

The image shows a complex industrial facility with large stainless steel tanks, pipes, and machinery. A semi-transparent blue circle is overlaid on the right side of the image, containing the text. The background is a blurred view of the industrial equipment, with a prominent horizontal pipe in the center. The overall color palette is dominated by blues and greys, with the white text providing a sharp contrast.

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	Consorcio Servicio 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 Mezzocammio 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.

(€ 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.

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

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	By 31.12.2019	Due from 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.

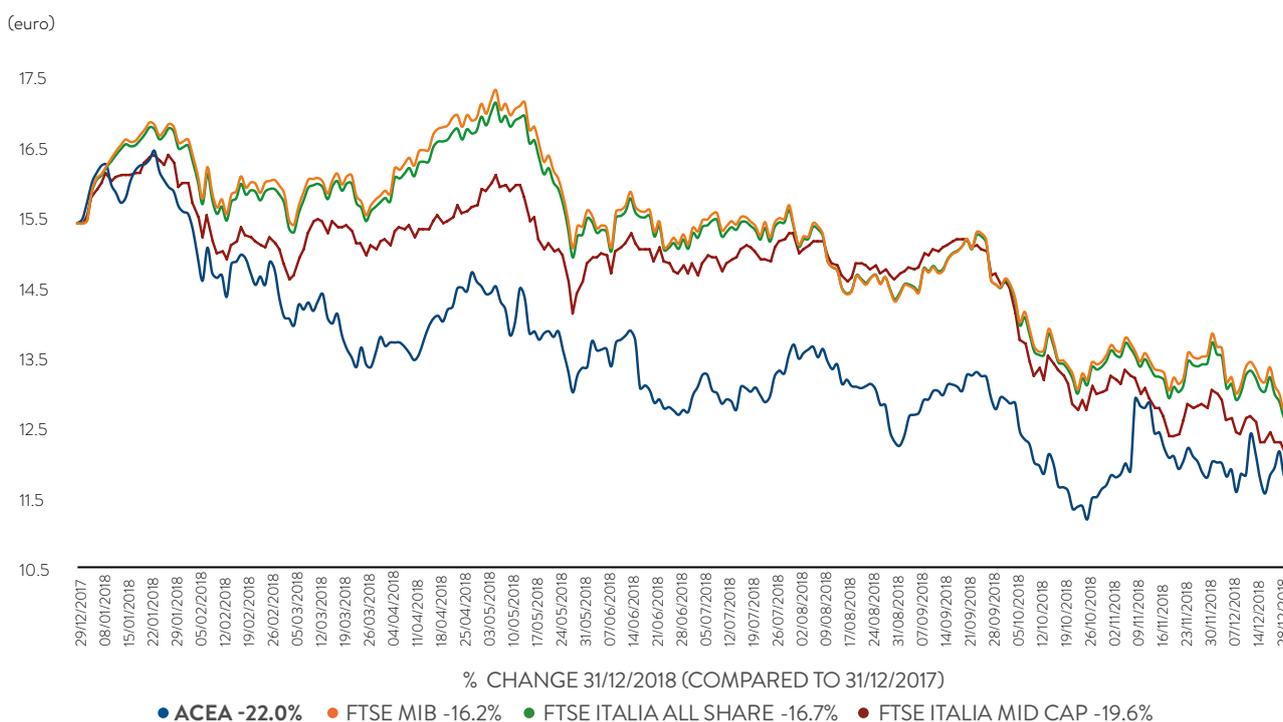
PERFORMANCE OF THE EQUITY MARKETS AND THE ACEA SHARE

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



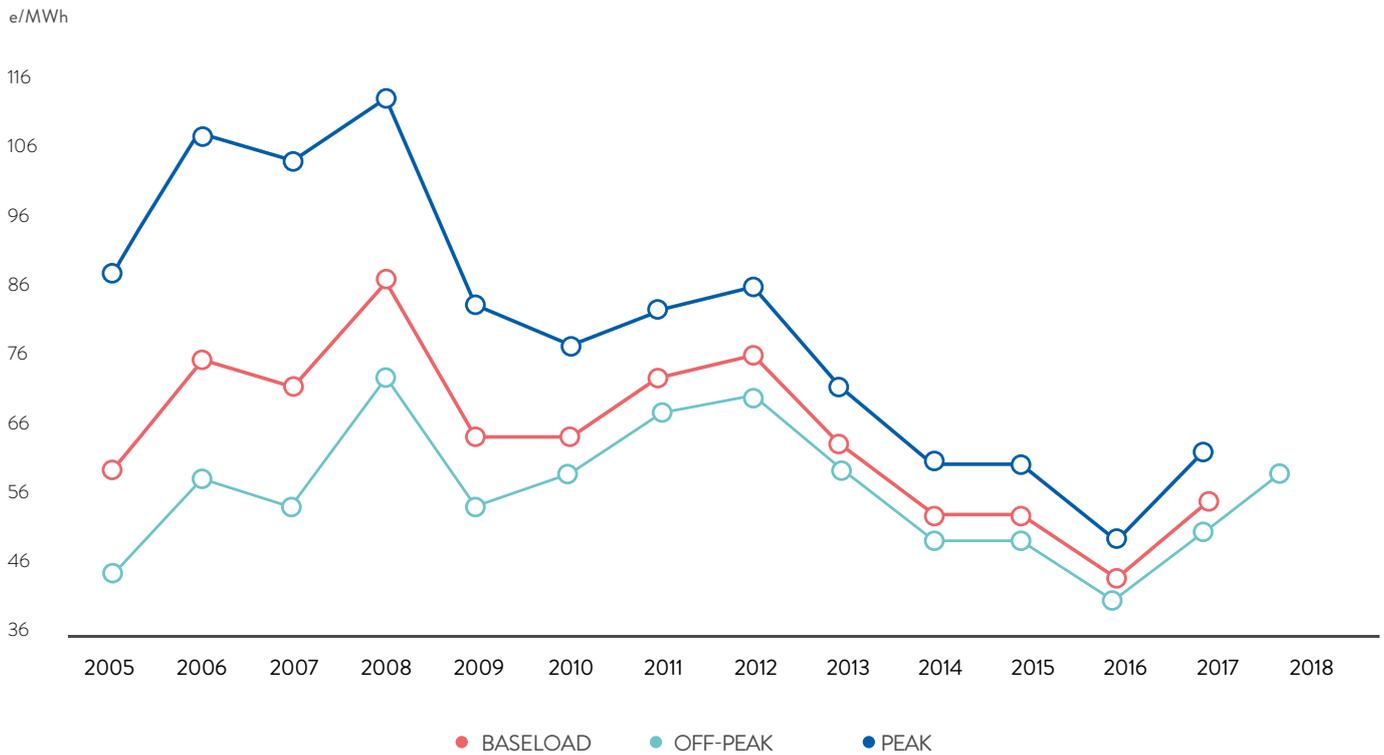
During 2018, the average energy purchase price (PUN) recorded an average value of € 61.31/MWh, up by € 7.36/MWh compared to 2017 (+ 13.6%). The analysis by groups of hours during 2018 showed more intense increases in off-peak hours, where an increase of + 7.93 €/MWh (+ 16.0%) was observed in off-peak

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



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



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 SGAtE. 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 SGAtE 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 SGAtE system (based on web services) and the method of interaction between the water manager and the SGAtE 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/ldr (biennial update of the tariffs for integrated water service) and against Annex A of resolution 664/2015/R/ldr, as amended by the aforementioned resolution 918/2017/R/ldr.

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;
- DISPBT: 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/II/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 %
<i>of which</i>					
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 **Aquasaver** (- € 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	31/12/18	31/12/17	Change	% Change
€ million				
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)	2018	2017	Change	% Change
€ million				
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 TERNIA. 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 Alcantarado 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 **Consorcio 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 **Consorcio 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.

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.

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.

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), Publicacqua 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 ta-

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 TICS1 (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 Opx_{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_{qc} 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-

ember 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, and 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

