held 12 meetings in 2018;
- the Control and Risks Committee met 13 times in 2018;
- the Appointments and Remuneration Committee met 11 times in 2018;
- the Ethics and Sustainability Committee met 8 times in 2018;
- the Related-Party Transactions Committee met 2 times in 2018;
- the Supervisory Body met 11 times in 2018.

Intergroup or related-party transactions

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

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

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

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

Supervision pursuant to Italian Legislative Decree no. 39/2010

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

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

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

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

* * *

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

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

The Board of Statutory Auditors represents that on 26 March 2019 PwC issued the additional report pursuant to art. 11 of the European Regulation, which represents the results of the statutory audit carried out and includes the declaration of independence pursuant to art. 6, paragraph 2, letter a) of the Regulation, as well as the information required by art. 11 of the same Regulation, noting significant deficiencies in the internal control system with respect to the financial reporting process. The Board of Auditors shall inform the Board of Directors about the results of the statutory audit, sending the supplementary

report for such purpose, enclosing any observations, pursuant to art. 19 of Italian Legislative Decree no. 39/2010. With regard to the previous year, the Board of Statutory Auditors informed the Board of Directors of the results of the statutory audit at the meeting held on 10 May 2018.

B) Supervision of the financial disclosure process

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

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

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

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

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

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

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

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

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

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

It is further noted that the Board:

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

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

With regard to the activity outlined in Italian Legislative Decree no. 231/2001, it is noted that on 19 January 2018 the baton was passed from the previous Supervisory Board (hereinafter “SB”), a role taken on by the undersigned Board of Statutory Auditors up to that date, to the new SB with the following members: Mr. Alfonso Dell’Isola, appointed Chairman of the new Supervisory Board by the Board of Directors of Acea on 15 December 2017 (external member), Ms. Liberata Giovannelli (internal member), Mr. Fabio Lattanzi, appointed by the Company’s Board of Directors on 12 April 2018 (external member). With respect to the composition of the Supervisory Board, it should be noted that Ms. Liberata Giovannelli, a former internal member of the Supervisory Board and Head of the Company’s Internal Audit Function, left the Acea Group and consequently the Supervisory Board of which she was an internal member on 31 January 2019 and was replaced on 1 February 2019 by Mr. Simone Bontempo as the new Head of the Internal Audit Department.

With regard to the update to the Organisation, Management and Control Model as per Italian Legislative Decree 231/2001 (hereinafter also referred to as the “Model”), the Supervisory Board recommended that the Company update the Model in light (i) of the organisational changes that took place during the year (i.e. the incorporation of the company branch of Acea Elabori S.p.A., relating to asset management and facility management, into Acea S.p.A. within the Human Resources Management Function), simultaneously proceeding to a new risk assessment in order to identify the control structures currently present in Acea and (ii) the legislative changes referred to in Legislative Decree no. 107 of 10 August 2018 (Rules for adapting national legislation to the provisions of Regulation (EU) no. 596/2014 on market abuse and repealing Directive 2003/6/EC and Directives 2003/124/EU, 2003/125/EC and 2004/72/EC) and Law no. 3 of 9 January 2019 (Measures to combat offences against the public administration, as well as on the limitations of the offence and on the transparency of political parties and movements).

With regard to the liability of entities pursuant to Italian Legislative Decree no. 231/2001, the Board of Statutory Auditors reports the existence of investigations and proceedings in progress concerning some Group companies.

Concluding on this point, with regard to the SCIGR, the Board of Statutory Auditors noted the positive developments initiated by the Company with respect to the progressive improvement of the effectiveness of this system.

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

Note that:

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

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

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

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

With regard to the annual confirmation of independence pursuant to art. 17, paragraph 9, letter a) of Italian Legislative Decree no. 39/2010, the Board of Statutory Auditors represents that it has received said confirmation from the Auditing Firm with the submission of the relative letter on 26 March 2019. The Board of Auditors monitored the independence of the audit company and, in particular, received periodic evidence of the various assignments other than auditing to be attributed (or attributed by effect of specific regulatory provisions) to the statutory auditor.

As deduced from the consolidated financial statements of the Acea Group, during financial year 2018 PricewaterhouseCoopers S.p.A. performed the activities summarised below for the Group:

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

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

In light of the above, the Board therefore deems that the Audit Company meets the requirement of independence.

F) Statutory auditor selection procedure

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

Financial Statements, consolidated financial statements and management report

The financial statements for Acea, approved by resolution of the Board of Directors of the Company on 6 March 2019, were drawn up according to IAS/IFRS accounting standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, as well as in conformity with the measures issued in implementation of art. 9 of Italian Legislative Decree no. 38/2005.

With specific regard to examining the financial statements for the year ended 31 December 2018, the consolidated financial statements and the management report, the Board of Auditors reports:

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

Omissions or criticisable facts, other opinions given, actions taken

The Board notes that:

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

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

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

The Acea Board of Directors approved the consolidated non-financial report - 2018 sustainability report, drawn up pursuant to Italian Legislative Decree no. 254/2016.

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

Proposal to the Shareholders' Meeting

1. Financial Statements as at 31 December 2018

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

2. Group remuneration policy

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

* * *

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

* * *

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

Rome, 26 March 2019

Signed by Mr. Enrico Laghi

Signed by Ms. Rosina Cichello

Signed by Mr. Corrado Gatti

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



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

ACEA SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018



Independent auditor's report

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

To the shareholders of Acea SpA

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Emphasis of matter

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

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

PricewaterhouseCoopers SpA

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

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

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

Our opinion is not qualified in respect of these matters.

Key Audit Matters

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

Key Audit Matters	Auditing procedures performed in response to key audit matters
Recoverability of the value of investments in subsidiaries and associates	
<i>Note 14 to the financial statements “Investments in subsidiaries and associates”</i>	
<p>The Company recognised in the financial statements as of 31 December 2018 investments in subsidiaries and associates for an amount equal to Euro 1,792 million.</p> <p>Annually, the Company, on the basis of its internal procedures, verifies the presence, if any, of impairment losses of investments in subsidiaries and associates comparing their book value with the estimate of their recoverable amount measured pursuant to IAS 36 (the so-called impairment test) through the Discounted Cash Flow method. Such verification is carried out on the main investments apart from the presence of any impairment indicators emerged during the year.</p> <p>As part of our audit activities, we paid particular</p>	<p>We addressed our audit procedures in order to:</p> <ul style="list-style-type: none"> • evaluate if the method for the estimate of the recoverable amount used by the Company was consistent with what envisaged by IAS 36 and the evaluation practice (analysis of the evaluation model used); • 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,



attention to the risk that there could be impairment losses in the abovesaid investments, inasmuch as the process for the estimate of their recoverable amount is particularly complex and based on valuation assumptions affected by economic, financial and market conditions which are hard to forecast.

which in case of significant events occurred in the period were specifically updated; and

- verify the mathematical accuracy of the quantification of the recoverable amount.

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.

As part of our audit activities, we availed ourselves, where necessary, of the support of the PwC network experts in evaluations.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will



always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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

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

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

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



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

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

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

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

Report on Compliance with other Laws and Regulations

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

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

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

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

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

Rome, 26 March 2019

PricewaterhouseCoopers SpA

Signed by

Massimo Rota
(Partner)



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**Certification of separate financial statements in accordance with art.154-bis
of Legislative Decree 58/98**

(Translation from the original Italian text)

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

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

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

2. To this purpose, no significant issues were recorded.
3. It is also certified that:
 - 3.1 the separate financial statements:
 - a) were drawn up in compliance the applicable international accounting standards recognised in European Community in accordance with EC regulation 1606/2002 of the European Parliament and the Council, of 19 July 2002,
 - b) are consistent with the underlying accounting books and records,
 - c) provide a true and correct view of the operating results and financial position of the issuer,
 - 3.2 the report on operations includes a reliable analysis of the operational performance and result, as well as the situation of the issuer, together with a description of the main risks and uncertainties to which they are exposed.

Rome, 26 March 2019

signed by: Stefano Donnarumma, The CEO

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

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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
NON-CURRENT ASSETS	5,147,563	42,873	31,993	5,222,430
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
CURRENT ASSETS	2,191,309	(178,637)	11,904	2,024,576
Non-current assets held for sale	183			183
Total Assets	7,339,055	(135,764)	43,897	7,247,189

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
Total Group shareholders' equity	1,717,626	(132,378)	(25,979)	1,559,269
Non-controlling interests	93,580	(3,386)	(673)	89,521
Total shareholders' equity	1,811,206	(135,764)	(26,652)	1,648,790
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
NON-CURRENT LIABILITIES	3,340,189	0	43,656	3,383,846
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
CURRENT LIABILITIES	2,187,623	0	26,893	2,214,516
Liabilities directly associated with assets held for sale	37			37
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	7,339,055	(135,764)	43,897	7,247,189

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
	Consolidated net revenue	3,028,487	2,796,983	104,081	231,504
3	Personnel costs	219,624	215,231		4,392
4	Costs of materials and overheads	1,918,936	1,768,621		150,315
	Consolidated Operating Costs	2,138,560	1,983,853	50,023	154,707
5	Income/(Costs) from equity investments of a non-financial nature	43,320	26,864		16,456
	Gross Operating Profit	933,247	839,994	54,058	93,253
6	Amortisation, depreciation, provisions and impairment charges	454,687	480,102		(25,415)
	Operating profit/(loss)	478,560	359,892	54,058	118,668
7	Financial income	17,838	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
	Profit/(loss) before tax	409,033	288,196	62,205	120,837
10	Taxes	124,334	95,992		28,341
	Net result	284,699	192,203	62,205	92,496
	Net profit/(loss) from Discontinued Operations				
	Net result	284,699	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
Net income for the period	284,699	192,203	92,496	48.1%
Profit/Loss from conversion of financial statements expressed in foreign currency	279	(5,311)	5,590	(105.3%)
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%)
Gains/losses from exchange rate difference	(8,438)	11,248	(19,686)	(175.0%)
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%)
Profit/Loss From the Effective Portion on Hedging Instruments net of tax effect	16,970	(6,263)	23,233	(371.0%)
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%)
Actuarial Profit/(Loss) on defined benefit pension plans net of tax effect	3,613	719	2,894	402.7%
Total components of other comprehensive income, net of tax effect	12,424	393	12,031	3,062.1%
Total comprehensive income/loss	297,123	192,596	104,527	54.3%
Total comprehensive income (loss) attributable to:				
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
	NON-CURRENT ASSETS	5,735,514	30,847	5,054,728	35,637	680,786
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
22	CURRENT ASSETS	2,421,364	170,593	2,154,063	275,039	267,301
23	Non-current assets held for sale	183		183		0
	TOTAL ASSETS	8,157,061	201,473	7,208,974	310,676	948,087

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
	Total Group shareholders' equity	1,729,638		1,717,626		12,012
	Non-controlling interests	173,853		93,580		80,273
24	Total shareholders' equity	1,903,491		1,811,206		92,285
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
	NON-CURRENT LIABILITIES	3,962,864		3,242,507		720,357
	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
29	CURRENT LIABILITIES	2,290,670	125,126	2,155,225	139,096	135,445
23	Liabilities directly associated with assets held for sale	37		37		0
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	8,157,061	125,126	7,208,974	139,096	948,087

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
Cash flow from operating activities					
	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
	Financial flows generated by operating activities before changes		668,471		70,577
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		(8,475)		852
	Change in working capital		(67,797)		143,350
	Change in other assets/liabilities during the period		(287,675)		197,764
	TOTAL CASH FLOW FROM OPERATING ACTIVITIES		312,999		411,691
Cash flow from investment activities					
			0		
	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
	TOTAL CASH FLOW FROM INVESTMENT ACTIVITIES		(608,263)		131,103
Cash flow from financing activities					
			0		
	Non-controlling interests in subsidiaries' capital increase	0	0		0
27	Repayment of borrowings and long-term loans		(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	(2,415)	481,614	(968)	(715,067)
	Interest expense paid		(98,732)		(9,609)
	Dividends paid	(137,379)	(136,110)	(136,110)	(1,268)
	TOTAL CASH FLOW FROM FINANCING ACTIVITIES		310,372		(170,406)
	Cash flows for the period		15,108		372,389
	Net opening balance of cash and cash equivalents		665,533		15,108
	Net closing balance of cash and cash equivalents		680,641		387,497

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	1,671,136	86,807	1,757,943
Income statement profit				180,682	180,682	11,521	192,203
Other comprehensive income (losses)				(9)	(9)	402	393
Total comprehensive income (loss)	-	-	-	180,673	180,673	11,923	192,596
Allocation of result for 2016		5,431	253,579	(259,009)	-	-	-
Distribution of dividends			(131,780)	-	(131,780)	(4,330)	(136,110)
Change in basis of consolidation			(2,496)	-	(2,496)	(714)	(3,210)
Other Changes			93	-	93	(106)	(14)
Balances as at 31 December 2017	1,098,899	100,619	337,435	180,673	1,717,626	93,580	1,811,206

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

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 %
Consolidated net revenue	3,028,487	2,796,983	231,504	8.3%

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 %
Revenue from sales and services	2,836,890	2,669,876	167,015	6.3 %

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)%
Revenue from electricity sales and services	1,805,912	1,697,742	108,170	6.4 %

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)%
Revenues from the Integrated Water System	712,392	657,348	55,044	8.4 %

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 %
Revenue from biomass transfer and landfill operations	62,674	58,835	3,839	6.5 %

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)%
Revenue from customer services	88,009	106,056	(18,046)	(17.0)%

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)%
Revenue from customer services	88,009	106,056	(18,046)	(17.0)%

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)%
Other revenue and proceeds	191,597	127,107	64,490	50.7 %

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 %
Consolidated operating costs	2,138,560	1,983,853	154,707	7.8 %

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 %
Personnel costs	219,624	215,231	4,392	2.0 %

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 %
Total	6,471	5,555	916	16.5 %

	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 %
Total	6,534	5,519	1,015	18.4 %

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 %
Costs of materials and overheads	1,918,936	1,768,621	150,315	8.5 %

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.
Electricity, gas and fuel costs	1,399,780	1,312,451	87,329	6.7 %

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 %
Change in inventories	80,221	74,001	6,220	8.4 %
Costs capitalised	(33,595)	(24,315)	(9,280)	38.2 %
Materials	46,626	49,687	(3,060)	(6.2)%

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 %
Costs for Materials	46,626	49,687	(3,060)	(6.2)%

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)%
Costs for services	264,085	252,976	11,109	4.4 %

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.
Concession fees	52,321	45,741	6,580	14.4%

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 %
Cost of leased assets	26,351	27,886	(1,535)	(5.5)%

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
Taxes and duties	28,137	11,376	16,761	147.3 %
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 %
Other operating costs	129,773	79,880	49,893	62.5 %

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 %
Income from equity investments of a non-financial nature	43,320	26,864	16,456	61.3 %

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 %
Total	43,320	26,864	16,456	61.3 %

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)%
Total	454,687	480,102	(25,415)	(5.3)%

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)%
Depreciation/amortisation	366,839	328,911	37,928	11.5 %

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)%
Impairment charges and losses on receivables	75,080	90,351	(15,271)	(16.9)%

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.
Total Provision for Risks	35,856	26,438	9,418	35.6 %
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%)
Total Provisions	65,910	63,656	2,254	3.5 %
Release of Provisions	(53,142)	(2,816)	(50,326)	n.s.
Total	12,768	60,840	(48,072)	(79.0)%

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.
Provisions	12,768	60,840	(48,072)	(79.0)%

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)%
Financial income	18,267	17,379	888	5.1 %

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)%
Financial costs	100,697	89,334	11,363	12.7 %

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)%
(Costs) and revenue from shares	13,332	259	13,073	n.s.

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%
Total taxes	124,334	30.4%	95,992	33.3%

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
Earnings per share (€)			
basic (A/B)	1.2725	0.8484	0.4241
diluted (A/C)	1.2725	0.8484	0.4241

€ 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
Earnings per share (€)			
basic (A/B)	1.2750	0.8501	0.4249
diluted (A/C)	1.2750	0.8501	0.4249

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.
Total Assets	8,157,061	7,208,974	948,087	13.2 %

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
Historical cost 31.12.2017	512,849	2,801,245	805,815	141,937	30,391	6,878	4,299,114
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)
Historical cost 31.12.2018	508,373	2,968,339	851,033	141,305	60,897	9,301	4,539,249
Accumulated depreciation at 31.12.2017	(155,045)	(1,536,192)	(248,193)	(100,576)	(2,091)	(4,107)	(2,046,204)
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
Accumulated depreciation at 31.12.2018	(151,125)	(1,631,643)	(272,809)	(110,166)	(2,300)	(6,186)	(2,174,229)
Net value 31.12.2018	357,247	1,336,696	578,224	31,139	58,597	3,116	2,365,019

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
Environment Segment	11,232	-	-	(94)	11,138
Waste-to-energy and Composting plants	11,232	-	-	-	11,232
Commercial and Trading Segment	46,982	-	-	-	46,982
Energy sales	46,982	-	-	-	46,982
Energy Infrastructures Segment	91,618	-	-	-	91,618
Renewable energy plants	91,618	-	-	-	91,618
Other	147	-	-	2	149
Goodwill	149,978	-	-	(92)	149,886

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
Energy Infrastructures Segment				
areti	value in use	5.9%	Residual value	up to 2022
Acea Produzione	value in use	5.8%	two-stages	up to 2022
Ecogena	value in use	5.8%	two-stages	up to 2022
Commercial and Trading Segment:				
Acea Energia	value in use	7.6%	Perpetuity without growth	up to 2022
Environment Segment	value in use	6.4%	two-stages	up to 2022

The Terminal Value was determined:

- for Acea Produzione: it was determined considering the contribution to the cash flows of the various plants until the end of the hydroelectric concessions and the useful life of the photovoltaic plants and Tor di Valle. The disposal value of the S. Angelo plant, assumed to be completed by 2023, takes into account the approval of the "Simplification Decree" which took place in February 2019. This value was determined on the basis of a valuation corresponding to the 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
31.12.2017	137,077	2,880	4,163	1,770,865	1,914,985
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)
Net value at 31.12.2018	115,884	25,405	5,940	2,126,120	2,273,349

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
Value at 31.12.2017	280,440	413	280,853
- 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
Value at 31.12.2018	278,977	107	279,085

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 1st 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)
TOTAL	611,258	166,194	(258,600)	(249,205)	304,750	40,287	(179,835)

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)
Total	669.619	343.968	(415.105)	(326.574)	353.982	25.740	(202.936)

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
Prepaid taxes							
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
Total	271,148	10,332	(25,403)	54,970	(56,640)	58,646	313,053
Deferred taxes							
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
Total	92,834	7,665	(26,314)	8,882	(6,862)	9,487	85,691
Net	178,314	2,667	911	46,087	(49,777)	49,160	227,362

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.
Other non-current assets	379,878	206,430	173,449	84.0%

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
Inventories	48,789	40,201	8,588	21.4 %
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)%
TOTAL TRADE RECEIVABLES	927,834	985,465	(57,631)	(5.8%)
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 %
Current assets	2,421,364	2,154,063	267,301	12.4%

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 %
Total	48,789	40,201	8,588	21.4 %

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)%
Current receivables	927,834	985,465	(57,631)	(5.8%)

€ 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 %
Total receivables due from end users	718,374	751,229	(32,854)	(4.4)%
Receivables from other customers	144,766	150,022	(5,256)	(3.5)%
Other current receivables and assets	60	60	0	0 %
Total receivables	863,200	901,311	(38,111)	(4.2)%

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 Infrastructures	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
Total	1,557,421	(694,220)	863,200	1,304,914	(403,604)	901,311	252,506	(290,617)	(38,111)

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.

€ 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%)
Balance (Receivables - Payables)	47,930	58,227	(10,297)	17.7 %

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

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.

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)
Total receivables from users	46,324	38,067	8,256
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)
Total receivables for works	6,161	9,490	(3,329)
Total trade receivables	52,485	47,558	4,927
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)
Total public lighting receivables	103,508	139,733	(36,225)
Total Receivables	155,993	187,291	(31,298)

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
Other payables	(12,972)	(11,403)	(1,569)
Dividend payables	0	(2,169)	2,169
Total payables	(108,063)	(129,064)	21,000
Net balance receivables payables	47,930	58,227	(10,297)

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%)
Total	12,122	36,503	(24,382)	(66.8%)

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.
Total	252,888	185,346	67,542	36.4%

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.
Total	193,501	132,273	61,228	46.3%

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.

€ 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%)
Total	113,960	237,671	(123,712)	(52.1%)

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

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

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 %
Total	1,068,138	680,641	387,497	56.9 %

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%
Total Liabilities	8,157,061	7,208,974	948,087	13.2 %

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%)
Total	103,930	108,430	(4,500)	(4.2%)

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%
Long-term inflation	1.50%	1.50%

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
Total Provision for Risks	112,331	(17,413)	35,856	(49,611)	11,169	92,332
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
Provisions for restoration charges	29,681	0	0	(505)	(29,176)	0
Total Provision for Charges	92,441	(19,057)	30,055	(3,357)	(55,762)	44,319
Total Provisions for Risks and Charges	204,772	(36,470)	65,910	(52,969)	(44,593)	136,651

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%)
Total	3,374,134	2,745,035	629,099	22.9 %

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
Non-current borrowings and financial liabilities	3,350,287	23,848	3,374,134	2,697,813	41,778	2,745,035

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

(*) including 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
Total	1,016,921	321,178	335,669	360,074

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)
Total	3,690,231	3,983,963	(293,733)	3,871,325	(181,095)

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%)
Total other liabilities	348,148	184,270	163,879	88.9%

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%)
Total	146,229	116,045	30,184	26.0%

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 %
Current liabilities	2,290,670	2,155,225	135,445	6.3 %

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%)
Total	408,675	633,155	(224,480)	(35.5%)

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
Dividends payable to shareholders	130	65	65	100.3%
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.
Payables to third parties	55,714	84,932	(29,218)	(34.4%)
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
Total	55,844	84,997	(29,153)	(34.3%)

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%)
Trade payables	1,524,876	1,237,808	287,068	23.2 %

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%)
Total	3,305	4,999	(1,694)	(33.9%)

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 %
Total	329,369	281,564	47,805	17.02 %

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 %
Total	22,232	19,714	2,518	12.8 %

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%
Other current liabilities	275,729	261,385	14,345	5.5%

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 ψ 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 (TICS-SI). The adoption of the new fee structure, in compliance with the TICS-SI 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/m³.

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/m³, 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 km² 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/idr): 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/idr 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 ARE-RA 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 _{qc} . 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 _{qc} . 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 _{qc} 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 _{qc} .	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 _{qc} . 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 _{qc} . 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 _{qc} . 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
Total	2,065	1,682	7,427	7,747

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%
Total Financial (costs)/income	(82,859)	13,303	(16.1%)	(71,955)	8,147	(11.3%)

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
Non-current fixed assets	35,311			35,311	
Other equity investments	2,614	0	0	2,614	18
Financial assets	32,697	0	0	32,697	20
Current assets	3,870	4,680	1,304,798	1,313,349	
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
Non-current liabilities					
Bonds	0	21,787	2,656,605	2,678,392	27
Payables to banks	2,061	0	688,599	690,661	27
Current liabilities					
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, CO₂), 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.

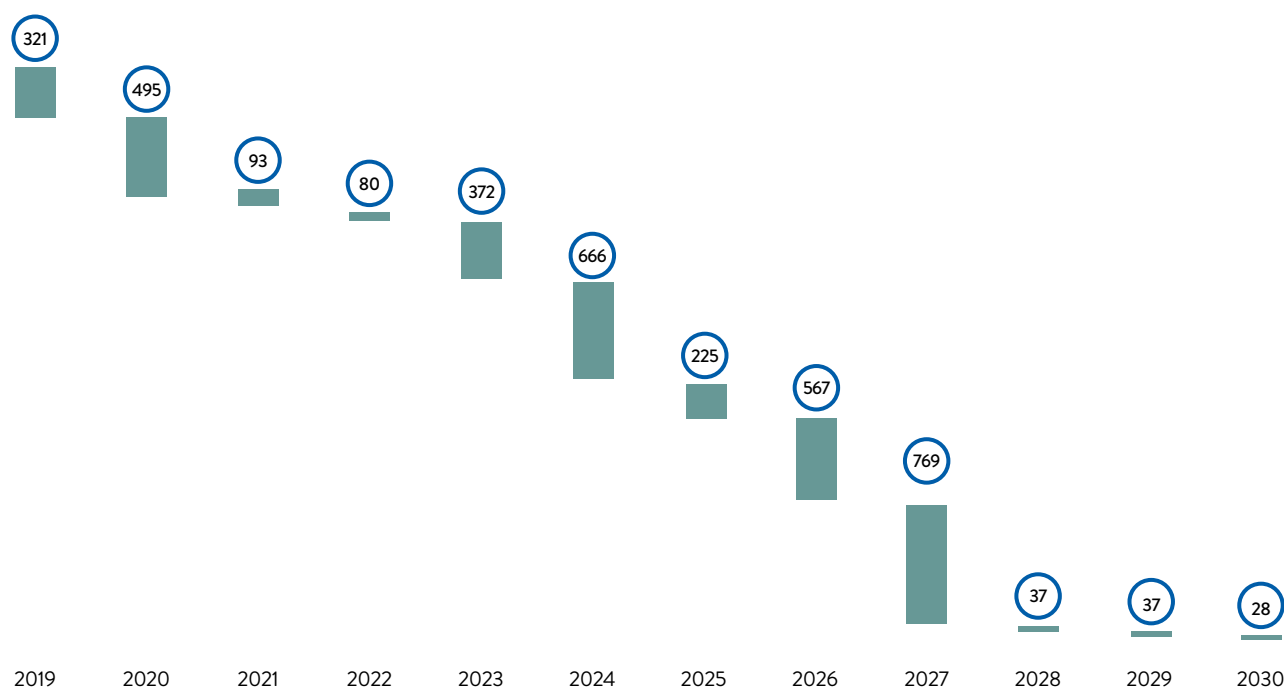
Furthermore, at 31 December 2018 there were outstanding lines of credit of a committed type for a total of € 250 million.

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.

Bank Loans:	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)
Total	3,690,231	3,983,963	(293,733)	3,871,325	(181,095)

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
Environment Sector					
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
Commercial and Trading Sector					
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
Overseas Sector					
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
Water Sector					
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
Energy Infrastructure Sector					
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 Engineering and Services Sector	P.le Ostiense, 2 Roma	1,669,457	100.00%	100.00%	Whole
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
Environment Sector						
Ecomed Srl	P.le Ostiense, 2 - Roma	10,000	50.00%	50.00%	Shareholders' Equity	0
Overseas Sector						
Consorcio Agua Azul SA	Calle Amador Merino Reina 307 - Lima - Perù	17,371,834	25.50%	25.50%	Shareholders' Equity	7,442,762
Water Sector						
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
Engineering and Services Sector						
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
Environment Sector						
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
Overseas Sector						
Aguaazul Bogotá SA	Calle 82 n. 19°-34 - Bogotá - Colombia	1,162,872	51.00%	51.00%	Shareholders' Equity	1,151,353
Water Sector						
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
Energy Infrastructure Sector						
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
Other						
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
Total Acea S.p.A. and Group	356	1,434	240	2,030

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 Misticcia 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 Elabori 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	-
Total Assets						

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						
Total liabilities and shareholders' equity						

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
Total Assets						7,208,974

€ 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
Total liabilities and shareholders' equity						7,208,974

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	-	-
EBITDA	64,452	77,584	14,433	349,619	41,310	287,309
Depreciation/amortisation	39,375	59,978	6,172	158,364	23,585	140,713
Operating profit/loss	25,077	17,606	8,261	191,255	17,725	146,596
Financial (costs)/income						
(Costs)/Income from Equity Investments						
Profit/(loss) before tax						
Taxes						
Net result						

€ 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
EBITDA	4,442	14,541	(13,696)	839,994	-	839,994
Depreciation/amortisation	972	3,064	47,878	480,102	-	480,102
Operating profit/loss	3,470	11,477	(61,575)	359,892	-	359,892
Financial (costs)/income						(71,955)
(Costs)/Income from Equity Investments				259		259
Profit/(loss) before tax						288,196
Taxes						95,992
Net result						192,203

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	-
Total Assets						

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						
Total liabilities and shareholders' equity						

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
Other current financial assets	-	-	-	-		113,960
Cash and cash equivalents	-	-	-	-		1,068,138
Non-current assets held for sale	-	-	-	183	-	183
Total Assets						8,157,061

€ 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
Total liabilities and shareholders' equity						8.157.061

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	-	-
EBITDA	65,585	76,122	14,805	432,953	48,978	317,113
Depreciation/amortisation	27,155	72,456	6,956	211,994	24,279	129,088
Operating profit/loss	38,429	3,666	7,849	220,960	24,699	188,025
Financial (costs)/income						
(Costs)/Income from Equity Investments						
Profit/(loss) before tax						
Taxes						
Net result						

€ 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
EBITDA	(5,389)	20,418	(34,943)	935,642	(2,395)	933,247
Depreciation/amortisation	8,528	2,544	(31,512)	451,487	3,200	454,687
Operating profit/loss	(13,917)	17,874	(3,431)	484,155	(5,595)	478,560
Financial (costs)/income						(82,859)
(Costs)/Income from Equity Investments				13,332		13,332
Profit/(loss) before tax						409,033
Taxes						124,334
Net result						284,699



**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:

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- 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.

Key Audit Matters	Auditing procedures performed in response to key audit matters
<p>Determination of revenue from sales and services and receivables for invoices to be issued</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



The background image shows an industrial facility with large pipes, metal structures, and a clear sky. A hand in a blue sleeve points upwards, and a blue watch is visible on the wrist. A semi-transparent blue circle with a white dot pattern is overlaid on the top left. Another semi-transparent blue circle is overlaid on the center, containing the text.

REPORT ON CORPORATE GOVERNANCE AND ON THE OWNERSHIP STRUCTURE

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GLOSSARY

Code/Self-Governance Code: the Self-Governance Code for listed companies approved in July 2018 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria

Civil Code: the Italian Civil Code

Board: the Issuer's Board of Directors

Legislative Decree: Italian Legislative Decree

FRO: Director in charge of preparing the company books

Issuer/Company/Acea: the issuer of securities the Report refers to

Year: the financial year the Report refers to

MOG: Organisation, management and control model pursuant to Italian Legislative Decree 231/2001

OdV: Supervisory body

Consob Issuers Regulation: the Regulation issued by Consob with resolution no. 11971 of 1999 (as subsequently amended) regarding issuers

Consob Related Parties Regulation: the Regulation issued by Consob with resolution no. 17221 of 12 March 2010 (as subsequently amended) regarding transactions with related parties

Report: the report on corporate governance and ownership structure that companies are required to prepare pursuant to art. 123-bis TUF

SCIGR/Control System: Risk management and internal control system

TUF: Italian Legislative Decree no. 58 of 24 February 1998

1. THE ISSUER'S PROFILE

Acea, a company listed on the online stock market organised and managed by Borsa Italiana SpA since 1999, is a leading Italian multi-utility company that has been operating for more than a century in the sectors of energy (from the generation, distribution and sale of electricity and gas to the management of public lighting), integrated water services (from capture and distribution to purification) and environmental services (the treatment and economic management of waste).

Always sensitive to the principles of corporate social responsibility, Acea conceives its economic activities in the context of the principle of sustainable development, according to which the requirements of economic efficiency and legitimate profit must be consistent with environmental protection and social development.

In adopting the choice of sustainability, Acea integrates the goal of customer satisfaction with that of creating value for the shareholders, at the same time paying attention to the needs of society and respecting the environment; it takes avail of the professional skills of its employees and enhances management responsibility in the achievement of the Company's objectives.

According to the most recent data, to date the Acea Group is the leading national operator in the water sector for inhabitants served, one of the major Italian operators in the distribution of electricity to users (the third for volumes distributed), the third operator for energy volumes sold to end users, and the sixth national operator in Waste-to-Energy (environmental sector).

This report illustrates the corporate governance system adopted by Acea S.p.A. which is based on a series of principles, rules and procedures, in line with the criteria indicated in the Self-Regulatory Code of listed companies promoted by Borsa Italiana, and inspired by the applicable recommendations issued by CONSOB and, more in general, according to international best practice.

The corporate governance system adopted by Acea is essentially aimed at creating value for the shareholders over the medium-long term, in the awareness of the social relevance of the activities in

which the Group is engaged and of the consequent need to adequately consider, in the exercise of the governance system, all the interests involved.

The governance model

Acea's corporate governance model complies with the traditional Italian administration and control system and is composed of the following bodies: the Shareholders' Meeting, which, for matters within its remit, expresses the shareholders' will through its resolutions, the Board of Directors (composed of 9 members) who are entrusted with the strategic management of the company for the pursuit of the corporate purpose and the management of the most important transactions, while the operational management is entrusted to the Managing Director; the Board of Statutory Auditors, a body with independent responsibilities and powers, and appointed on the basis of the requisites of professionalism, integrity and independence defined by law, with supervisory functions over the administration and observance of the law and the articles of association.

In compliance with the recommendations of the Corporate Governance Code, the Board of Directors has established 4 internal Board Committees that offer proposals and consulting and perform preliminary investigations for the benefit of the Board itself.

The statutory audit of the accounts is carried out, pursuant to law, by a specialist auditing firm (PricewaterhouseCoopers SpA) listed on the specific register of qualified auditors, appointed by the Shareholders' Meeting by proposal of the Board of Directors subject to a Recommendation drawn up by the Board of Auditors.

The Supervisory body as per Italian Legislative Decree no. 231/01 and nominated by the Board of Directors.

The information contained herein refers to financial year 2018 and, in relation to specific subjects, it is updated as at 06/03/2019, the date of the Board of Directors' meeting which approved this Report, the text of which is published at www.gruppo.acea.it, in the "Corporate Governance" section.

2. INFORMATION ON THE OWNERSHIP STRUCTURE (art. 123-bis TUF, para. 1)

a) Structure of the share capital (as per art. 123-bis TUF, para. 1 letter a)

The Company's capital, equal to € 1,098,898,884.00, entirely underwritten and paid up, is divided into 212,964,900 ordinary shares with a par value of € 5.16 each, listed on the online stock market organised and managed by Borsa Italiana (see Table 1). There are no shares with limited voting rights or without voting rights, except 416,993 treasury shares for which the voting right is suspended in accordance with art. 2357-ter of the Italian Civil Code.

b) Restrictions on share transfers (as per art. 123-bis TUF, para. 1 lett. b)

There are no restrictions on share transfers except for individual constraints of the single shareholders.

c) Relevant stakes (as per art. 123-bis TUF, para. 1 lett. c)

Relevant stakes, held directly or indirectly, pursuant to art. 120 of the TUF, according to the information published on 06/03/2019 on the CONSOB website and the communications made in compliance with the same article, are listed in Table 1.

d) Shares bearing special rights (as per art. 123-bis TUF, para. 1 lett. d)

No shares bearing special controlling rights have been issued.

e) Stakes held by employees: the voting rights exercise mechanism (art. 123-bis TUF, para. 1 lett. e)

In compliance with the aforementioned art. 13 of the Articles of Association, to facilitate the collection of proxies from shareholders employees of the Company, its subsidiaries and affiliates and shareholders' associations, with the requisites contemplated by the related provisions in force, specific spaces are made available for the communication and collection of the proxies.

f) Voting right restrictions (as per art. 123-bis TUF, para. 1 lett. f)

Under art. 6 of the Articles of Association, with the sole exception of Roma Capitale, any shareholder whose stake exceeds 8% of the share capital must be disclosed to the Company. This limit is considered as reached, in both direct and indirect terms, as specified in more detail in paragraphs 2 and 3 of the said article and as described in the chapter "Shareholders' Meetings" of this Report. In the case of breach of this rule, the exercise of the vote for the shares exceeding the said limit will be forbidden and, in the case of a resolution by a determining vote deriving from the shares exceeding said limit, the resolution may be challenged.

g) Shareholders' agreements (as per art. 123-bis TUF, para. 1 lett. g)

The Company is not aware of any shareholders' agreements of any kind, as contemplated under art. 122 of the TUF, or of any special powers of veto or of any other extraordinary influence on the decisions that are not direct expressions of the shares held.

h) Change of control clauses (as per art. 123-bis TUF, para. 1 lett. h) and statutory provisions on takeover bids (as per art. 104, paragraph 1-ter, and 104-bis, paragraph 1)

Acea has entered into important agreements that take effect or

which are nullified in the case of a change of control of the contracting company. The following are the significant ongoing agreements in which change of control implies a negotiation:

- Loan totalling an initial € 100 million from the CDP (Cassa Depositi e Prestiti);
- Long term loan totalling an initial € 150 million from the European Investment Bank (water segment);
- Long term loan totalling an initial € 200 million from the European Investment Bank in favour of Acea S.p.A. (Water II segment);
- Long term loan totalling an initial € 200 million from the European Investment Bank in favour of Acea S.p.A. (Network Efficiency III).

With regard to takeovers, the Company's Articles of Association do not waive the provisions of art. 104, paragraphs 1 and 1-bis, of the TUF, nor are neutralisation rules, provided under art. 104-bis of the TUF.

i) Delegations for capital increases pursuant to art. 2443 of the Civil Code or the directors' power to issue financial instruments and authorisation for the purchase of treasury shares (art. 123-bis TUF, para. 1 lett. m)

As at 31/12/2018 and also at the date of this Report, the Board of Directors has not been delegated to increase the share capital or to buy treasury shares.

However, as mentioned, the Company currently has 416,993 treasury shares for which the voting right are suspended pursuant to art. 2357-ter of the Civil Code, which are the remaining treasury shares authorised by an Ordinary Shareholders' Meeting resolution of 23 October 1999, amended by an Ordinary Shareholders' Meeting resolution of 29 April 2000, renewed by an Ordinary Shareholders' Meeting resolution of 31 October 2001 and with the additions inserted by an Ordinary Shareholders' Meeting resolution of 30 April 2002.

l) Management and coordination (as per art. 2497 et seq. civil code)

Arts. 2497 and following of the Civil Code are not applicable inasmuch as Acea autonomously defines its strategic policies and has full organisational, managerial and negotiating independence, not being subject to the governance and coordination of another subject.

It must be noted that:

- the information required by art. 123-bis, paragraph 1, letter i) ("agreements between the Company and the directors ... which provide for indemnity in the case of resignation or unfair dismissal or if their professional relationship ceases subsequent to a takeover") is contained in the remuneration report published in accordance with art. 123-ter of the TUF;
- the information requested by article 123-bis, paragraph 1, letter l) ("rules applicable to the replacement of directors ... and to amendments to the articles of association, if different from and additional to the applicable legislative and regulatory provisions") are illustrated in the section of this Report on the Board of Directors (Para. 4.1).

3. COMPLIANCE *(as per art. 123 bis, para. 2, lett. A), TUF)*

Acea constantly applies the prescriptions of the Self-Regulatory Code, which contains an articulated series of recommendations relating to the methods and rules for the governance and control of listed companies.

Although the adoption of the principles contained in the Code is not required by any legal obligation, Acea has adhered to the current Code since its 2001 version.

The complete text of the Corporate Governance Code is available to the public on the Borsa Italiana website <http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm>.

The company provides information annually on its governance system and on its adhesion to the Code by means of a Report, drawn up also pursuant to art. 123-bis of the TUF, which shows the degree of adhesion to the principles and application criteria established by the Code itself and to international best practices.

The yearly Report is made available to the Shareholders, together with the documentation required for the Shareholders' Meeting called to approve the financial statements, and it is also immediately published on the Company's Internet site (www.gruppo.acea.it) in the "Corporate Governance" section.

4. BOARD OF DIRECTORS

4.1 APPOINTMENT AND REPLACEMENT (art. 123-bis, para. 1, lett. I), TUF)

Directors are appointed and replaced in compliance with the laws in force, as adopted and integrated, within the limits allowed, by the provisions of the Articles of Association, drawn up in adherence and conformity to the provisions of the TUF.

According to the provisions of the Company's Articles of Association, the Board of Directors is composed of no less than five and no more than nine members, appointed by the Ordinary Shareholders' Meeting (which determines the number within those limits) for a term equal to three financial years and they may be re-elected on expiry of their mandate.

Directorships can only be held by those with the requisites laid down by law and by the regulatory provisions.

Directors are elected as described in art. 15.1 of the Articles of Association, which establishes that:

- there must be a gender balance in the composition of the Board of Directors, as disciplined by law;
- the directors are elected on the basis of lists, each of which contains as many candidates, each indicated by a progressive number, as the number of directors to be elected, and each list must have at least two candidates qualified as independent as contemplated by law, one of which must be first or second on the list and the other must be within the first four on the list;
- the election is carried out as follows:

"A. from the list that has obtained the majority of votes (hereinafter, for brevity, the "Majority List"), half plus one of the directors to be elected, rounded down to the nearest whole number in the case of a fractioned number, will be chosen in the progressive order in which they are placed on the said list;

B. without prejudice to the rulings of law and the provisions of the Articles of Association on the limits to the connection with the Majority List, the remaining directors will be taken from the other lists. For this purpose, the votes obtained by the said lists will be divided, within the sphere of each list, by 1, 2, 4 and 8 and so on, up to the number of directors to be elected. The ratios thus obtained will be progressively assigned to the candidates of said lists, according to progressive order by which they are indicated. The ratios thus attributed to the candidates of the various lists will be placed in a single classification in decreasing order. Those with the highest ratios will be elected.

If several candidates have obtained the same ratio, the candidate elected will be that on the list of which no director is otherwise elected or the list with the lowest number of elected directors.

If no director is elected from such lists or if the same number of directors is elected from such lists, the candidate elected will be the one that has obtained the highest number of votes. In the case of parity between the list votes and of parity of ratios, the entire Shareholders' Meeting will vote again and the candidate with the simple majority of votes will be elected.

In any case, if a correctly drawn up list is presented in addition to the Majority List, the candidates of such a list will be elected according to the order of presentation".

The adopted election mechanism guarantees that at least one director represents the minorities and that the legally required minimum number of independent directors is elected (one in the case of a Board of Directors with no more than seven members, two if there are more than seven members) in compliance with art. 147-ter, para. 4 TUF.

The lists must be presented twenty-five days before the date scheduled for the first meeting, by shareholders that, alone or

with other shareholders, represent the minimum participation in the share capital established by Executive Determination no. 13 of 24 January 2019 of the CONSOB (this quota is equal to 1% of the share capital).

No candidate may be on more than one list and no shareholder may vote for more than one list. The lists of candidates are filed at the Company's head office and they are also disclosed by publication, by the Company and at this latter's expense, in three national daily newspapers, two of which are financial.

Director termination of office:

Pursuant to art. 15.3 of the Articles of Association: "If a director appointed on the basis of the above-mentioned list vote leaves office, the Board of Directors will provide for his replacement by the co-option, in accordance with art. 2386 of the Civil Code, with the first candidate not elected on the list on which the outgoing director was a candidate, in respect of the legal provisions on gender balance, or, if that list has no more candidates, with the first of the non-elected candidates regardless of the relative list; however, if the outgoing director is not on the Majority List, the absence of connection with the Majority List must be respected. If the outgoing director had the requisites of independence and/or belonged to the less represented gender and the number of independent directors and/or those of the less represented gender consequently fall below the minimum number required by law, the first non-elected candidate of the list of the outgoing director with the requisites of independence required by law and/or of the less represented gender will be appointed. Directors thus appointed will remain in office until the next Shareholders' Meeting."

Director replacement:

Pursuant to art. 15.4 of the Articles of Association: "If a director leaves office during the financial period, the Shareholders' Meeting, by a relative majority vote, will elect his replacement, as far as possible in respect of the rules in force on independence and gender balance, from the non-elected candidates on the same list as that of the outgoing director. The newly appointed director must have provided, at least ten days before the date scheduled for the Meeting, written confirmation of his candidature as well as the declarations that no reasons exist for his ineligibility or incompatibility and that he holds the requisites prescribed for the office by the laws in force and the Articles of Association.

If this replacement procedure is not possible, a resolution must be passed by a relative majority vote, always in respect of the representation of the minorities and the minimum number of independent directors.

A director thus appointed will remain in office until the expiry of the term of office of the other directors.

If, for any reason, the number of Board Directors falls below half the established number, the entire Board of Directors will fall from office and the Shareholders' Meeting must be summoned immediately for its reconstitution. However the Board of Directors will remain in office for the execution of acts of ordinary administration until the Shareholders' Meeting has resolved on its renewal and until at least half of the new directors have accepted their appointment."

Majorities required for statutory amendments

With reference to amendments to the Articles of Association, the Extraordinary Shareholders' Meeting, in compliance with art. 12 of the Articles of Association, will adopt the necessary resolutions with the majorities required by law.

4.2 COMPOSITION (as per art. 123 bis, para. 2, lett. d, TUF)

Pursuant to art. 15.1 of the Articles of Association, the Company is governed by a Board of Directors composed of at least five and no more than nine members appointed by the Ordinary Shareholders' Meeting which determines the number within those limits.

The current Board, composed of 9 Directors, was appointed by the Shareholders' Meeting in April 2017 and will remain in office until the approval of the financial statements for the 2019 financial year. The following directors were taken from the majority list presented by the shareholder Roma Capitale: Michaela Castelli, Stefano Antonio Donnarumma, Luca Alfredo Lanzalone, Gabriella Chiellino, Liliana Godino.

Alessandro Caltagirone and Massimiliano Capece Minutolo del Sasso were elected from the minority list presented by Fincal S.p.A., while Giovanni Giani and Fabrice Rossignol were elected from the minority list presented by Suez Italia S.p.A.

Following the remission of the office of Chairman of the Board of Directors of Acea S.p.A. by Mr. Lanzalone, on 21 June 2018 the Board of Directors elected Michaela Castelli as Chairman.

Of the above directors in office, 1 is an executive director (the Managing Director), to whom the Board of Directors has delegated individual managerial powers, whereas the remaining 8 are non-executive directors without individual management powers.

Some information of a personal and professional nature on the directors in office is given below:

Michaela Castelli **Chairman - Non-Executive**

Michaela Castelli was born in Rome on 07/09/1970, she graduated in Law, a lawyer specialised in financial Law at the "L. Bocconi" University in Milan.

She worked at Borsa Italiana SpA where he was engaged, in close collaboration with the Supervisory Authority (CONSOB), in assisting listed issuers regarding extraordinary transactions and price sensitive, compliance and corporate governance disclosure.

She is an expert in matters of organisation and corporate compliance, internal controls and normative 231/01. She currently holds positions governing and control bodies of listed and unlisted companies.

Appointed on the basis of list no. 1 presented by Roma Capitale (containing: no. 1 Luca Alfredo Lanzalone, no. 2 Michaela Castelli, no. 3 Stefano Antonio Donnarumma, no. 4 Gabriella Chiellino, no. 5 Liliana Godino, no. 6 Marco Di Gregorio, no. 7 Maria Verbena Sterpetti, no. 8 Annaluce Licheri); the related proposal for appointment obtained the favourable vote of 73.2743% of the voters.

Stefano Antonio Donnarumma **Managing director - executive**

Stefano Antonio Donnarumma was born in Milan on 29/10/1967, graduated in Mechanical Engineering with top marks. Considerable experience in the sector of vehicle and rail component production, he has worked for important international groups such as TMD Friction, Bombardier Transportation and Alstom. From 2007 he moved to the public service management infrastructure management sector, joining the Acea Group for which he covered the position of operational Chairman of Acea Distribuzione (electricity networks) and director of Ato 2 (water networks) until August 2012. He then moved to Gruppo Aeroporti di Roma (later incorporated into the ATLANTIA group) with the role of Airport Management and Accountable Manager of Fiumicino and Ciampino Airports and Chairman of the ADR Assistance company. In May 2015 he joined the A2A group in Milan, taking the position of Networks and Heat Director (managing all the companies in the group interested in the distribution of gas, electricity, water, remote heat-

ing, public lighting); in the period he is Chairman of Unareti SpA, A2A Calore e Servizi Srl, A2A Ciclo Idrico SpA and director of Gruppo LGH SpA.

Appointed on the basis of list no. 1 presented by the aforementioned Roma Capitale.

Gabriella Chiellino **Director - Non-Executive - Independent**

Gabriella Chiellino was born in Pordenone on 21/03/1970, she graduated in Environmental Science at Ca Foscari University in Venice in 1994. She has worked in the field of sustainability for over 20 years, covering various roles in the university context, teaching scientific subjects regarding environmental and energy management in companies. She was a member of various scientific technical committees in the public and private sector, also coordinating international events on matters linked to sustainability (water, waste, smart city). 15 years ago she founded an environmental and energy engineering company, of which she now chairs the BoD, which operates in Italy and overseas. As an expert of corporate Sustainability Governance, she steers and coordinates various Corporate Sustainability Committees. She is the author of various publications and articles on environmental and ethical matters and is a lecturer in various university courses.

Appointed on the basis of list no. 1 presented by the aforementioned Roma Capitale.

Liliana Godino **Director - Non-Executive - Independent**

Liliana Godino was born in Genoa on 8/4/1962, she completed her education at l'Haute Ecole du Commerce in Paris, specialising in "Corporate Economy and Marketing".

She is Chief Procurement Officer of Gruppo Messina S.p.A. She was the General Affairs and Organisation Director of Baglietto Srl, which produces certified steel for global ship building sites. She was the Purchases and Logistics Director of Grandi Navi Veloci SpA. She spent 18 years in Danone SA, a global agro-foodstuff company, first in consumer marketing with experience and national and international level and then in procurement, her last role being the Worldwide Sourcing Director for Packaging at the Headquarters in Paris. She was a member of the Board of Directors of the International School in Genoa.

Appointed on the basis of list no. 1 presented by the aforementioned Roma Capitale.

Luca Alfredo Lanzalone **Director - Non-Executive**

Luca Alfredo Lanzalone was born in Genoa on 11 August 1969, he graduated in Law "summa cum laude" and worthy of publication at Genoa University on 3 November 1992 with the thesis "Chapter 11 - The Reorganization in the United States Bankruptcy Act". Authorised to exercise the profession of lawyer, he is registered in the Register of Lawyers of the Court of Genoa as well as the Register of legal representatives in the Court of Cassation and before the High Courts. He is one of the founding partners of the Lanzalone & Partners law firm (having its head office in Genoa and secondary offices in Lodi, Milan, Miami and New York), in which his main activity is as an advisor and legal assistance for companies and public entities on corporate matters, the organisation of local public services, privatisation and extraordinary merger, demerger and acquisition transactions, as well as relations with the regulation and control Authorities for the energy, banking and financial market. He taught Bankruptcy Law and European Commercial Law at Genoa University and is the author of several publications on the matter. It was a member of the board of directors of various companies operating in the energy, financial intermediation, port infrastructures and mechanical sectors.

Appointed on the basis of list no. 1 presented by the aforementioned Roma Capitale.

Alessandro Caltagirone

Director - Non-Executive - Independent

Alessandro Caltagirone was born in Rome on 27/12/1969, he graduated in Economics and Commerce at La Sapienza University in Rome. He is current a Board Member in many companies amongst which: Unicredit SpA, Il Messaggero SpA, Cementir Holding SpA, Caltagirone SpA as well as Vice Chairman of the Board of Directors of Alborg Portland Holding A/S.

Appointed on the basis of list no. 2 presented by Fincal SpA, as at the date of the Shareholders' Meeting of appointment, he held 2.676% of the share capital (containing no. 1 Alessandro Caltagirone, no. 2 Massimiliano Capece Minutolo Del Sasso, no. 3 Azzurra Caltagirone, no. 4 Mario Delfini, no. 5 Tatiana Caltagirone, no. 6 Albino Majore, no. 7 Annalisa Mariani) he obtained the favourable vote of 12.8175% of the voters.

Massimiliano Capece Minutolo Del Sasso

Director - Non-Executive - Independent

Massimiliano Capece Minutolo Del Sasso was born on 07/04/1968, registered in the register of Engineers of Rome since 1992. Vast experience in the real estate and infrastructure sector with competencies in design, development and management of large urban and construction projects. Currently Manager of Vianini Lavori SpA. and Board Member in several companies, including G.S. Immobiliare SpA, Vianini SpA and Fincal SpA.

Appointed on the basis of list no. 2 presented by the aforementioned Fincal SpA.

Fabrice Rossignol

Director - Non-Executive - Independent

Fabrice Rossignol was born in Boulogne-Billancourt on 02/08/1964. He was Additional General Manager of Suez Central Europe, Mediterranean, Africa, Middle East, general Manager of Suez Recyclage et Valorisation France. Since January 2017, the General Manager of Suez Italy, Central and Eastern Europe and CEI, as well as Chairman of Suez Italy since March 2017.

Appointed on the basis of list no. 3 presented by Suez Italia SpA, as at the date of the Shareholders' Meeting of appointment, he held 12.483% of the share capital (containing no. 1 Fabrice Rossignol, no. 2 Giovanni Giani, no. 3 Diane Galbe, no. 4 Mauro Alfieri, no. 5 Massimo Lamperti, no. 6 Francesca Menabuoni, no. 7 Marica Lazarin, no. 8 Diego Colmegna, no. 9 Susanna Mancini) and obtained the favourable vote of 13.7804% of the voters.

Giovanni Giani

Director - Non-Executive - Independent

Giovanni Giani was born in Lecco on 14 January 1950, engineer, manager with vast international experience in business development and the management of companies in the sector of services for society as a whole and in the industrial sector, and expert in international industrial relations. At present he holds the office of Managing Director of Suez Italia SpA, the Italian holding company of the Suez Group.

He was appointed on the basis of list no. 3 presented by the aforementioned Suez Italia SpA.

Diversity criteria and policy

Since the renewal of the Acea corporate bodies in 2013, the balanced representation of genders has been ensured in the composition of the Company's Board of Directors as required by Italian law no. 120 of 12 July 2011 and the TUF.

In particular, compliance with this regulation is ensured by the Articles of Association, which were amended by resolution of the

Board of Directors on 24 January 2013 to implement the provisions of Italian Law 120/2011.

The Acea S.p.A. Shareholders' Meeting punctually implemented law 120/2011 regarding equal access to governing and control bodies of companies listed in regulated markets, appointing board members of different genders.

With regard to other aspects of diversity in the composition of the Board, it should be noted that in view of the Shareholders' Meeting called for the appointment of the 2017 Directors, the Acea Board expressed its position to the shareholders on the qualitative and quantitative composition of the new Board that it deemed optimal. In particular, the outgoing Board had underlined that among other things the composition had to take into account the need for diversity, including gender and seniority, in compliance with applicable legal provisions. Furthermore, the Board underscored that the Board's mix of expertise should be well balanced. The current composition appears to be compliant with the aforementioned position. In fact, for the renewal of 2017 the Acea Shareholders' Meeting appointed three Directors of the Board of Directors of the less-represented gender, equal to one third of the total, in accordance with the provisions of Italian Law 120/2011: Michaela Castelli, Liliana Godino and Gabriella Chiellino.

In the subsidiary companies, Acea S.p.A. also ensures the appointments of governing and control bodies again in respect of gender numbers.

It should be noted that the current composition of the Board of Statutory Auditors also complies with the provisions of the aforementioned Italian Law 120/2011.

Without prejudice to the above, Acea has not adopted a specific diversity policy pursuant to art. 123-bis, para. 2, lett. d-bis of the TUF, given that the processes for constituting the Company's administrative and control bodies already broadly consider significant aspects like age, gender composition and the education and professional experience of their respective members.

Finally, in line with the principles expressed in the Code of Ethics, Acea has promoted a culture of equal opportunities and the management and enhancement of diversity through the adoption of a Charter for Diversity Management (see paragraph 10).

Maximum number of offices simultaneously held in other companies

At its meeting of 23 March 2011, subject to the favourable opinion of the Internal Control Committee, the Board resolved that the maximum number of offices that each Director may hold in other companies listed on regulated markets (including foreign markets) in financial, banking, insurance companies or companies of significant size is 10, including the seat held in Acea, so that maximum availability is guaranteed for performing necessary duties.

All the Directors in office, already when the lists were filed and, later, on their acceptance of their mandate, as well as on an annual basis specified the offices that they held in other companies listed on regulated markets (also abroad), in financial, banking and insurance companies and in companies of relevant dimensions.

On the basis of the updated communications received by the Company in implementation of the resolutions passed, all the Directors, at 06/03/2019, cover a number of roles compatible with the guidelines laid down by the Board itself.

Table 1, at the foot of this Report, lists the offices held by the Directors and Statutory Auditors in other companies listed on regulated markets, also abroad, in financial, banking and insurance companies and companies of relevant dimensions.

Induction Programme

In compliance with the provisions of the Corporate Governance Code on the effective and conscious performance of the role by each Director, the Chairman of the Board of Directors of Acea,

in agreement with the Managing Director, in this second year of office, prepared a training programme for the Board that was also attended by the Board of Statutory Auditors aimed at providing the Directors with a thorough knowledge of the Company's activities and organisation, of its sector and the regulatory framework and self-regulatory framework, of the company dynamics and their evolution and the role to be performed with respect to the specificities of Acea.

In particular, during the year 2018, 9 induction sessions were held, namely:

- in March, Acea organised two inductions: one on maintenance contracts in the water sector and the other concerning gas distribution;
- in the month of April an induction session was organised on the subject of waste treatment;
- in May, an induction session was organised on the subject of waste treatment, and another induction on the energy sector;
- in June, a visit to waste treatment plants in Lombardy was organised;
- during the months of September, October and November specific induction sessions were organised concerning business development issues.

Furthermore, the Directors are kept constantly informed by the competent corporate functions regarding the main legislative and regulatory novelties concerning the Company and the exercise of their functions.

The presentations illustrated during the aforementioned meetings and the related supporting documentation were sent promptly and in advance to the members of the Board of Directors and the Board of Statutory Auditors.

Succession plans

The Board of Directors, in consideration of the procedures for the appointment of the executive directors, who represent the major shareholder, and the assessments expressed by the latter, has deemed it unnecessary to develop a succession plan for the said directors. If an executive director leaves office, the Board of Directors may co-opt a new director in their place and determine the powers to be vested on the latter. The first appropriate Shareholders' Meeting will then provide for their successive inclusion on the Board of Directors.

4.3 THE ROLE OF THE BOD

The Company's Board of Directors holds a central role in the sphere of the Company's governance, and all the departments and the managers of the Company and of the Group with strategic and organisational responsibilities (Key Managers) report to the Board of Directors. Taking its role into account, the Board of Directors meets regularly, to guarantee the effective performance of its duties.

More specifically, reserved to the Board of Directors, pursuant to law, the Articles of Association and the guidelines of the Internal Control and Risk Management System (hereinafter "Guidelines") approved on 20 December 2012 and updated on 15 February 2018, are the duties listed below:

- define strategic and general management guidelines and steer the Company's development; economic-financial coordination of the Group's activities by approving medium-term strategic plans which incorporate the Group's development guidelines, the investment plan, the financial plan and the annual budgets; the acquisition and disposal of stakes, excluding infra-group operations;
- by proposal of the Control and Risks Committee, define the guidelines of the Internal Control and Risk Management System (hereinafter also "SCIGR") so that the main risks con-

cerning Acea and its subsidiaries – including the various risks that can become relevant in the light of sustainability over the medium-long term period – are correctly identified and adequately measured, managed and monitored, also determining the degree of compatibility of such risks with a business management consistent with the strategic targets identified;

- define, furthermore, the nature and level of risk compatible with the identified strategic objectives;
- approve and amend the internal regulations as far as concerning the general organisational structure of the Company and of the Group, and any amendments to the same that have a significant influence on the Group's organisation;
- appoint the General Manager, where applicable;
- define the corporate governance system and provide for the constitution, within the Board of Directors itself, of specific committees, appointing the relative members and attributing powers to the same on the occasion of the approval of their respective functioning regulations;
- adopt an Organisational and Management Model as per Legislative Decree no. 231/2001, appoint the Supervisory Body and examine the half-yearly reports drawn up by the Supervisory Body concerning the implementation of the Model;
- designate the directors and statutory auditors for Acea representation on the relative boards of its most significant subsidiaries and investee companies, understood as those listed on regulated markets and those that require the commitment of capital, shareholders' loans or guarantees exceeding 10 million Euros;
- attribute and revoke delegations to the delegated directors, defining the limits and procedures of their exercise;
- reserve and exercise powers for amounts exceeding 7.5 million Euros for Acea and its subsidiaries, if in line with the budget, and above 1 million Euros for off-budget expenditure;
- determine, by proposal of the specific committee and after consulting the Board of Auditors, the remuneration for the Chairman, Managing Director and other directors vested with special roles, with the exception of cases in which the latter has been approved by the Appointments and remuneration committee;
- define the Guidelines, after consultation with the Control and Risks Committee (hereinafter also CRC), whose duties are illustrated in Chapter 9, so that the main risks to which Acea and the major companies of the Group are correctly identified and adequately measured, managed and monitored;
- assess the adequacy of the organisational, administrative and accounting framework of Acea and of its subsidiaries with strategic relevance, especially as regards the SCIGR;
- assess the general business performance (art. 2381 of the Civil Code) taking into consideration, in particular, the information received from the delegated bodies, periodically comparing the results achieved with those programmed;
- appoint and revoke:
 - the Internal Audit Function Manager, subject to the favourable opinion of the CRC and by proposal of the Director responsible for the Internal Control and Risk Management System, and having consulted with the Board of Auditors, making sure that said Department is provided with adequate resources for the performance of its duties and defining the remuneration consistent with Company policies;
 - a Financial Reporting Officer, unless already provided for by the Shareholders' Meeting, by the favourable opinion of the Board of Statutory Auditors (pursuant to art. 22-ter of the Articles of Association), ensuring the adequacy of his powers and means for the performance of his duties;
- approve the Audit Department Manager's work plan on an annual basis, having consulted with the Board of Auditors and the SCIGR appointed Director;
- having consulted with the Board of Statutory Auditors, assess

the results illustrated by the independent auditor in the case of suggestions, that said Board may express in a letter or in its report, on fundamental issues that have come to light during the audit of the accounts;

- assess, at least once every year, the adequacy of the SCIGR in consideration of the Company's characteristics and risk profile and describe the main characteristics thereof in the Report on Corporate Governance, expressing its own assessment of the adequacy of the same, after hearing the opinion of the Control and Risks Committee;
- establish corporate measures of protection for the processing of personal or sensitive data by third parties;
- adopt the procedures necessary to protect workers' health and appoint the subjects responsible for ensuring safety in the workplace;
- make all efforts to establish continuous dialogue with the shareholders based on the comprehension of the reciprocal roles;
- promote initiatives aimed at fostering shareholders' maximum participation at the Shareholders' Meetings and to facilitate the shareholders in the exercise of their rights;
- adopt, by proposal of the Managing Director, the procedures for the internal management and the external disclosure of documents and information regarding the company, especially "price sensitive" information and those relating to transactions in financial instruments carried out by persons who, due to their office, have access to relevant information;
- carry out self-assessment at least once a year on the functioning of the Board itself and of its Committees, and on their size and composition;
- assess, at least once a year, the independence of its non-executive members.

The Board of Directors has fulfilled the aforesaid duties, amongst others:

- during financial year 2018, it assessed the general business trend on the occasion of the financial reporting (the draft financial statements of the period as at 31/12/2017; the six-monthly interim financial report; the interim management reports on the 1st and 3rd quarters of the period), taking into consideration, in particular, the information received from the delegated bodies, and periodically comparing the results achieved with those programmed;
- resolved on the organisational amendments to the Macro-structure of Acea S.p.A.;
- carried out a comprehensive review of the Internal Control and Risk Management System, having the purpose of strengthening efficacy and efficiency also by means of identifying new subjects and coordination procedures between the various players and control levels;
- approved, during February 2018, the new Guidelines for the Internal Control and Risk Management System of Acea Group.
- approved the new proposal to amend the Regulations for the Appointments and Remuneration Committee in March 2018;
- approved the Sustainability Report/Consolidated Statement of a non-financial nature for 2017 pursuant to Legislative Decree no. 254/2016;
- the Acea S.p.A. Supervisory Body was expanded with the appointment of the third authoritative member, an expert in corporate criminal law and legislation concerning the administrative liability of entities pursuant to Legislative Decree 231/01.

On 06/03/2019, the Board of Directors:

- assessed the adequacy of the Internal Control and Risks Management System and the adequacy of the Company's organisational, administrative and accounting framework and that of its strategically relevant subsidiaries, deeming the Acea Con-

trol System, as a whole, to be suitable for the pursuit of the Company's objectives;

- as an integral part of the aforesaid assessment process, carried out self-evaluation of the composition and functioning of the Board of Directors itself and of its internal Committees. Said evaluation regarded the Board of Directors' independence, structure and composition, the functioning of the Board and of its Committees, and the information flows received by the Board and its Committees in the performance of their duties. For the execution of the assessment tasks, the Board of Directors took avail of a company specialised in the sector, as explained below.

Operation

The Board of Directors meets regularly, in compliance with the terms of law and a works calendar, organising itself and operating in order to guarantee the effective and efficient execution of its functions.

In 2018 the Board of Directors held 12 meetings, lasting on average approximately 2 hours 53 minutes each, regularly attended by the Board Directors and the Statutory Auditors.

The attendance of each Director at the Board of Directors' meetings is detailed in Table no. 2.

For the year 2019, 4 Board of Directors' meetings have been scheduled, and disclosed to the market, for the approval of the financial reports of the period. So far, 3 meetings have been held, including today's meeting.

The Board of Directors has operated according to Works Regulations in force since 22 April 2003 which regulate the procedures for guaranteeing the timeliness and completeness of the pre-meeting information; they require that resolution proposals and information are received, together with all the useful documentation approved by the Managers responsible for the specific issues, at least 10 calendar days before the date of the meeting, to the Company's administrative office which will submit them, without delay, to the Managing Director for his approval, for the purpose of defining the draft Agenda.

The corporate secretariat submits the resolution proposals and the related information, together with the draft agenda approved by the Managing Director to the Chairman of the Board at least 6 days before the Board meeting.

The Chairman finalises the Agenda, also inserting proposals and items of his competence, which is then transmitted, at least 3 days before that of the meeting, to the single Directors and Statutory Auditors, together with all the documentation prepared by the Company's departments.

The meetings have been regularly attended by the Directors and by the Statutory Auditors.

During 2018 the managers of the Company and of its subsidiaries with responsibility for the various items on the agendas were regularly invited to the Board of Directors meetings and, on the Managing Director's invitation, they gave the necessary information on the topics under discussion, leaving the meeting when the Board of Directors was about to vote on the relative resolutions.

Operational assessment of the Board of Directors and its Committees

The Board of Directors, according to the application criterion of 1.C. 1 letter g) of the Self-Regulatory Code, must assess its own dimension, composition and functioning and those of its Committees ("board review") at least once a year, autonomously or with the assistance of an independent external advisor.

In 2018, Acea entrusted the execution of the Board Review, for a three-year term, to the advisor Eric Salmon & Partners, a leading consultancy company with years of expertise in the field, which holds the necessary requisites of independence.

The activity carried out by the advisor consisted in assessing the

Board of Directors according to international best practices. In particular, an assessment method was implemented for the year 2018 that allowed a particular focus on the critical issues and areas for improvement identified by the previous self-assessment, and on the topics covered by the recommendations issued by the Corporate Governance Committee on 21 December 2018.

With regard to the definition of the perimeter and the execution methods, the assessment process implemented involved the Chairman of the Board of Directors and the Chairman of the Appointments and Remuneration Committee.

Based on the comments collected and the analysis carried out, Eric Salmon & Partners arrived at the following conclusions:

“On the basis of the collected comments and the analysis performed, we express a positive opinion of compliance on the part of Acea with the indications of the Self-Governance Code during the second year of the mandate of the said Board in office.

In its second year of mandate, the Board has also confirmed a solid governance base and has benefited from the effective collaboration of the supporting structures.

In particular, the Board of Directors has demonstrated that it has implemented the suggestions of the previous Board Review regarding areas for improvement and that it has effectively implemented a series of processes and initiatives in this regard. The Board, which met 12 times during the 2018 financial year, further expanded its work by organising 9 induction sessions during the year and as many as 40 meetings within the board.

Emerging from the work carried out, in brief, are, amongst others, homogeneous opinions and positive appraisals between the Directors and the Board of Auditors with regard to:

- *the well-balanced structure of the Board and its excellent mix in terms of competence, experience, diversity and seniority;*
- *the scenarios and Acea's strategic options understood and shared, and the appropriate operation of the BoD regarding its own direction functions, providing its own contribution to the definition of the strategies;*
- *the adequacy of the pre-meeting information received during the year and the protection of confidentiality requirements without their compromising the effectiveness and timeliness of the information flows preceding the board meetings;*
- *the usefulness of management's participation in the meetings of the Board of Directors in respect of the equality of information towards the members of the Board itself;*
- *the strengthening of controls and control structures;*
- *the effective preparatory activities carried out by the committees.*

While among the issues brought to the attention of some Directors, we note the need to:

- *study the topic of cybersecurity by ensuring that systems and processes are effectively implemented;*
- *report to the Board the succession plans for top management both for continuity and in emergency;*
- *study the independence requirements required by the Corporate Governance Code;*
- *review the balance of participation in committees in light of the commitments required”.*

4.4 DELEGATED BODIES

Chief Executive Officer

The Board of Directors appointed Stefano Antonio Donnarumma as Managing Director in May 2017, conferring on him all powers for the governance of the Company except those otherwise attributed pursuant to law and regulations, the Articles of Association or the power structure approved in May 2017 and updated in June 2018 (with reference to the issues that, according to said structure, are reserved to the Board of Directors, see paragraph 4.3), and in particular the Managing Director:

- operates on the basis of medium-long term plans and the annual budgets approved by the Board, and guarantees respect for the managerial guidelines deriving from the same. In this context, the Managing Director's powers are exercised, for Acea and its subsidiaries, for transactions up to Euro 7.5 million (works contracts, purchases, rentals, disposals, participation in calls for tender, etc.) if in line with the budget, and for transactions up to Euro 1 million for off-budget transactions; for the Group's subsidiaries operating on the energy - electricity and gas - market, the powers vested on the Managing Director include: i) the issue of sureties and other guarantees up to Euro 12 million if in line with the budget and up to Euro 2 million for off-budget operations; ii) the issue of all the sureties and other obligatory guarantees in favour of Arera [the Italian electricity, gas and water authority], GSE [the energy services provider], GME [manager of the energy markets], Terna SpA, the Single Buyer and other public subjects and the distribution concessionaires;
- signs the works agreements of any amount awarded according to Legislative Decree 50/2016 as amended;
- implements the organisational and procedural changes in the Parent Company's activities according to the guidelines approved by Board of Directors' resolution;
- chairs and coordinates the Management Committee, which is an advisory committee composed of Company managers, with the task of verifying the Group's operational economic situation and that of the single business units and any gaps compared to the planned targets;
- ensures correct management of corporate information. To this regard, we refer you to Chapter 5 “Corporate Information Processing”.

The Managing Director informs the Board of Directors and the Board of Statutory Auditors at least every quarter and, in any case, on the occasion of the Board of Directors' meetings, on the activity performed and the Company's business trend, on the business outlook and on transactions of major relevance for their dimensions or features, carried out by the Company or its subsidiaries, in compliance with art. 20.1 of the Articles of Association.

In compliance with art. 20 of the Articles of Association, the ordinary management of the Company, the Company's signature and legal representation before third parties and in court are delegated to the Managing Director, as well as all powers within the scope of the delegations conferred and within set commitment limits.

The Managing Director is also the Director responsible for the Internal Control and Risks Management System, according to the indications of the Self-Regulatory Code (for a detailed description of the duties attributed to the same in that capacity, please refer to paragraph 11.1 of this Report).

Chairman

In June 2018, the Board appointed Michaela Castelli as Chairman of the Board of Directors to replace the resigning Luca Alfredo Lanzalone.

The Chairman, according to art. 20 of the Articles of Association, is the Company's legal representative with power of signature, and also has the power to summon and chair Board of Directors' meetings and Shareholders' Meetings.

With a Board resolution of 21 June 2018, it was established that the duties associated with the office of Chairman of the Company include the power to represent Acea S.p.A. in Italy and abroad, in relations with the central and peripheral State Administration, with national and local Public Bodies, with other Public Administrations, with Institutional and Trade Union Bodies, with natural and legal persons, with associations, companies and any other public or private entity and for matters regarding income and spending. The Chairman is given a supervisory function over the activities of the Group and verifies the implementation of the Board of Directors'

resolutions and the Corporate Governance rules, also in implementation of the powers reserved to the Board of Directors. Furthermore, the Chairman monitors the quality indicators provided and oversees the perceived quality indicators and the issues relating to environmental impacts and corporate social responsibility of company activities and processes.

Due to the assignments described, the Chairman is responsible for supervising the administration of the Board of Directors and all related activities; the power to carry out all the activities envisaged by the current legislation on press and communication, including through the publication of journalistic and online publications, as well as the appointment of the relevant Responsible Director in accordance with the law on the press, to be identified among the employees of the group meeting the legal requirements.

The Board of Directors' activities are coordinated by the Chairman, who calls the Board meetings, establishes the agenda and directs the works, ensuring that the Directors are promptly given - except in the case of need or urgency - the documentation and information necessary to allow the Board to give a conscious opinion on the matters submitted to its examination.

Chairman and Managing Director, Joint Powers

By Board resolution of 21 June 2018, moreover, joint powers were delegated to the Chairman and the Managing Director who, in the case of proven urgency and need, are thus authorised to exercise the powers normally reserved to the Board in relation to contracts, purchases, company transformation, participation in tender procedures, the issue of sureties and, when the urgency does not allow for calling a meeting of the Board of Directors (which must be informed at the next meeting to check on the existence of the need and urgency), the designation of members of the Boards of Statutory Auditors and the Boards of Directors of the most important subsidiaries and partly held companies, these being understood as:

- those listed on regulated markets or with securities on issue as contemplated by art. 116 of the TUF [Consolidated Finance Act];
- those requiring capital commitments, shareholders' loans or guarantees exceeding 10 million Euros.

In addition, the Chairman and the Managing Director designate the members of the Boards of Statutory Auditors and the Boards of Directors of the companies of the Acea S.p.A. Group other than those considered of "more importance".

Executive Committee

With a resolution dated 21 June 2018, pursuant to art. 2381 of the Italian Civil Code and art. 20 of the Articles of Association, the Board of Directors established an Executive Committee composed of Giovanni Giani (Chairman), Michaela Castelli, Stefano Antonio Donnarumma and Massimiliano Capece Minutolo del Sasso, to whom the powers relating to institutional affairs, sponsorships and donations have been delegated, to be managed within the budget established by the Board.

The methods of exercising these powers are governed by specific regulations approved by the Board of Directors.

During the 2018 financial year, the Executive Committee met 6 times with an average meeting duration of 1 hour and 30 minutes. As at the date of this Report, the Committee has met 3 times, with an average duration of one hour and 10 minutes.

Informing the Board

The Board of Directors, as also the Board of Statutory Auditors, in compliance with art. 20 of the Articles of Association and the provisions of law, receives from the Chairman and the Managing Director constant and full information on the activities performed, summed up at least quarterly in a report on the general business trend and the relative outlook. More specifically, with reference to transactions of major relevance carried out within the sphere of their

powers, including any non-typical transactions and those with related parties, providing the approval of which is not reserved to the Board of Directors, the Managing Director and the Chairman report to the Board on the features of said transactions, the subjects involved and their connection, if any, with the Group, the determination methods and the relative economic and financial effects.

Furthermore, the BoD and the Board of Statutory Auditors receive periodic information on the exercise of the powers conferred on the bodies delegated by the Board of Directors.

4.5 OTHER EXECUTIVE DIRECTORS

No other executive Directors are envisaged.

4.6 INDEPENDENT DIRECTORS

As at 31/12/2018, and to date, the Board has 6 independent non-executive directors, namely: Gabriella Chiellino, Liliana Godino, Alessandro Caltagirone, Massimiliano Capece Minutolo Del Sasso, Fabrice Rossignol and Giovanni Giani (see Table 2).

The procedure followed by the Board to verify their independence involves the declaration of the existence of the requisite on the part of the director on presentation of the list and at the moment of acceptance of the appointment, and verification by the Board of Directors at the first meeting after the appointment. The independent directors also promise to immediately inform the Board of Directors of any situation which entails their loss of this requisite.

The Independent Directors are considered such in accordance with the provisions of law and art. 3 of the Self-Governance Code.

The Company's Board of Directors has a number of independent directors who represent the absolute majority of its members.

During the year, it was not necessary to hold a separate meeting of the independent directors, also in consideration of the quality of the information received from the delegated bodies and their active participation in the Board and in the Board's internal committees, which until June 2018 consisted exclusively of independent directors, from June to today the Control and Risk Committee and the Ethics and Sustainability Committee are composed mainly of independent directors, the Appointments and Remuneration Committee and the Related Parties Committee are composed only of independent directors. This allowed them to adequately investigate the issues of interest to them.

We point out that in the assessment of the requisites of independence, no parameters other than those set out in the Self-Governance Code have been used.

According to the information provided by the persons concerned or, at any rate, available to the Company, immediately after the appointment, and most recently in March 2019, the Board of Directors ascertained the existence of the requisites of independence prescribed by the law and the Self-Governance Code.

The Board of Auditors, in compliance with the provisions of art. 3 of the said Code, checked on the correct application of the verification criteria and procedures adopted by the Board of Directors to assess the independence of its members.

4.7 LEAD INDEPENDENT DIRECTOR

On 06/03/2019 the Board of Directors confirmed that, as in the previous years, the conditions for the institution of a lead independent director do not exist, considering that the current Chairman of the Board of Directors does not hold the role of the main subject responsible for the company (chief executive officer), and does not hold a controlling stake in the Company.

5. CORPORATE INFORMATION PROCESSING

The Acea Board of Directors, on a proposal of the Managing Director, adopted Regulations for internal governance and for the external disclosure of the Company's documents and information. Said Regulations are available for consultation at www.gruppo.acea.it (in the Corporate Governance section). The Regulations:

- establish the methods for the processing and disclosure of Company information within the Group;
- rule that Company representatives who gain knowledge of information of which the early disclosure could be prejudicial to the Company's equity and/or that of the Shareholders must treat the same with maximum reserve, and that the Company, in the case of specific circumstances, must give immediate and full information to the market;
- prescribes that a procedure must be established for the drafting of press releases relating to price sensitive information, to prevent possible distortions or irregularities in the communication of such information.

Pursuant to art. 18, para. 1, letter a) of EU Regulation no. 596/2014 (the Market Abuse Regulation, or MAR), a List will be created of all persons with access to inside information who have a professional collaboration relationship with the Company, whether they are employees or not, and who, in the performance of certain duties, have access to inside information such as, for example, advisors, accountants or credit rating agencies (List of Persons with Inside Information Access).

Art. 7 of the MAR regulation establishes that *"by Inside Information is meant information of a precise nature, which has not been made*

public, directly or indirectly relating to one or more issuers or one or more financial instruments and, if made public could have a significant effect on the prices of those financial instruments or on related derivative financial instruments".

Information shall be deemed to be of a precise nature if it *"indicates a set of circumstances which exists or which may reasonably be expected to come into existence, or an event which has occurred or which may reasonably be expected to occur, where it is specific enough to enable a conclusion to be drawn as to the possible effect of that set of circumstances or event on the prices of the financial instruments or the related derivative financial instrument [...]. In this respect in the case of a protracted process that is intended to bring about, or that results in, particular circumstances or a particular event, those future circumstances or that future event, and also the intermediate steps of that process which are connected with bringing about or resulting in those future circumstances or that future event, may be deemed to be precise information."*

Rules have also been adopted on Internal Dealing in compliance of the provisions of art. 19 of the MAR which rules that transactions in financial instruments carried out by "relevant subjects" and by persons closely linked to the same must be communicated to Acea and to CONSOB immediately and, in any case, within three working days from the transaction, at the request of the Relevant Subjects.

Relevant subjects and persons closely linked to them must notify the Company, in compliance with the aforementioned provision, of all transactions carried out on their behalf once the aggregate amount of such transactions reaches the threshold of 20,000 Euros over one calendar year.

6. THE BOARD'S INTERNAL COMMITTEES

(as per art. 123-bis, paragraph 2, letter d) TUF) 2, letter d, TUF)

The Board of Directors has set up four internal committees, namely: the Appointments and Remuneration Committee, the Control and Risk Committee, the Ethics and Sustainability Committee and the Related Parties Committee.

Thus, the powers and duties relating to appointments and remuneration are aggregated and vested on a single committee. This aggregation, in line with the recommendations of the Self-Governance Code, respects the composition requirements contemplated by said Code for both the Committees and ensures correct execution of the relative powers and duties.

Said committees are composed of at least three non-executive directors appointed by the Board of Directors itself, which appoints one of the independent directors as the Chairman of the committee. The composition, duties and functioning of the Committees are disciplined by the Board of Directors, in specific regulations, consistent with the criteria laid down by the Self-Governance Code.

In particular, pursuant to the Control and Risks Committee regulations, updated in December 2017, said Committee must be formed of at least three non-executive directors, the majority of whom must also be independent directors. The committee Chairman is chosen from the independent directors. At least one member of the committee must hold adequate experience in accounting, finance and risk management, which the Board of Directors assesses at the moment of the appointment.

Pursuant to the Appointments and remuneration Committee regulations, updated in March 2018, said Committee must be formed of at least three non-executive directors, the majority of whom must also be independent directors. The committee Chairman is chosen from the independent directors. At least one member of the committee must hold adequate experience in finance and remuneration policies, which the Board of Directors assesses at the moment of the appointment.

The rules of the Ethics and Sustainability Committee, updated in December 2017, said that the committee must be formed of at least three non-executive directors, the majority of whom must also be independent directors. The committee Chairman is chosen from the independent directors. At least one member of the committee has adequate experience in environmental matters and/or corporate social responsibility, this is assessed by the Board of Directors upon appointment.

In the performance of their duties, said committees have access to Company information and activities, necessary for performing their respective duties, and the assistance of the Company's departments according to their sphere of competence; they may also avail of external consultants at the Company's expense, within the limits of the an-

nual budget approved for each Committee by the Board of Directors. The consultants for the Nominations and Remuneration Committee and for the Control and Risks Committee must be chosen avoiding possible conflicts of interests and the conferment of mandates on subjects that provide services to companies of significance such as to compromise in practice the independent judgement of said consultants. The Chairman of the Board of Statutory Auditors or another statutory auditor designated by him/her participates in the meetings of the Control and Risk Committee and the Appointments and Remuneration Committee (and in any case the other current statutory auditors are also entitled to intervene). The meetings of each committee may be attended by other members of the Board of Directors or by representatives of company departments or third parties whose presence may be of assistance in the best performance of the committee's functions, upon the specific invitation of the respective chairman.

The Director delegated with responsibility for the Internal Control and Risk Management System, the Chairman of Board of Directors and the Chairman of the Board of Auditors may attend the Control and Risk Committee meetings, as well as other Statutory Auditors and, by invitation of the committee Chairman, other members of the Board of Directors or of the Company's structure, in order to provide information and express assessments of their competence.

The meetings of the Appointments and remuneration Committee may be attended by the Managing Director and, by invitation of such committee, also other subjects in reference to the single items on the agenda, to give information or to express assessments of their competence. As a rule the Human Resources Manager and Human Capital Development function Manager is invited to attend, whereas the director or manager whose position the Committee is examining may not attend.

The Managing Director and the Chairman of the Board of Directors may attend meetings of the Ethics and Sustainability Committee. The Chairman of the Board of Statutory Auditors, the other standing auditors and other members of the Board of Directors may also participate at the invitation of the Chairman of the committee.

The Board of Directors also formed a Related-Party Transactions Committee (OPC), as a body assigned to carry out the role required by the Consob Related Parties Regulation and according to the provisions of the "Related-Party Transactions Procedure" adopted by the Company and briefly described in paragraph 11 of this Report.

The OPC Committee, formed of at least three Independent Directors, is vested with duties and powers to make inquiries, to submit proposals and to provide advice for assessing and deciding on transactions with Related Parties, of both minor and major relevance.

7. APPOINTMENTS AND REMUNERATION COMMITTEE

On 31 December 2018, the Appointments and Remuneration Committee was created, composed of four non-executive directors, three of whom are independent, namely: Liliana Godino (Chairman), Massimiliano Capece Minutolo del Sasso, Gabriella Chiellino and Giovanni Giani.

The Board of Directors recognised that Giovanni Giani holds the requisite of adequate knowledge and experience in accounting and financial matters and retributive policies.

The Committee's secretariat duties are performed by the Board of Director's secretary or by another subject chosen by the Committee itself.

The Chairman of the Board of Statutory Auditors or another statutory auditor designated by him/her participates in the work of the Committee. However, other statutory auditors, the Managing Director and the Chairman of the Board of Directors may also participate, as well as, upon invitation of the Chairman of the Committee, other members of the Board of Directors or of the company structure to provide information and express assessments of the individual items on the agenda within their expertise. The Committee held 11 meetings in 2018, duly recorded in minutes and regularly attended by all the members (as well as the members of the Board of Statutory Auditors), with an average duration of approximately 1 hour 40 minutes each.

With respect to the tasks assigned, the Appointments and Remuneration Committee offers proposals and consulting. In particular, it is set up to assist the Board of Directors in assessments and decisions relating to its composition and to remuneration policies regarding the Managing Director, the Directors who hold particular offices and the managers with strategic responsibilities.

Specifically:

1. it proposes to the Board of Directors the remuneration policy for directors and key managers, promoting medium-long term sustainability and taking into account, for executive directors and directors vested with special duties and, as far as compatible, also for key managers, that the fixed part and the variable part must be adequately balanced according to the strategic targets and the risk management policy;
2. it periodically assesses the adequacy, the overall congruence and the concrete application of the remuneration policy relating to directors and key managers, on the basis of information provided by the Managing Director, and it presents proposals regarding said remuneration to the Board of Directors;
3. it proposes to the Board of Directors candidates for directorships, taking into account any reports received from the shareholders in the case of co-option if an independent director must be replaced;
4. it presents proposals to the Board of Directors on the fees of the executive directors and the other directors that hold special offices, and on the performance targets linked to the variable part of said fees;
5. it submits to the Board of Directors an opinion on the remuneration policies for key managers;
6. it monitors the application of the decisions adopted by the Board, checking, in particular, on the effective achievement of the performance targets;
7. it submits the remuneration report to the Board pursuant to art. 123-ter of the TUF that the directors must present to the annual meeting;
8. it draws up opinions for the Board of Directors on the size and

composition of the same and it expresses recommendations regarding the professional figures that it deems should sit on the Board, the maximum number of offices that directors or statutory auditors can hold without prejudice to the directors' effective participation in the Board's committees, and the existence and importance of any activities performed by each director in competition with the Company;

9. it expresses preventive and non-binding opinions on the figures to be qualified as having strategic responsibilities, as well as those to be eventually involved in the Long Term Incentive Plan ("LTIP");
10. for the purposes of expressing its preventive and non-binding opinions, it gathers the preliminary investigations according to the choice of the executives with strategic responsibilities as well as those relating to the appointments of the Directors and Auditors in significant companies.

The directors must refrain from participating in Committee meetings when the Committee discusses proposals to be submitted to the Board of Directors relating to their own fees.

The Committee may have access to the information necessary for the performance of its duties, also from the Company's departments, and it may also take avail of external advisors, in the terms defined by the Board of Directors.

With regard to remuneration, during 2018 among other things the Committee:

- examined and approved the proposal to conclude the 2016-2018 long-term variable incentive system early on 31 December 2017. In this regard, the Committee also examined the definition of a new long-term variable incentive system for the period 2018-2020, its terms and in particular the related performance indicators and their weight;
- examined the number of beneficiaries of the long-term variable monetary remuneration system, also called LTIP;
- submitted the remuneration report to the Board of Directors for approval pursuant to art. 123-ter of Legislative Decree no. 58 of 24 February 1998, and in particular the section relating to the remuneration policy for directors and managers with strategic responsibilities for the year 2018;
- acknowledged that the economic-financial targets had been reached and authorised the payment of the MBO 2017 (Management by Objectives) short-term variable incentive programme to the entitled parties;
- submitted a proposal to the Board of Directors regarding the setting of performance targets related to the short-term variable component "MBO 2018".

As far as its responsibilities concerning appointments and opinions relating to the identification of figures qualified as managers with strategic responsibilities:

- it examined and expressed its opinion on the proposals to be submitted to the Board of Directors concerning the candidates designated to become members of the administrative body and the boards of statutory auditors of the group's significant companies;
- it examined and approved the professional profiles identified to fill the roles of manager of the industrial Segment "Energy Infrastructures" and "Commercial & Trading" as executives with strategic responsibilities and related remuneration packages;
- it expressed its favourable opinion on the "Composition Guidelines of the Boards of Directors, Boards of Statutory

Auditors and Supervisory Bodies of Subsidiaries in the Acea Group”, submitted for approval to the Board of Directors.

In 2019, as at the date of this Report, the committee has met 3 times, with an average duration of 50 minutes each.

The Board of Directors has confirmed the allocation of an annual budget for 2019 of 25,000.00 Euros (twenty-five thousand point zero zero) for the Committee so as to allow the latter, should it be deemed necessary, to confer external mandates instrumental to the performance of its duties.

8. DIRECTORS' REMUNERATION

The remuneration policy for Directors and Key Managers (“Remuneration Policy”), defined by the Board of Directors, is detailed in the document “Remuneration Report”, approved by the Board of Directors in the meeting of 06/03/2019, pursuant to art. 123-ter of the TUF, to which we invite you to refer for in-depth information. Said document will also be available at the Internet site www.gruppo.acea.it and it will be subjected to the approval of the meeting of the Board of Directors, acting in an advisory role, which will be held in April 2019 for the approval of the financial statements relating to financial year 2018.

During the Shareholders' Meeting of 27 April 2017, the all-inclusive fixed gross annual consideration was confirmed for the members of the BoD, as established in the minutes of the Shareholders' Meeting of 5 June 2014. On 27 April 2017, the Shareholders' Meeting resolved to defer the faculty to define the considerations pursuant to art. 2389, paragraph 3 of the Civil Code to the Board of Directors, regarding Directors vested with special offices with reference, relating to the economic conditions, to the fees recognised in listed companies of similar sector and dimensions (see Remuneration Report 2019 - Financial Year 2018, Section 1).

Said Remuneration Policy - the current remuneration system of which is detailed in the “Remuneration Report” - defines the guidelines that are consistent with the topics listed below:

- an important part of the remuneration of the Company's Executive Directors and key managers, as expressly required by the Self-Governance Code, is linked to the economic results achieved by the Company and, possibly, to the achievement of specific performance targets - pre-set and measurable - indicated in advance by the Board of Directors itself, as detailed in Section 1 of the “Remuneration Report”;
- a system of medium-long term variable incentives (Long Term Incentive Plan) is contemplated, to be vested in three years. The aim of this plan lies in encouraging the management to pursue the Group's economic-financial results in the interests of the shareholders;
- as of 2015, in line with a growing need for transparency expressed by the Self-Governance Code and in view of an increasingly responsible remuneration policy, the claw back clause, already adopted for executives and key managers, has been extended also to the managerial roles which have greater impact on the Group's business. According to this clause, the Company is entitled to request the return of the variable remuneration (relating to both the short and the medium-long term

periods) if it is found to have been paid in the case of results obtained consequent to intentional misconduct and/or gross negligence, such as the intentional alteration of the data used to indicate the achievement of the targets or obtaining the same results by behaviour contrary to corporate or legal provisions.

REMUNERATION OF EXECUTIVE DIRECTORS AND KEY MANAGERS WITH STRATEGIC RESPONSIBILITIES

For details of the fees of the Chairman and the Managing Director, as well as the key managers, please refer to Section II of the 2019 Remuneration Report, Year 2018 Section II pursuant to art. 123-ter of the TUF.

INCENTIVE MECHANISMS FOR THE INTERNAL AUDIT DEPARTMENT MANAGER AND THE FINANCIAL REPORTING OFFICER

The incentive mechanisms for the Internal Audit function manager and the Financial Reporting Officer, they are subject to annual assessment on the basis of qualitative and efficiency criteria; on the basis of these criteria, in fact, individual targets are assigned to the persons in question and, therefore, they are not linked to targets of an economic-financial nature except for the part represented by the so-called gates.

NON-EXECUTIVE DIRECTORS' REMUNERATION

The remuneration of non-executive directors is not linked to the economic results achieved by the Company, but to the commitment requested of them and their possible membership of one or more committees. No share incentive plans involve non-executive directors.

INDEMNITY FOR DIRECTORS IN THE CASE OF REVOCATION, RESIGNATION, DISMISSAL OR DISCONTINUED OFFICE SUBSEQUENT TO A TAKEOVER BID (art. 123-bis, para. 1, letter i, of the TUF)

No agreements have been stipulated between Acea and the directors in office which contemplate non-competition agreements or indemnity in the case of their dismissal or resignation/revocation without just cause.

9. AUDIT AND RISKS COMMITTEE

The Control and Risks Committee was established to assist the Board of Directors, ensuring the latter adequate preliminary investigation and support in the assessments and the decisions related to the Internal Control and Risks Management System, as well as related to the approval of the periodic financial disclosures and declaration of a non-financial nature.

The Committee members and the Chairman are appointed by the Board of Directors.

The term of office of the Committee members coincides with that of the Board of Directors that has appointed them.

The Committee may request the Internal Audit function to carry out audits on specific operational areas, simultaneously informing the Chairman of the Board of Auditors, the Chairman of the Board of Directors and the Internal Control and Risks Management Director, unless the verifications specifically concern the activity of said subjects.

The Committee carries out its inquiries and issues opinions to the Board of Directors regarding:

1. the definition of the Guidelines for the internal control and risk management system, so that the main risks to which Acea S.p.A. and its subsidiaries - including the various risks which may become significant with a view to medium-long term sustainability - are correctly identified, and adequately measured, managed and monitored;
2. the determination of the degree of compatibility of the main risks with a management consistent with the strategic objectives identified;
3. the assessment, at least once a year, of the adequacy of the internal control and risk management system in respect of the Company's characteristics and the risk profile assumed, as well as the effectiveness of the said system;
4. the approval, at least once a year, of the work plan drawn up by the Internal Audit function manager;
5. a description, within the annual report on corporate governance, of the main features of internal control and risk management system and coordination processes regarding the persons involved therein, expressing its opinion on the overall adequacy of the same;
6. the assessment, having consulted with the Board of Auditors, of the results explained by the statutory audit in a letter of suggestions, where applicable, and in the report on fundamental issues that have come to light during the audit of the accounts;
7. the proposals of the Internal Control and Risks system Director, formulated in accordance with the Board of Directors' Chairman, and after hearing the Board of Statutory Auditors' opinion, regarding the appointment and revocation of the Internal Audit function manager and the definition of the latter's salary consistent with the Company's policies, as well as the adequacy of the resources allocated to the Department for the performance of its duties. Such opinion will be binding.

The Committee also assists the Board of Directors by:

- assessing, together with the Financial Reporting Officer and after consultation with the external auditor and the Board of Auditors, the correct use of the accounting principles and their uniformity for the purposes of drafting the consolidated Financial Statements;
- assessing, together with the competent Acea function, having consulted with the statutory auditor and Board of Auditors, the correct use of accounting standards implemented in order to draw up the declaration of a non-financial nature as per Legislative Decree 254/2016;
- supporting, with adequate investigative activity, the assess-

ments and decisions of the Board of Directors related to managing risks deriving from prejudicial facts of which the Board of Directors has become aware;

- providing the Board of Directors with opinions on specific aspects involved in the identification of the Company's main risks or risks deriving from possible prejudicial facts of which the Board of Directors has gained knowledge;
- examining the periodic reports on the assessment of the Internal Control and Risk Management System, and those of particular importance drawn up by the Internal Audit function;
- monitoring the autonomy, adequacy, effectiveness and efficiency of the Internal Audit function;
- requesting, as may be the case, the Internal Audit function to carry out audits in specific operational areas, contextually notifying the Chairman of the Board of Auditors, Chairman of the Board of Directors and the Director assigned to the internal control and risk management system thereof, with the exception of cases in which the subject matter of the audit request specifically concerns the activity of such subjects.

The Committee reports to the Board, at least every six months, during the annual and half-yearly financial report, about the activity performed as well as the adequacy of the internal control and risk management system and, at least once a year, assesses its own size, composition, function and independence with respect to the assigned duties.

On 31 December 2018, the Committee was formed of four directors, specifically: Liliana Godino (Chairman), Michaela Castelli, Massimiliano Capece Minutolo Del Sasso and Giovanni Giani.

The Director Michaela Castelli has experience in accounting and financial matters and was deemed suitable by the Board of Directors at the moment of her appointment.

In 2018, the Committee held 13 meetings of an average duration of approximately 1 hour and 50 minutes each, characterised by the regular attendance of all its members and the Chairman of the Board of Auditors or another auditor. Of these, one was held jointly with the Board of Statutory Auditors.

The meetings, which were regularly recorded in minutes, were also attended by other subjects, invited by the Committee, for the illustration of single points on the agenda.

The Chairman provides the Board of Directors with punctual information on the Committee's works.

In 2018 the Committee performed the tasks reserved to the same by the Self-Governance Code, and in particular:

- it assisted, carrying out the necessary enquiries, the Board of Directors in its decisions and assessments related to the control system, and those related to the approval of the periodic financial reports;
- together with the Financial Reporting Officer and having consulted with the statutory auditor and the Board of Auditors, it assessed the correct use of the accounting standards and their uniformity for the purposes of drafting the consolidated financial statements;
- it expressed a favourable opinion on the Internal Audit functions' activities Plan prior to its presentation to the Board of Directors for approval;
- it examined the Internal Audit function's periodic reports;
- it expressed opinions on specific aspects regarding the identification of the Company's main risks and, at the periodic meetings, it invited the managers of the Company's departments concerned to report on the methods for managing such risks;
- it monitored the autonomy, adequacy, effectiveness and efficiency of the Internal Audit function;

- it reported to the Board of Directors, at least once every six months, upon approval of the annual financial statements and of the interim financial report, on the activity carried out and on the adequacy of the internal control and risk management system.
- it expressed a favourable opinion on the appointment of Simone Bontempo as the new head of the Internal Audit function.

The Committee had access to the information and to the Company departments necessary for the performance of its duties.

In 2019, as at the date of this Report, the Committee has met 3 times, with an average duration of the meetings of 2 hours, of which one held jointly with the Board of Auditors.

The Board of Directors has confirmed the allocation of an annual budget for 2019 of 25,000.00 Euros (fifty thousand point zero zero) for the Committee so as to allow the latter, should it be deemed necessary, to confer external mandates instrumental to the performance of its duties.

10. ETHICS AND SUSTAINABILITY COMMITTEE

The Committee is a panel body having full and autonomous powers of action and control designated with providing propositional and advisory support to the Board of Directors within the context of corporate ethics and environmental, social and governance topics (ESG - Environmental, Social and Governance).

The composition and operation of the Committee are disciplined by specific regulations approved by the Board of Directors.

The Committee consists of three non-executive directors of Acea, the majority of whom are independent, namely Gabriella Chiellino (Chairman), Michaela Castelli and Giovanni Giani.

Ms. Chiellino has adequate experience in environmental matters and/or corporate social responsibility, assessed by the Board of Directors upon appointment.

The Committee has the duty to assist the Board of Directors with investigative functions of a propositional and advisory nature, in the appraisals and decisions related to ethics and sustainability.

So as to fulfil its responsibilities, it carries out the following duties:

- it promotes the integration of sustainability in the strategies and culture of the company and favours its circulation among employees, shareholders, users, the territory and all the stakeholders in general;
- it supervise sustainability issues, also with regard to the reporting areas envisaged by Legislative Decree no. 254/2016, associated to exercising corporate activities and the dynamics of interaction of the latter with all the stakeholders and examines the main corporate rules and procedures proving to be of relevance upon comparison;
- examine the guidelines of the sustainability plan and the procedures for implementing them;
- monitoring the implementation of sustainability plan approved by the Board of Directors;
- examine the no profit strategies of the company;
- monitor, regarding matters of competence, the adequacy of the Code of Ethics and its effective implementation;
- express, by request of the Board of Directors, opinions on other matters regarding sustainability;
- report to the Board of Directors, at least on a half-yearly basis and no later than the term for approving the annual or interim financial report, about the activity carried out;
- liaise with the pertinent corporate structures and bodies in relation to aspects of ethics and sustainability.

With the Code of Ethics, adopted by Acea as early as 2001 and modified in the current version during 2018, Acea affirms and explicates the values, principles and behavioural standards that underlie its actions and those of stakeholders.

Specifically, the Code sets out the general ethical principles that all company practices must be linked to, specifying the criteria of conduct towards each category of stakeholder and defining the mechanisms for implementing the principles and controlling the behaviour of the people who work in the Company's interest.

The Code of Ethics is a fundamental element in the control environ-

ment of Acea, which circulates the knowledge thereof among personnel, both upon recruitment and in cyclical training activities, also carried out in e-learning mode. Compliance with the Code is explicitly required of employees, suppliers and all those contributing in the Company's activity (advisors, collaborators, etc.).

By resolution of their Boards of Directors, the subsidiaries transpose the Acea Code of Ethics, which forms an integral part of the organisational and management models as per Legislative Decree 231/2001.

Among the instruments implementing the Code, Acea adopted a procedure for managing reports of presumed violations of the principles of the Code of Ethics and the Organisational and Management Model (whistleblowing) which ensures confidentiality and protects the whistleblowers in good faith.

In compliance with the principles expressed in the Code of Ethics, Acea also sought to promote a culture of equal opportunities and the management and enhancement of diversity through the adoption, as early as 2014, of a Diversity Management Charter, updated by the board resolution dated 13 December 2018. In the same session, with the approval of the Diversity Committee, the Board resolved that due to their high ethical and moral value and significance, the activities relating to the culture of equal opportunities and the promotion of diversity should fall within the remit of the Ethics and Sustainability Committee, and consequently delegated the Chairman to make the necessary amendments to the Regulations of the Ethics and Sustainability Committee, combining it with the duties of the former Diversity Committee.

In the context of the Human Resources Development function, the People Involvement Unit is assigned with the responsibilities of defining, in collaboration and with the support of business and the players involved for various reasons, the guidelines and policies on the matter of People Care and Diversity & Inclusion Management and to develop initiatives aimed at valorising the differences and the unique contribution of each employee.

In 2018, in addition to monitoring the effective implementation of the Code of Ethics and in order to foster the concrete application of the principles of sustainable development affirmed in the Code of Ethics, the Ethics and Sustainability Committee, held several meetings aimed at spreading the new version of the Code of Ethics with a focus on issues related to sustainability in managerial culture and their reflection in decision-making and strategic processes.

The Committee, in the performance of its duties, coordinates its activity with that of the Supervisory Body.

During the period, the Ethics and Sustainability Committee held 8 meetings, with an average duration of 1 hour 50 minutes, mostly attended by its members.

In 2019, at the date of this Report, the Committee held 2 meetings, with an average duration of approximately 1 hour and 50 minutes, one of which held jointly with the Control and Risks Committee.

The Board of Directors confirmed the allocation of an annual budget for 2019 of 25,000.00 Euros (twenty-five thousand point zero zero) for the Committee.

11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Acea's Internal Control and Risk Management System, an essential element of the Group's Corporate Governance system, and it comprises an organic series of rules, policies, procedures and organisational structures aimed at allowing the identification, measuring, managing and monitoring of the main risks, in order to identify any potential events that could influence the achievement of the Company's objectives, and at limiting such risks within acceptable levels. The system is integrated within the more general organisational framework and corporate governance system adopted by Acea.

The Board of Directors defined the "Internal Control and Risk Management System Guidelines", updated in February 2018, in order to:

- provide guidelines for the various subjects in the SCIGR, so as to ensure that the main risks pertaining to Acea Group are correctly identified as well as adequately measured, managed and monitored;
- identify the principles and responsibilities of the governance, management and monitoring of the risks connected to the Company's activities;
- provide for activities of control at all operational levels and clearly identify tasks and responsibilities in order to avoid any duplicated activities and ensure coordination between the main subjects involved in the SCIGR.

Acea, in accordance with the principles outlined and the SCIGR guidelines, pursuing the aim of continuous improvement in the risk control and monitoring activities, has introduced and integrated into the organisation second level protective procedures for some specific risks and it has defined the standard content of the periodic information flows produced by such structures addressed to the SCIGR Director. These information flows are also acquired by the Internal Audit function manager in order to prepare his/her periodic report to the Governance and Control Bodies, containing information on the manner in which risk management is conducted as well as compliance with the plans defined for their containment.

COMPREHENSIVE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Introduction

The planning, implementation and periodic assessment of Acea's Control System is based on the best practices of reference (integrated "Internal Control" model issued by CoSO) and on the principles of the Self-Governance Code.

a) Roles and duties of the various subjects in the Control System

The governance and implementation of the complete Control System involves subjects with diverse roles within the Company (governance and control bodies, Company departments, management, employees and post audit Committee).

For a description of the roles and duties of the control bodies, we invite you to refer to the specific paragraphs of this Report (Board of Directors, Internal Committees within the Board, the Managing Director, the Internal Audit function, Risk & Compliance function manager, the Financial Reporting Officer and the Supervisory Body).

The Group's management is responsible for defining, implementing and maintaining an effective risk management process with the capacity to put into practice the plans and to achieve the strategic objectives. In particular, the Industrial Areas and the Acea S.p.A. company management/functions, each for its sphere of compe-

tence, are responsible in their everyday operations for implementing the actions that allow for achieving the expected business results and the management of the connected risks.

The employees are responsible for working in compliance with the external and internal regulations and the management's procedures and directives, also with the support of appropriate training courses aimed at increasing the skills and at fostering the professional attitude necessary to effectively perform the controls, as defined in the Control System.

The Post Audit Committee, established in January 2018 and chaired by the Director assigned to the SCIGR, has the duty of analysing corrective interventions identified by the management downstream of internal auditing activities and monitoring realisation times.

b) Risk management system

The risk management system adopted by Acea contemplates widespread responsibility and involves subjects at all levels of the organisation. In particular, the risk management system adopted in Acea includes activities for risk identification, assessment, management and monitoring.

The company makes use of a structured model based on the CO-SO framework "Enterprise Risk Management - Integrating with Strategy and Performance" of June 2017, which aims to support management in identifying the main risks capable of affecting the achievement of the Acea Group's strategic and business objectives, intervention priorities and the adoption of mitigation policies to reduce the residual risk back to a level deemed acceptable by top management. For particular types of risk, specific second-level organisational structures have been identified, and, if necessary, control and monitoring models implemented that include specific indicators and risk limits (e.g. PAR and VAR).

Responsibility for the controls is divided into three complementary levels:

1. First level controls are aimed at ensuring correct execution of Company processes, in order to prevent risks by means of suitable mitigation actions. The responsibility for their execution is assigned to the line structures;
2. Second level controls are aimed at verifying that the controls defined for Company operations are effective and implemented, through continuous monitoring aimed at guaranteeing that the risk mitigation actions are adequately identified and put into practice in the organisation by the subjects responsible for said implementation;
3. Third level controls are entrusted to the Internal Audit function, comprising independent verification of the design and operation of the internal control system and monitoring the implementation of the improvement plans defined by the management.

The activities of the Internal Audit function are regulated by the Board of Directors through the Audit Charter, which defines its purpose, remit, authority, responsibilities and other relevant provisions. In particular, the Internal Audit function manager is responsible for verifying that the Control System is always adequate, fully operational and functioning. He reports to the Board of Directors, he is not responsible for any operational activities and he can have direct access to all information useful for the performance of his duties. He reports on his work to the Chairman, the Managing Director, the Control and Risks Committee and the Board of Auditors on the operation, adequacy and effectiveness of the Control System. The Internal Audit function operates on the basis of an Audit Plan,

developed on the basis of a structured process of analysis and prioritisation of the main risks, which takes into account the results deriving from the monitoring performed by the company departments responsible for second level controls and any proposals received from Acea Functions/Departments/Industrial Segments, as well as any requests from the Control and Risks Committee, the Board of Statutory Auditors and the Supervisory Body.

The Audit Plan is approved annually by the Board of Directors, subject to the favourable opinion of the Control and Risk Committee and after having consulted the Board of Statutory Auditors and the Director in charge of the SCIGR.

c) Qualifying elements of the Control System

Pervasive elements of the Control System

The pervasive elements are of fundamental importance in the Acea control system, in as much as they represent the infrastructural foundations of said system, worthy of mention amongst which, in particular, are the following aspects:

- the definition of the ethical values and of the behavioural criteria, by which the behaviour of the employees and of all those who operate in pursuit of the company's objectives must be inspired, is ensured by the rules of the Code of Ethics, approved by Acea's Board of Directors and its subsidiaries and disclosed inside and outside the company;
- the roles and responsibilities, and the relations between company departments are clearly defined within the adopted organisational structure, and the powers of signature and the internal delegations are consistent with the hierarchical level, the organisational unit concerned and the assigned targets.

To this end, the organisational charts and other organisational provisions, the organisational and management model pursuant to Legislative Decree no. 231/2001, the company procedures, the system of delegations and powers of attorney.

Second-level company control functions for particular risk categories

The Director in charge of the SCIGR has identified some corporate functions – including some that are not exclusively dedicated – which he/she uses to identify, measure, manage and monitor specific types of risk connected with the Group's operations. These centralised controls are the manner by which a transversal view of the risks and of the connected systems of control between the diverse processes within the Group is possible.

The company structures and the relative corporate risks supervised through guidance and/or monitoring activities are summarised below:

- *Compliance*: antitrust compliance, consumer code and Legislative Decree 231/01;
- *DPO*: Privacy compliance;
- *Company Protection*: risks of damage to physical assets and operational continuity, including theft and fraud;
- *Insurance Management*: insurable industrial risks;
- *Enterprise Risk Management*: business execution risks;
- *Integrated Certification Systems*: operational and compliance risks in the area of quality, safety and energy;
- *Cyber Risk*: data and ICT infrastructure security;
- *ICFR*: financial reporting risks;
- *Interest rate*: interest rate change risks;
- *Commodity*: commodity risks in the power and gas trading business;
- *Corporate Credit*: credit risk of prospects and active/terminated customers;
- *Safety & Security*: occupational health and safety risks pursuant to Legislative Decree no. 81/2008.

d) Overall assessment of the adequacy of the Control System

See the contents of paragraph 4.3 of the Board of Directors.

MAIN FEATURES OF THE EXISTING INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS (art. 123 -bis, paragraph 2, lett. b) of the TUF).

Introduction

In the Internal Control system, with reference to financial reporting, particular relevance is held by the "Group's Management and Control Model pursuant to Law 262" (the "**Model**"), adopted on the occasion of the updating of the Group's Internal Control System to the requirements of Law 262/2005. In particular, in 2007 Acea began a process of adaptation to the needs expressed by Law 262/2005 aimed at planning an effective system of Internal Control over Financial Reporting ("**ICFR**"), subject to constant improvement and adaptation to the Company's evolution, which can allow the Acea Financial Reporting Officer and Managing Director to issue the certifications required by art. 154-bis of the TUF.

The system is defined as all the activities for identifying the risks/controls and for defining specific procedures and tools adopted by Acea to ensure, with reasonable certainty, the achievement of the aims of the credibility, accuracy, reliability and immediacy of the financial information.

The Model defines the guidelines, the methodological references and the responsibilities for the institution, assessment and maintenance of the ICFR.

The Model is developed on the basis of the fact that the ICFR must be a part of the broader Internal Control and Risk Management System and an essential element of Acea's Corporate Governance, and that the credibility of the information disclosed to the market on the Company's situation and results is a fundamental element for all the stakeholders.

The Model, approved by Acea's Board of Directors on 20 February 2008, is composed of a series of documents, circulated among the companies of the Group, which define all the basic aspects of the system:

- Financial Reporting Regulations;
- Guidelines for the implementation of the Model;
- Periodic reports of the Group for the implementation of the information flow.

The Model is completed by the Group's Accounting Principles Manual, the Guide to closing the consolidated financial statements, the administrative and accounting procedures and the specific operating documents.

The implementation of the Internal Control and Risk Management System in relation to the Group's financial reporting has been carried out, also through successive adjustments, also considering the guidelines provided by certain category bodies regarding the Financial Reporting Officer's activities, in particular:

- Position Paper of the Andaf [National Association of Administrative and Financial Directors] "Il Dirigente Preposto alla redazione dei documenti contabili societari" [The Financial Reporting Officer];
- Position Paper of the AIIA [Italian Internal Auditors' Association] "Il contributo dell'Internal Auditing nella realizzazione di un buon processo di Corporate Governance e nell'organizzazione di un flusso informativo con il Dirigente Preposto alla redazione dei documenti contabili e societari" [The contribution of Internal Auditing in the creation of a good Corporate Governance process and in the organisation of an information flow with the Financial Reporting Officer];
- Guidelines issued by Confindustria "Linee guida per lo svolgimento delle attività del dirigente preposto alla redazione dei documenti contabili societari ai sensi dell'art. 154-bis TUF" [Guidelines for the performance of the Financial Reporting Officer's activities pursuant to art. 154-bis of the TUF].

DESCRIPTION OF THE MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS

The Model defines the guidelines of reference for creating and managing the system of administrative and accounting procedures (so-called activity/risk/control matrices) for Acea and its major consolidated companies for the purposes of corporate Financial Reporting ("major company"), regulating the main steps and responsibilities.

a) Steps

Defining the scope of analysis. Every year Acea updates the scope of analysis of the system of administrative-accounting controls and of the monitoring of the underlying processes, to guarantee that the risks relating to the financial reporting of the more significant accounting items within the consolidation perimeter are covered.

The scope of the analysis is initially determined by the weight of each major company of the Group on the consolidated financial statements, taking into account the relevance for the same of the associated significant accounts and administrative-accounting processes; successively, the results of the analysis are integrated by considerations of a qualitative nature to take into account both the Group's structure and the features of specific financial statement items.

Analysis of process risks and controls. The approach adopted by Acea allows for identifying the "key" risk and control points deemed significant for the consolidated financial statements. For this purpose, the control objectives and the related risks are defined for every process and activity; i.e.

- financial statement assertion: this element must be respected in the reporting of company events in order to represent them truly and correctly on the financial statements;
- theoretic risk: risk identified at the "inherent level", not taking into account the existence and the effective execution of specific control techniques aimed at eliminating the risk in question or at reducing it to an acceptable level;
- specific control objective: objective that must be guaranteed by the execution of the control activity.

In particular, the financial statement assertions considered in the Model are:

- *Existence and occurrence* (the company's assets and liabilities must exist at a definite date and the transactions recorded must represent events that have actually taken place during a specific period);
- *Completeness* (all the transactions, assets and liabilities to be represented must be effectively included on the financial statements);
- *Rights and obligations* (the company's assets and liabilities must represent, respectively, its rights and obligations on a specific date);
- *Assessment and reporting* (the assets and liabilities, the shareholders' equity, the revenues and the costs must be posted on the financial statements at their correct amount, according to the generally accepted accounting standards);
- *Presentation and informing* (the financial statement items must be correctly named, classified and illustrated).

For each specific risk/objective subject to control, the so-called "key" controls are identified, which allow for identifying the existing system of controls (manual/automatic controls; prior/successive controls) in relation to each relevant process, in order to reach the objective of control and to effectively mitigate the risk.

Assessment of the controls in view of the risks identified. The assessment of the design of the controls described in the administra-

tive and accounting procedures, aims to analyse how the single control activities are structured and defined in respect of the objective of preventing the risk of error on the financial statements. The assessment is carried out considering the goal that the control aims to achieve, namely whether the risk is mitigated ("adequate/inadequate" control).

The assessment of the design of the controls is the responsibility of the Business Lines, starting from the hierarchical level above the manager of the department/activity subject to the control, up to the level of the Board of Directors in the case of the companies of the Group.

The assessment of the operativity of the controls identified in the administrative and accounting procedures is also subject to specific analysis by the Business Lines. In fact, for controls whose design is deemed adequate, their execution must then be assessed ("implemented/not implemented" control).

The operativity of the controls, ascertained by the Business Lines, is corroborated by independent monitoring carried out through a periodic testing plan of the FRO. The test plan is defined according to criteria of priority and rotation on the basis of which, in each period of reference, a certain sub-series of controls to be tested is selected, until achieving coverage of the main controls identified in the procedure.

The FRO implements a process for sharing and circulating the results of the test activities, so that the managements of reference can put into practice the necessary corrective action in their own structures.

Corrective Action Plan. If, on the basis of the analyses carried out by the Business Lines, the "key" controls are found to be absent, not documented or not carried out correctly according to the company's procedures, the manager of the organisational unit concerned, up to the level of the Board of Directors for the companies of the Group, defines and implements a remedy plan with indication of the timing and responsibilities for the execution of the corrective action. The remedy plan is submitted to the FRO for the overall assessment of the system and for the coordination of the action to be taken, and it is updated six-monthly by the subjects responsible.

Overall assessment. To allow the Acea FRO and Managing Director to issue the certifications required by art. 154-bis of the TUF, a "chain" system of internal certifications has been introduced, described in more details in the following paragraph, with the aim of ensuring the adequate internal formalisation of responsibilities for the adequacy and the effective application of the administrative and accounting procedures, and for preparing and communicating the corrective action plan, when necessary, and for updating the procedures (see point b), Roles and Responsibilities).

The overall assessment is therefore based on a complex evaluation procedure which takes into account:

- the assessment of the design of the existing controls and the assessment of their execution, carried out by the Acea management and by the Boards of Directors of the major companies, together with the implementation of the remedy plans;
- the analysis of the test results;
- the final analysis of the areas for improvement that have come to light, with reference to their relevance on the financial statement information.

If deemed necessary, within the scope of the assessment process, the methodology adopted may include the design and execution of compensatory controls and verifications. Any important shortcomings that are found are communicated to the control bodies according to the procedures laid down in the Financial Reporting Regulations.

b) Roles and Responsibilities

The Model is based on the clear internal attribution of responsibili-

ties in the planning, assessment and maintenance over time of the ICFR, without prejudice to the responsibilities attributed by law to the FRO and to the delegated Board of Directors. For this purpose, the financial reporting (“**Reporting**”) introduced within the Acea Group is based on a “chain” system of certifications which has the aim of the adequate internal formalisation of the responsibilities for the adequacy and effective application of the administrative and accounting procedures, of monitoring the corrective action plan, when necessary, and of immediately detecting possible modifications to the controls that are the competence of the Business Lines and factors of change/risk that arise in the course of normal process operations, that can influence the adequacy of the ICFR.

The assessment process of the FRO and of the Managing Director, on the basis of which the certification of the financial statements is issued according to the CONSOB model, therefore entails internal certifications (reporting forms) issued by the managers of the processes that are relevant for Acea and by the delegated Boards of Directors of the major companies. In particular, Acea, by means of reporting, has disciplined roles and responsibilities, the activities to be performed by each subject involved, the calendar, instructions for filling in the reporting forms, and the methods for updating the administrative and accounting procedures.

The Model identifies the main actors of the financial reporting process, in addition to the FRO and the delegated Boards of Directors, with the relative responsibilities.

- The Control Manager is responsible towards the Sub-Process Manager for the execution and certification of the execution of the controls of his competence according to the procedures and timing laid down by the administrative and accounting procedures, and for providing the basic information input for the reporting flow;
- The Sub-Process Manager is responsible for a related series of activities necessary for achieving a specific control objective; he must carry out an overall assessment of the design and implementation of the control, in relation to the sub-process in question; he must also update and ensure the implementation of the corrective action plan.
- The 262 Administrative Contact for the major companies is the subject within the Group major companies responsible for all the activities necessary to allow the Acea FRO to issue the certification; he is responsible for consolidating all the information received from the Sub-Process Managers and for assembling the overall assessment of the design and implementation of the controls for the company in question, which he then submits to the major company’s Board of Directors: he is also responsible for guaranteeing the information flows to and from the FRO.
- The major companies’ delegated administrative body is responsible for assessing the design and implementation of the controls of the major company and sending the internal certification to the FRO, in the defined format, together with the corrective action plan suitably endorsed, also communicating any change/risk factors that have arisen in the period of reference that could influence the adequacy of the ICFR.

Lastly, with reference to the other governing and control bodies within and outside the Group, Acea has introduced a virtuous information exchange process, to and from the FRO, structured and modulated to foster as broad an overall view as possible of the Internal Control System on the part of said bodies.

11.1 EXECUTIVE DIRECTOR IN CHARGE OF THE CONTROL SYSTEM

The Acea Board of Directors has chosen the Managing Director as the director appointed for the institution and maintenance of an

effective Control System (“**Appointed Director**”), and has conferred mandate to the same to implement the Guidelines of the Internal Control and Risk Management System.

In 2018, the Managing Director – with the support of the ERM unit within the Risk & Compliance function and of the information coming from the second level controls on specialised risks – identified the main business risks, taking into account the characteristics of the activities carried out by Acea and its subsidiaries, and periodically submitted them to the Board for examination. He has put into practice the guidelines drawn up by the Board of Directors, ensuring the planning, execution and management of the System and the constant monitoring of the overall adequacy, effectiveness and efficiency. He has also provided for the adaptation of the system to the dynamics of the operating conditions and the legislative and regulatory context.

The Appointed Director may request the Internal Audit function, notifying the Chairman of the Board of Directors, the Control and Risks Committee and the Board of Statutory Auditors of the execution of verifications on specific operating areas and on respect for the internal rules and procedures in the execution of Company operations.

The Appointed Director also immediately informs the Control and Risks Committee and the Board of Directors of problems and critical situations that arise in the performance of his activities or of which he gains knowledge.

11.2 THE AUDIT FUNCTION MANAGER

On 18 December 2013, the Board of Directors, on an Appointed Director’s proposal, with the favourable opinion of the Control and Risks Committee and after consulting the Board of Statutory Auditors, resolved on the appointment of Ms. Liberata Giovannelli as Manager of the Internal Audit function and defined her salary, in accordance with the Company’s policies.

It should also be noted that during the meeting of 22 January 2019 the Board of Directors – as proposed by the Appointed Director and having taken note of the favourable opinion expressed by the Control and Risk Committee and having heard the Board of Statutory Auditors – resolved to appoint Simone Bontempo as new Head of the Internal Audit function starting from 1 February 2019. The Guidelines of the Internal Control and Risk Management System approved by the Board of Directors define the Internal Audit Function’s mission and activities, according to which this Department has a central role in the coordination of the SCIGR. The Audit function manager is required to verify the operation and adequacy of the SCIGR, by means of verifications, both continuously and in relation to specific needs, and to check on the operations and suitability of the Control System, with the support of the Managing Director in the activities of identifying and establishing the priorities of the major risks to which Acea and its subsidiaries are exposed. The Internal Audit function is also mandated to provide for the general review of the risk analysis process carried out by the second level control structures which protect against certain types of risks, and for the coordination of the information flows from said structures (see Chapter 11 “*Internal Control and Risk Management System*”).

At its meeting of 12 April 2018, the Board of Directors approved the Internal Audit function’s work plan and at the same time it verified the adequacy of the resources allocated to the Department for the performance of its duties.

The Internal Audit function manager in office during the year had direct access to all useful information for the performance of her mandate, had no responsibility for operational areas, nor was she hierarchically subordinate to the managers of the operational areas and reported directly to the Board of Directors.

During financial year the Internal Audit function, performing its

duties as described, carried out the following activities:

- a. it verified, both continuously and in relation to specific needs and consistently with the international standards for professional internal auditing, the operativity and the suitability of the Control System, through the activity plan of the Internal Audit function approved by the Board of Directors;
- b. it carried out audits at the request of the Chairman of the Board of Directors in addition to those required by the approved plan;
- c. it drafted a final report on the single audit actions and requested the competent functions/companies, when necessary, to draw up action plans for overcoming the critical issues found, monitoring the implementation and reporting the results to the Control and Risks Committee and the Post Audit Committee;
- d. it constantly informed, by means of drawing up specific reports, the Chairman of the Board of Directors, the Managing Director, the Control and Risks Committee about the activities carried out and related results; following the legal matters that involved the former Chairman Lanzalone prepared reports on particularly significant events at the request of the Chairman of the Board of Directors and the Board of Statutory Auditors;
- e. within the sphere of the Audit Plan, it verified the reliability of the information systems, including those of accounting disclosure;
- f. it supported the Acea Supervisory Body and those of the subsidiaries in the audits pursuant to Legislative Decree no. 231/2001;
- g. it contributed to the design of training and corporate information activities regarding Internal control topics;
- h. it monitored initiatives for overcoming anomalies found in the operativity and function of the controls, also through follow up activities;
- i. following the guidelines defined in the whistleblowing procedure, it collected and handled reports received relating to cases of alleged violations involving failure to comply with the law, internal regulations and the Code of Ethics;
- j. it drafted the final report in which it gives an assessment of the suitability of the Control System and sends it to the Chairmen of the Board of Directors, the Control and Risk Committee and the Board of Auditors, as well as the Appointed Director.

11.3 THE RISK & COMPLIANCE FUNCTION

After incorporating the Risk & Compliance function into the macrostructure at the end of 2017, in 2018 the Board of Directors continued with the strengthening of this fundamental control for the management and management of the SCIGR.

In particular, the function was assigned to:

- guarantee the monitoring of insurance risks of company activities in order to identify and acquire the most adequate insurance coverage and to seek the most advantageous conditions for the Group, also guaranteeing the management of claims to be paid or received;
- identify, describe and measure the main risk factors that can compromise the achievement of the Group's strategic objectives, supporting management in defining action plans to reduce the risk to a level deemed acceptable and monitor their implementation, ensuring compliance with the decisions made by the governance bodies regarding risk policies and their management;
- coordinate and develop issues relating to social and environmental sustainability, supporting Group companies in planning the actions necessary to achieve the objectives and reporting their effects annually through the Sustainability Report;
- play a preventive and proactive role in the advance assessment of the risks of non-compliance of the company's activities with

pertinent "regulations" (antitrust, Legislative Decree no. 231/2001, environment, etc.), examining the effectiveness of the processes with the objective of preventing the violation of the rules and regulations (internal and external), and suggesting the most appropriate solutions in the event of misalignments;

- assess the most appropriate measures to incorporate compliance requirements into the current privacy legislation for business processes, developing proposals and actions for changes and updates to policies, procedures and security measures, and verifying the actual effective implementation of the governance policies for the risks related to the processing of personal data;
- guarantee and control the implementation of the policies regarding quality, environment, safety and energy so as to ensure that QASE certification of the interested processes;
- guarantee the definition, implementation and control of the policies on physical protection (physical business structures) of Acea's and the Group companies' assets.

11.4 ORGANISATIONAL MODEL pursuant to Legislative Decree no. 231/2001

With the adoption of the Organisation, Management and Control Model pursuant to Legislative Decree 231/2001, Acea has sought to comply with the provisions of the law, complying with the guiding principles of Legislative Decree no. 231/2001 ("Decree"), the Corporate Governance Code and the recommendations of the supervisory and control authorities, with the aim of strengthening the system of controls and Corporate Governance, in particular for the prevention of the predicate crimes envisaged by the Decree.

With the adoption of the MOG, Acea has set itself the following goals of a general nature:

- to achieve awareness of the activities that present a risk of offences with relevance for the Company (risk activities) and awareness on the part of the addressees of the rules (methods and procedures) that discipline the risk activities;
- the circulation, personal acquisition and concrete affirmation of a corporate mentality based on legality, in the awareness of the Company's express disapproval of any behaviour contrary to law, the self-regulating provisions, the indications of the supervisory and control authorities and internal provisions;
- the circulation, personal acquisition and concrete affirmation of a mentality of control, which must govern the pursuit of objectives;
- implementation of a structured system of procedures and controls that reduces the risk of committing crimes referred to in the Decree and of offences in general.

With regard to the various types of offences envisaged by Legislative Decree no. 231/01 and the related sensitive activities, the MOG identifies the Company's processes that are functional and instrumental within the risk activities and it recalls the relevant organisational and control principles which must characterise the organisational system and with which the recipients must comply in their activities of competence.

After its first approval in May 2004 by both Acea and its subsidiaries, the MOG was continually updated following the introduction of new predicate crimes within the catalogue of offences referred to in the Decree, of the evolution of case law, as well as changes in the company's organisation.

By resolution of the Board of Directors on 15 December 2017 after a review and updating activity as described in the preamble of this report, the current Acea MOG was adopted.

The supervisory body ("OdV"), set up pursuant to Legislative Decree 231/2001 has full and autonomous powers of initiative, action and control regarding the proper functioning, effectiveness and

observation of the MOG, in order to prevent the risk of offences for which the Company could bear administrative liability.

The OdV supervises the effectiveness and adequacy of the MOG, monitoring its state of implementation and proposing any necessary updates to the Board of Directors. It must also report to Acea's competent bodies any breaches of the MOG, ascertained or subject to pending investigations, which could lead to liability bearing on the Company.

With regard to the composition of the OdV, the MOG approved by the Board of Directors envisages the establishment of a multi-member body appointed by the administrative body, with two external members who are experts on internal control and corporate criminal liability, as well as an internal member represented by the Internal Audit function manager.

The Acea Board of Directors appointed this Body for the period of 1 January 2018 - 31 December 2020.

The Board of Directors attributes a specific annual budget to the OdV of 25,000.00 Euros (twenty-five thousand point zero zero) in order to guarantee and establish the autonomous "power of initiative and control" which the Decree grants.

11.5 STATUTORY AUDIT COMPANY

Pursuant to art. 22-bis of the Articles of Association in force, the certified audit of the accounts is carried out by an auditing firm appointed and operating pursuant to law and pursuant to the regulations dictated for issuing companies listed on regulated markets. In particular, it verifies that the accounts have been regularly kept and that the management events have been correctly recorded in the accounts during the period, and it also verifies the Company's financial statements and the consolidated financial statements of the period. The Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2016, held on 27 April 2017 in conformity with the provisions of law, by recommendation of the Board of Statutory Auditors, conferred *PricewaterhouseCoopers SpA* the assignment of auditing the Company's financial statements and the consolidated financial statements for a term of nine financial years - specifically 2017-2025 in other words until the approval of the financial statements of the last year of the said mandate - and established the relative fees.

In the performance of its activity, the Auditing Firm had access to the Company's information and data, in both documental and electronic format, its archives and assets and to those of its subsidiaries.

11.6 THE FINANCIAL REPORTING OFFICER AND THEIR OTHER CORPORATE ROLES AND FUNCTIONS

11.6.1 The Financial Reporting Officer

The figure of the Financial Reporting Officer, introduced by Law 262/05, was adopted by Acea with an amendment to the Articles of Association of 13 November 2006, which requires this figure to be appointed by the Board of Directors.

In its meeting of 3 August 2017, the Board of Directors the Company resolved to appoint - effective as from 1 September 2017 - Giuseppe Gola as Financial Reporting Officer for Acea, pursuant to art. 154-bis of Legislative Decree no. 58/1998, who also assumed the office of Finance and Control Administration Director of Acea S.p.A.

As required by the Articles of Association, the Financial Reporting Officer has a number of years of experience in the performance of managerial duties in administration and control activities at capital companies of significant size and is responsible for establishing and maintaining the internal control system regarding financial statements and to issue a specific certificate according to the model

published by Consob, together with the Managing Director.

In particular, in accordance with the regulations approved by the Board of Directors of 20 February 2008, he must perform the following duties:

- to provide adequate administrative and accounting procedures for the preparation of the Company's financial statements, the consolidated financial statements and the six-monthly interim report;
- to ensure that the financial statements are drafted in compliance with the applicable international accounting standards;
- to ensure that the Company's deeds and communications disclosed to the market and the relative accounting statements, including the interim reports, correspond to the documentary evidence, the Company's books and the accounting entries;
- to assess, together with the Control and Risks Committee (a) the adequacy of the accounting principles adopted, and (b) their standardisation for the purposes of the drafting of the consolidated financial statements.

The Financial Reporting Officer has issued the certification, together with the Managing Director, in compliance with art. 154-bis of the TUF, without remarking any aspects worthy of note.

11.6.2. Post Audit Committee

A Post Audit Committee was established in January 2018, it is chaired by the Appointed Director, having the task of analysing corrective interventions identified by the management downstream of the internal audit activities and monitoring the realisation times thereof.

11.7 COORDINATION AMONG SUBJECTS INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

In order to allow the various subjects involved in the SCIGR to adequately perform the role assigned in relation to such system, specific informatory flows are defined among the various levels of control and the competent management and control bodies, duly coordinated in terms of content and timeframes.

The Guidelines of Acea's Internal Control and Risk Management System contemplate the definition of a series of activities for the coordination between the various subjects involved in the Control System, in order to ensure continuous monitoring of the adequacy and its operation, and to facilitate the efficient exchange of information. These methods briefly consist of:

- periodic coordination meetings regarding, in particular, the processing of the financial information and the assessment, monitoring and mitigation of the risks (economic-financial, operational and compliance risks);
- information flows between the subjects involved in the Control System;
- coordination meetings and joint meetings with the Board of Statutory Auditors, the Control and Risks Committee, the external Auditing Firm, an Officer and the Internal Audit function manager;
- structured information flows on the part of the subjects responsible for the second level controls to the top management, the Internal Audit function, the Risk & Compliance function and the supervisory bodies;
- communication flows between the Internal Audit function and the Risk & Compliance function to support the specific activities of competence. In particular, the Risk & Compliance function informs the Internal Audit function about the main corporate risks useful for preparing the risk-based Audit plan proposal and receives the results of the internal

- audit activities where relevant to performing its task;
- structured information flows between the Supervisory Bodies of Acea's subsidiaries and the issuer's Supervisory Body;
- periodic reports to the Board of Directors;
- assistance to the Internal Audit function in its activities in the role of Acea's Supervisory Body and to those of the subsidiaries;
- communication flows within each Group company between the Board of Statutory Auditors and the Supervisory Body.

12. DIRECTORS' INTERESTS AND RELATED PARTIES TRANSACTIONS

Prior to discussion on each item on the agenda during the board meeting, every director must report any interests that it holds, directly or on behalf of third parties, connected with the topics or questions to be dealt with, specifying the nature, the terms, the source and the extent.

With regard to transactions with related parties, the procedure for such transactions, issued pursuant to art. 2391-bis of the Civil Code and adopted in accordance with the principles dictated by the Consob Related Parties Regulation effective as of 1 January 2011, was amended by the Board of Directors on 18 December 2013, entering into force on 1 January 2014, and it applies to transactions carried out directly by Acea, or companies directly or indirectly controlled individually by the latter, and related parties.

Depending on the amount, the transactions are divided as follows:

- transactions of *Major Relevance*, in which at least one of the indices of relevance, indicated in Annex 3 of the Consob Related Parties Regulation is above the threshold of 5%, which must be approved by the Acea Board of Directors;
- transactions of *minor value* with a counter-value of not more than Euro 200,000.00 (two hundred thousand);

- transactions of *Minor Relevance*, which includes all the transactions with related parties that cannot be classified as of major relevance or of minor value.

According to the procedure, before the approval of a transaction with a related party, whether of Major or Minor Relevance, the Transactions with Related Parties' Committee expresses an opinion on the Company's interest in the execution of the transaction and on the convenience and on the substantial correctness of the related conditions.

At present, the Committee for Transactions with Related Parties is composed of three independent directors, namely: Fabrice Rosignol, as coordinator, Gabriella Chiellino and Massimiliano Capece Minutolo Del Sasso.

The Board of Directors has confirmed the allocation of an annual budget for 2019 of 50,000.00 Euros (fifty thousand point zero zero) for the Committee so as to allow the latter, should it be deemed necessary, to confer external mandates instrumental to the performance of its duties.

For further details, please refer to the website www.gruppo.acea.it in the "Corporate Governance" section.

13. APPOINTMENT OF THE AUDITORS

In compliance with the provisions of law and of the Articles of Association, the Board of Statutory Auditors is composed of three standing auditors and two alternative auditors, appointed by the Ordinary Shareholders' Meeting for a term of three financial periods, and they can be re-elected on expiry of their mandate.

There must be a gender balance in the composition of the Board of Statutory Auditors, as governed by law.

The Board of Statutory Auditors is appointed, in compliance with art. 22 of the Articles of Association, by the same methods as those for the appointment of the Directors, illustrated above. Half plus one of the standing auditors to be elected will be drawn from the list that has obtained the majority of votes, in the progressive order in which they are placed on the list, rounded down to the nearest whole number in the case of a fractioned number, and one alternative auditor.

For the other members of the Board of Statutory Auditors, the standing auditor and alternate auditor will be respectively those who have obtained the first and second highest quotient in the minority

lists; pursuant to the combined provision of arts. 15 and 22 of the Articles of Association, in case of equal percentage, the standing auditor will be the one on the minority list that has obtained most votes. In any case, at least one standing auditor must be elected by the minority shareholders. If an auditor leaves office during a financial period, the alternative auditor on the same list as the outgoing auditor will take his/her place.

The appointment of auditors who, for any reason, are not elected according to the above-illustrated procedure, must be approved by a Shareholders' Resolution passed with the majority required by law. The Chairman of the Board of Statutory Auditors will be chosen from those effectively elected from the minority list.

The lists must be presented twenty-five days before the date scheduled for the first meeting, by shareholders that, alone or with other shareholders, represent the minimum participation in the share capital established by Executive Determination no. 13 of 24 January 2019 of the CONSOB.

14. COMPOSITION AND OPERATION OF THE BOARD OF AUDITORS (as per art. 123-bis, para. 2, lett. d, TUF)

The current Board of Statutory Auditors was appointed by the Ordinary Shareholders' Meeting of 28 April 2016 and its mandate will expire on the approval of the financial statements for 2018.

For the appointment by the Shareholders, two lists were presented: List no. 1 presented by Roma Capitale with three candidates, Corrado Gatti, Rosina Cichello and Lucia Di Giuseppe and List no. 2 presented by the shareholder Fincal SpA with two candidates, Enrico Laghi and Carlo Schiavone.

List no. 1 was voted by 68.94% and List no. 2 by 30.89% of voters. According to the appointments at that Meeting, the Board of Statutory Directors is formed, as described in Table 3, by the components below, a brief professional description of whom is given, in compliance with art. 144-decies of the Issuers' Regulations:

- **Enrico Laghi, Chairman.** Full professor of business economics at "La Sapienza" University of Rome; he is a member of the Institute of Chartered Accountants of Rome and listed on the Register of Certified Auditors;
- **Corrado Gatti, statutory auditor.** Full professor of economics and business management at "La Sapienza" University of Rome. He holds the office of board member, auditor and chairman of the board of auditors of companies and entities. He is advisor on strategic, organisational and financial aspects for several private and public companies. He is a member of the Institute of Chartered Accountants of Rome, and registered in the Register of Certified Auditors and on the Register of Expert Witnesses of the Court of Rome.
- **Rosina Cichello, statutory auditor.** A graduate in economics and business studies from "La Sapienza" University of Rome. She is a member of the Institute of Chartered Accountants of Vibo Valentia and is listed on the Register of Certified Auditors. She is a tax consultant and an auditor for various private companies.
- **Lucia Di Giuseppe, alternative auditor.** A graduate in economics and business studies from "La Sapienza" University of Rome. She is a member of the Institute of Chartered Accountants of Avezzano and Marsica (AQ) and is listed on the Register of Certified Auditors and on the Register of Expert Witnesses of the Court of Avezzano. She provides administrative, commercial, tax and labour law advisory services for joint stock companies, partnerships, professionals and individual entrepreneurs.
- **Carlo Schiavone, alternative auditor.** A graduate in economics and business studies from Rome University. He is a member of the Institute of Chartered Accountants of Rome and is listed on the Register of Certified Auditors. He has held office as statutory auditor for listed companies and important national banking groups.

The auditors have been chosen amongst people who can be qualified as independent and they must act with autonomy and independence, also as regards the shareholders that have elected them. After the appointment of an auditor who qualifies him/herself as

independent, and successively at least once a year, the Board of Statutory Auditors, on the basis of the information provided by the person concerned or however available to Acea, assesses the relations that could, or which could apparently, compromise the independent judgement of said auditor.

The Board in office has regularly verified the existence of the independence requirements pursuant to the law and art. 3 of the Code regarding its effective members, verifying their existence and submitting the outcome of such verifications to the Board.

The Board of Statutory Auditors receives from the administrative body, at the Board of Directors' meetings, information on the activity performed by the Board of Directors, by directly participating in the Board of Directors' meetings and by examination of the material which illustrates the items on the agenda, which it receives in advance in the same format and within the same terms as the documentation received by the Directors.

The Board of Statutory Auditors exercises the powers and performs the duties contemplated by the provisions in force.

The Board of Statutory Auditors, in the performance of its activity, cooperates with the Internal Audit function prevalently by periodic meetings for the illustration of the work plan of the independent monitoring activities and of the results of the main actions carried out during the period.

The Board of Statutory Auditors also cooperates with the Control and Risks Committee, by the participation of the Chairman and/or the Auditors at the meetings.

During the period, the Board of Statutory Auditors held 23 meetings, with an average duration of 1 hour 50 minutes, regularly attended by the statutory auditors, 4 of which together with the Control and Risks Committee.

In 2019, at the date of this Report, the Board of Statutory Auditors has held 2 meetings, with an average duration of approximately 2 hours, one of which held jointly with the Control and Risks Committee.

DIVERSITY CRITERIA AND POLICY

See the contents of paragraph 4.2 of the Board of Directors.

It should be noted that the next Shareholders' Meeting scheduled for 17 April 2019 will appoint the new Board of Statutory Auditors, as the mandate for the current Board is about to expire. Since this is the third application of Italian Law 120/2011, pursuant to the aforementioned law a quota equal of at least one third of the statutory auditors must be reserved for the less represented gender. Therefore, shareholders wishing to present a list for the renewal of the Board of Statutory Auditors bearing a number of candidates equal to or greater than three are required to include a number of candidates belonging to the less represented gender equal to at least one third of the candidates.

15. RELATIONS WITH SHAREHOLDER

Information regarding the Company is precisely and immediately disclosed to the market and to the relative Supervisory Authorities. The information in question is constantly updated and made available on the Company's internet site at www.gruppo.acea.it.

Acea's organisational structure includes an Investor Relations department, which hierarchically reports to the Managing Director, the Manager of which is Ms Elvira Angrisani.

On the approval of the annual, six-monthly and quarterly results of the Business Plan and of the execution of possible extraordinary price sensitive transactions, the Company organises special conference calls with institutional investors and financial analysts.

Conference calls were held in 2018 with the financial community

upon the approval of the company's annual and interim results and more than 100 analysts/investors participated; road-shows were held in the main national and international cities (Rome, Milan, London, Paris, Frankfurt, Geneva and Sydney), during which one-to-one meetings took place as well as presentations to large audiences of more than 140 equity investors, buy side analysts and investors/credit analysts; the Company participated in Utility Conferences organised by Borsa Italia and by the main merchant banks.

In addition, to ensure timely notification to shareholders and Investors, corporate documents, press releases, notices and other information concerning the Group is published on the Company's Internet site (www.gruppo.acea.it) within the terms laid down by the laws in force.

16. SHAREHOLDERS' MEETINGS

(as per art. 123 bis, para. 2, lett. c, TUF)

The organisational regulation for the Shareholders' meeting is contained in the Acea Articles of Association which, in addition to referring to the provisions of law, dedicates Articles 10, 11, 12, 13 and 14 to the Shareholders' Meeting.

As at 31.12.2018 and to date, art. 10 envisages the methods for convening the Shareholders' Meeting, stating in article 10.3

"without prejudice to the powers of convocation contemplated by specific provisions of law, the Shareholders' Meeting, whether ordinary or extraordinary, is summoned by the Board of Directors by a notice containing indication of the day and place of the meeting and the list of matters on the agenda".

Under paragraph 4 of the same article, it is also stated that the Meeting can be held elsewhere than at the registered office, providing it is held in Italy:

"The notice is published on the Company's Internet site, in the Official Journal of the Italian Republic and in the daily newspaper 'Il Sole - 24 Ore' within the terms laid down by the laws in force. The meeting can be summoned also more than twice. The convocation notice can establish that the meeting will be held, on a different day, on second, third or ulterior convocation, if the quorum required by law for its constitution is not reached on the preceding convocation".

Art. 11.1 states that

"The Ordinary Shareholders' Meeting must be held at least once a year for the approval of the financial statements within 120 days from the closure of the financial period, or within 180 days of the said closure in the case of the conditions contemplated by art. 2364 of the Italian Civil Code".

Art. 11.2 states that

"The Extraordinary Shareholders' Meeting is held whenever it is necessary to pass a resolution reserved to the same by law".

Art. 11.3 establishes that

"The Shareholders' Meeting, whether ordinary or extraordinary, is also held when requested by as many Shareholders as represent the percentages contemplated by the laws in force, and the request must specify the items to be discussed, or when requested by the Board of Statutory Auditors or members of the same in the cases contemplated by law.

In addition, as many Shareholders as represent the percentages contemplated by the laws in force may request, in respect of the terms laid down by the laws in force, additions to the subjects to be discussed, indicating in the request the additional items that they propose. The convocation and the addition of items to the agenda at the request of Shareholders are not admitted on matters on which the Shareholders' Meeting is obliged by law to pass resolutions on Directors' proposals or on the basis of a project or a report prepared by the Directors".

Art. 12 of the Articles of Association expressly states that the majorities necessary for the Meeting, whether ordinary or extraordinary, and its resolutions to be quorate are those contemplated by law.

Article 13.1 of the Shareholders' Meeting establishes that *"entitlement to participate in the Shareholders' Meeting and to exercise the right to vote is testified by a communication to the issuer made by the intermediary, in conformity with the accounting evidence, in favour of the subject holding the right to vote, according to the procedures and terms laid down by the laws in force" (the so-called "record date").*

Art. 13.2 provides for the Shareholders entitled to participate in the Meeting to be represented pursuant and according to the procedures of law.

Similarly, the same paragraph of article 13 states that

"with the exception of Roma Capitale or its subsidiaries that have become shareholders, the voting right cannot be exercised, directly or by

proxy, for more than 8% of the share capital".

To this regard, it is necessary to pay attention to art. 6 of the Articles of Association, which, however, provides that:

"with the exception of Roma Capitale and its subsidiaries that have become shareholders, no shareholder may hold a stake of more than 8% of the share capital. In the case of non-observance, the shareholder may not exercise the voting right on the shares in excess of that limit and resolutions adopted with the determining vote of such shares that should not bear voting rights according to this art. 6, can be challenged pursuant to and according to the procedures of art. 2377 of the Italian Civil Code. Shares for which the voting right cannot be exercised are calculated in any case for the purpose of ascertaining that the Meeting is quorate" (art. 6.1 of the Articles of Association).

"The aforesaid limit also applies to stakes held by the group to which each shareholder belongs, i.e.:

- a group formed of natural or legal persons which, directly or indirectly, control, are controlled by or are affiliates of the shareholder;
- a group formed of subjects connected to the shareholder, even if they do not have a corporate form;
- a group formed of natural or legal persons which, directly or indirectly, explicitly or by determining behaviour, have entered into or, in any case, adhere to agreements of the type contemplated by art. 122 of Legislative Decree no. 58/98, if such agreements regard at least 8% of the capital with voting rights.

Control and affiliation, for the purposes of this art. 6, are considered as recurrent in the cases contemplated by art. 2359 of the Italian Civil Code" (art. 6.2 of the Articles of Association).

According to point no. 3 of art. 6, the limit referred to in art. 6, point 1, also applies in the case of:

- "- shares held by members of the shareholder's family, understood as composed of the shareholder, his/her spouse, unless they are divorced, and their cohabiting children and/or children still economically dependent on the shareholder;
- - shares held by a natural or legal person through a subsidiary or a trust or by proxy;
- - shares held directly or indirectly that are restricted by lien or usufruct, if the relative voting rights are held by the lien creditor or the usufructuary;
- - shares subject to repurchase agreement, which will be taken into account with regard to the giver-over and the hedger."

Point 4 of article 6 further establishes that

"anyone that holds Company shares in excess of 8% of the share capital must inform the Company in writing within the twenty days following the transaction which resulted in this limit being exceeded".

Another constraint placed by article 6 in point number 5 is that *"shareholders that have not contributed to the approval of the resolutions regarding the introduction or the removal of restrictions on the circulation of the shares do not have the withdrawal right".*

Art. 13.3 provides that:

"To facilitate the collection of proxies from shareholding employees of the Company, its subsidiaries and affiliates and shareholders' associations, with the requisites contemplated by the relative provisions in force, specific spaces are made available for the communication and the collection of the proxies.

If a proxy is conferred electronically, according to the procedures contemplated by the regulations in force at any moment, said proxy may be communicated via the Company's Internet site according to the procedures specified in the notice of convocation".

On 3 November 2000, the Ordinary Shareholders' Meeting approved the adoption of Regulations (available on the Internet site at www.gruppo.acea.it) that discipline the ordered functioning of the Shareholders' Meeting.

Art. 7. 3 of the said Regulations disciplines the procedures which guarantee the shareholder's right to take the floor on the topics under discussion, and in particular:

"The request to take the floor on the single items on the agenda may be presented to the Chairman (of the Shareholders' Meeting) from the moment the Meeting is constituted until the Chairman of the Meeting declares the discussion on the item closed. In giving the floor, the Chairman of the Shareholders' Meeting normally follows the order of the presentation of the requests for the floor. Each shareholder may take the floor only once on each item on the agenda, and for no more than 10 minutes".

The Board of Directors has reported to the Shareholders' Meeting the activity performed and programmed, thus ensuring that the shareholders are correctly informed on the elements necessary to allow them to take informed decisions on the matters of their competence. The Board of Directors considers the Shareholders' Meeting to be a particularly significant moment for its relations with the shareholders; therefore it makes all efforts, as far as falling within its competence, to encourage and facilitate the broadest participation possible of the shareholders at the Meetings.

In financial year 2018 and to date, no significant changes have taken place in the capitalisation of the Acea shares or in the composition of its corporate bodies that could harm the prerogatives of the minority shareholders.

The number of directors participating in the 2018 shareholders' meeting was 5.

17. OTHER CORPORATE GOVERNANCE PRACTICES (as per art. 123-bis, para. 2, lett. a), TUF)

With a resolution of the Board of Directors dated 10 May 2018, the Tender Supervision Committee was established, its rules being approved on the same date.

The Committee is chaired by the Chairman of the Board of Directors and is composed of the Managing Director, a Board Member chosen from among the Independent Directors, an external Professional with expertise in tenders and administrative law and the Head of the Risk & Compliance function. In the event of absence or impediment, the member chosen from the independent Direc-

tors is replaced by an alternate member appointed by the Board of Directors, again from among the independent Directors.

The Committee remains in office for the duration of the term of office of the Board of Directors that appointed it.

Upon the Chairman's proposal, the Heads of relevant corporate functions or other persons deemed useful for the discussion of the items on the Agenda are invited to participate in the meetings.

The Committee offers proposals and consulting and performs monitoring in the field of tenders

18. CHANGES SINCE THE CLOSURE OF THE FINANCIAL YEAR

The changes that have taken place after closure of the period until this day are described in the specific sections.

19. CONSIDERATIONS ON THE LETTER OF 21 DECEMBER 2018 OF THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE

On 21 December 2018, as part of the monitoring of the implementation of the Code by issuers, the Chairman of the Corporate Governance Committee sent a communication that identifies a series of areas where it would be best to improve compliance with the recommendations of the Code itself.

The recommendations made in the letter were brought to the attention, first and foremost, of the Chairman of the Board of Directors, the Managing Director and the Chairman of the Board of Statutory Auditors (the persons to whom this letter was addressed), and sub-

sequently, on 22 January 2019, to all other directors and auditors.

From the analyses carried out, with the support of the relevant corporate functions, it emerged that the Company is already substantially in line with these suggestions.

For more details, please refer to the contents of the specific sections of the Report, and in particular to section 4 (*"Board of Directors - Operational assessment of the Board of Directors"*), 4.3 (*"Role of the BoD - Operational assessment of the Board of Directors and its Committees"*), 4.6 (*"Independent Directors"*) and 8 (*"Directors' Remuneration"*).

On behalf of the Board of Directors

Chairman
Michaela Castelli

TABLES

TABLE 1: INFORMATION ON THE OWNERSHIP STRUCTURE

SHARE CAPITAL STRUCTURE				
	No. Stocks	% of the share capital	Listed on Borsa Italiana's online stock exchange	Rights and obligations
Ordinary shares	212,964,000	100%	100%	
Shares with limited voting rights	-----			
Actions without voting rights	-----			

OTHER FINANCIAL INSTRUMENTS (attributing the right to subscribe newly issued shares)				
	Listed (specify the markets) / unlisted	N° of instruments in circulation	Share class Service of conversion/exercise/	No. of shares in service Of the conversion/exercise
Bonds Convertible	-----	-----	-----	-----
Warrants	-----	-----		

RELEVANT STAKES From the Consob website of 6 March 2019			
Declarant	% of capital Ordinary		% of capital voting
ROMA CAPITALE	Roma Capitale	51%	51%
SUEZ SA	Suez Sa	10,850%	23,333%
	Suez Italia SpA	12,483%	
CALTAGIRONE FRANCESCO GAETANO	Viapar Srl	0,939%	5,006%
	Fincal SpA	2,677%	
	So.fi.cos. Srl	0,780%	
	Viafin Srl	0,610%	

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES AS AT 31/12/2018

Office	Members	Year of birth	Date First appointment*	In office from	In office until	List (M/m)**	Exec.	Non Exec.
Chairman	Michaela Castelli	1970	27/04/2017	27/04/2017	31/12/2019	M		x
MD	Stefano Antonio Donnarumma	1967	27/04/2017	27/04/2017	31/12/2019	M	x	
Director	Luca Alfredo Lanzalone	1969	27/04/2017	27/04/2017	31/12/2019	M		x
Director	Gabriella Chiellino	1970	27/04/2017	27/04/2017	31/12/2019	M		x
Director	Liliana Godino	1962	27/04/2017	27/04/2017	31/12/2019	M		x
Director	Giovanni Giani	1950	coop. CdA 29/11/2011 Ass. 04/05/2012	27/04/2017	31/12/2019	m		x
Director	Alessandro Caltagirone	1969	27/04/2017	27/04/2017	31/12/2019	m		x
Director	Massimiliano Capece Minutolo Del Sasso	1968	23/04/2015	27/04/2017	31/12/2019	m		x
Director	Fabrice Rossignol	1964	27/04/2017	27/04/2017	31/12/2019	m		x

No. meetings held in 2018: 12

Executive Committee: 6

NOTES

• This symbol indicates the director in charge of the internal control and risk management system.

* The date of first appointment refers to the date on which the director was appointed for the (very) first time as a member of Acea S.p.A.'s BoD.

** This column indicates the list from which each director was taken ("M": majority list; "m": minority list).

*** This column indicates the number of offices that directors or statutory auditors hold in other companies listed on regulated markets, even abroad, in financial, banking and insurance companies or large companies. The offices are explained in full on the last page of the Corporate Governance Report.

(1) This column indicates the directors' participation in the meetings of, respectively, the BoD and committees.

(2) This column indicates the qualification of the Director within the Committee: "P": Chairman; "M": member.

BOARD OF DIRECTORS					Executive Committee			Committee Control and Risks		Appoint. and Remun.		Ethics and Sustainability Committee	
Office	Members	Indep. from Code	Indep. from TUF	No. of other offices***	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)
Chairman	Michaela Castelli			6	12/12	M	6/6	M	12/13			M	
MD	Stefano Antonio Donnarumma			-----	12/12	M	6/6	M					
Director	Luca Alfredo Lanzalone				5/12								
Director	Gabriella Chiellino	x	x	-----	12/12					M	10/11	P	
Director	Liliana Godino	x	x	-----	12/12				12/13	P	11/11		
Director	Giovanni Giani	x	x		12/12	P	6/6	P	13/13	M	9/11	M	
Director	Alessandro Caltagirone	x	x	7	9/12								
Director	Massimiliano Capece Minutolo Del Sasso	x	x	8	12/12	M	6/6	M	13/13	M	11/11		
Director	Fabrice Rossignol	x	x	-----	12/12								
Control and Risks Committee: 13		Appointments and Remuneration Committee: 11					Ethics and Sustainability Committee 8						

TABLE 3: STRUCTURE OF THE BOARD OF AUDITORS AS AT 31/12/2018

BOARD OF AUDITORS Quorum required to present lists upon the last appointment: 1% of voting shares									
Office	Members	Year of birth	Date First appointment*	In office from	In office until	List (M/m) **	Indep. from Code	*** (%)	Number others Assignments ****
Chairman	Enrico Laghi	1969	2010	28/04/2016	31/12/2018	m	x		3
Statutory auditor	Rosina Cichello	1967	2016	28/04/2016	31/12/2018	M	x		---
Statutory auditor	Corrado Gatti	1974	2010	28/04/2016	31/12/2018	M	x		12
Alternate auditor	Lucia Di Giuseppe	1966	2016	28/04/2016	31/12/2018	M	x	N.A.	N.A.
Alternate auditor	Carlo Schiavone	1960	2016	28/04/2016	31/12/2018	m	x	N.A.	17

No. meetings held in 2018: 23

Quorum required to present lists for the election of the Board of Directors (as per art. 147-ter TUF): 1% of voting shares

NOTES

* The date of first appointment refers to the date on which the auditor was appointed for the (very) first time as a member of the issuer's Board of Auditors.

** This column indicates the list from which each auditor was taken ("M": majority list; "m": minority list).

*** This column indicates the participation of the auditors in the meetings of the Board of Auditors.

**** This column indicates the number of offices held as directors or auditors by the subjects concern, pursuant to art. 148-bis of the TUF and of the relative implementation provisions contained in the CONSOB Issuers Regulations. The full list of offices is published by CONSOB on its website in compliance with art. 144-quinquiesdecies of the CONSOB Issuers' Regulations.

TABLE 1. COMPOSITION OF THE ACEA BOARD OF DIRECTORS AND OFFICES HELD BY THE DIRECTORS IN OTHER COMPANIES AS AT 31/12/2018

Position	Name	Position	Other Offices (*)
Chairman	Michaela Castelli	Executive director	Recordati SpA La Doria SpA Stefanel SpA NeXi SpA Autogrill Europe SpA Autogrill Italia SpA
Chief Executive Officer	Stefano Antonio Donnarumma	Executive director	-----
Director	Gabriella Chiellino	Independent director	-----
Director	Luca Alfredo Lanzalone	Director	-----
Director	Liliana Godino	Independent director	-----
Director	Giovanni Giani	Independent director	-----
Director	Alessandro Caltagirone	Independent director	Aalborg Portland Holding A/S Cementir Holding SpA Caltagirone SpA Caltagirone Editore SpA Il Messaggero SpA Vianini Lavori SpA Piemme SpA
Director	Fabrice Rossignol	Independent director	-----
Director	Massimiliano Capece Minutolo Del Sasso	Independent director	Ical 2 SpA Porto Torre SpA Energia SpA G.S. Immobiliare SpA Vianini SpA Immobiliare Caltagirone SpA Fincal SpA Domus Italia SpA

(*) List of offices held as director or auditor by each Board Director in other companies listed on regulated markets, also abroad, in financial, banking and insurance companies or companies of relevant dimensions.

2018

FINANCIAL STATEMENTS OF ACEA SPA

ACEA GROUP CONSOLIDATED FINANCIAL STATEMENTS

Acea SpA

Registered Office
Piazzale Ostiense 2 – 00154 Roma

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Rome Companies Registry No.**

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