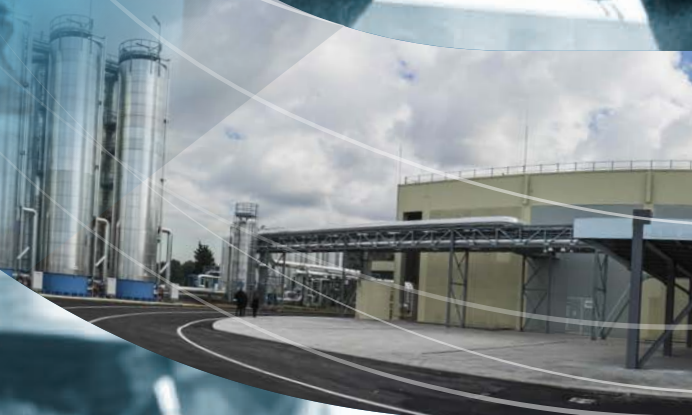


2017

FINANCIAL STATEMENTS
OF ACEA SPA

ACEA GROUP CONSOLIDATED FINANCIAL STATEMENTS



acea

2017

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acea

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LETTER TO SHAREHOLDERS

Dear Shareholders,

the financial year ended 31 December 2017 was characterised by a high rate of discontinuity compared with the recent past. Indeed, the guidelines that accompanied the appointment of the current company management draw a strategy aimed at returning, to your Company, its typical mission: that of a multiutility with a strong business vocation.

The priority must be the creation of value and values, the first among these being the pursuit of the highest qualitative level of services provided to customers and citizens, keeping in mind the path to be taken to achieve this goal. Infrastructure investments are by far the most significant element. Profitability, rationalisation of management costs and ever-increasing efficiency in the provision of the service to users are also the expected short-term effects.

The way forwards was clear from the start. On 28 July 2017, only two months after the establishment of the Board of Directors, the 2018-2022 Strategic Guidelines were presented to the markets and, at the end of November, these guidelines were expressed, structured and incorporated into the new 2018-2022 Business Plan. This is a key point, worth going into in further detail, in order to be able to focus now on the results achieved by your Company in 2017.

Firstly, it should be noted that all the main economic and financial figures are substantially in line, if not higher – as in the case of EBITDA – than those periodically reported to the markets during the year.

In general, the entire financial statements are heavily influenced by both previous decisions made and by extraordinary items, so much so that, on an adjusted basis, consolidated revenues, the aforementioned EBITDA and the net profit of the Group are higher than those of 2016, except for EBIT, which is slightly lower (-2%).

Therefore, if the net profit amounts to approximately €181 million, by not taking into account the non-recurring items, said net profit amounts to over €214 million, thus 2% higher than the same item relating to financial year 2016.

In this specific case, the impact of these non-recurring items accounts for €46 million, with an impact of €33 million on the net profit. Added to these are €52 million of higher amortisation and depreciation, as the main result of investments in information technology, which have, as is well known, a significantly shorter useful life.

It should be noted that, in 2017, the amount of investments increased, albeit only slightly, from €531 million to €532 million, with a further improvement compared with the record result of the previous year, favouring, especially in the second half of the year, those of an infrastructural nature.

Amongst them all, we hereby highlight those carried out in the Water Sector for over €271 million, finalised, for a significant portion, to mitigate, through extraordinary maintenance interventions on the water distribution network, the effects of an entire year, 2017, characterised by very high peaks of drought that drastically reduced the available resources.

A crisis that lifted the veil over the real situation regarding water stress and the effects of now full-blown climate change on both a national and global level, which forces us to abandon an – although effective – emergency-based management approach, to direct ourselves towards a broader and longer-term vision, that enables us to put in place every possible solution to deal with the serious status of water resources.

In fact the new Business Plan already responds, through a complex and bold planning of investments and actions, to many of the needs dictated by the new context that has been outlined, also favouring a greater reactivity by the company towards not entirely foreseeable changes.

The current and future scenario is undoubtedly difficult, but also constitutes a source of opportunity for a company whose ambition is to grow, by both acquiring market shares and territory in its own country and by promoting its excellence across the borders via different initiatives, but with the common objective of presenting Acea as a benchmark technological partner for parties called to deal with problems relating, in particular, to the water sector.

Technology, innovation and quality are among the four pillars of this Business Plan and shall be for subsequent Business Plans, along with the speed factor, which is common to all strategies and activities, but essentially compared with the ability to read and oversee the technological or climatic transformation in progress.

In terms of innovation, the impetus given to the integration of sustainability in the Group's business strategies is of major importance amongst the elements introduced in this Company following the establishment of the current Board of Directors.

The concurrence between the times and similarities between the im-



plementation methods of the 2018–2022 Sustainability Plan with the preparation of the new Business Plan, which evolves over the same period of time, represent the almost tangible testimony of two processes, which currently follow a univocal path and logic in pursuit of the same final result.

This is so true that, during the presentation of the Business Plan to the markets, our intention was to also dedicate space to describing the major objectives set out in the Sustainability Plan and we were able to report that, out of the €3 billion plus worth of investments expected by the former, as much as €1.3 billion pursue - through operations - the sustainable objectives outlined by the latter.

It is of equal importance to highlight how the operational objectives are accompanied by governance objectives, also aimed at promoting the progressive integration of sustainability, acting on the governance of your Company, so that it implements conduct that is consistent with the most widespread best practices and with the principles and guidelines expressed by the Self-Discipline Code established by Borsa Italiana.

An immediate reflection of the importance of these issues is represented, in terms of the adjustment of the Holding's organisational structure, by the creation ex novo of the Risk & Compliance Department, whilst, in terms of governance, the Ethics Committee was converted into the Ethics and Sustainability Committee, which has exclusively internal members, with the participation of only non-executive and mostly independent Board Directors.

As of this year, the approval of the first Non-Financial Statement relating to 2017 - which, for your Company is consolidated by the major listed companies - has also become mandatory. The Acea Board of Directors took this step at its meeting of 14 March 2018.

Within the Acea Group, this document is identified substantially with the Sustainability Report, which, this year, is in its 20th edition. This is a tool, to which reference is evidently made, aimed at providing, according to a highly transparent approach, an extraordinary amount of information, ordered by following the most widespread reporting Standard - the GRI - so as to ensure a full understanding of the activities carried out by the Group Companies and the impacts produced by such activities.

The Company Management as set high and challenging objectives. The reference shareholders and markets, as the testified by the share, have been shown to appreciate the decisions made.

The Group is now called to an extraordinary operational, focussed and, at the same time, long-term effort and, to achieve it, the contribution and passion of all is therefore required, of men and women who are hopefully associated with it not only by a simple employment contract, but also by a strong sense of pride and belonging. The Board of Directors sincerely thanks all those people and urges them to always do their best, even better.

The Chief Executive Officer
Stefano Antonio Donnarumma

The Chairman
Luca Alfredo Lanzalone

ACEA YESTERDAY, TODAY AND TOMORROW

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

THE ACQUISITION OF THE WATER SERVICE

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

THE COMPANY'S PLANS FOR THE CITY

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

1909
1919

1920
1929

1930
1939

1940
1949

1950
1959

1960
1969

POWER STATIONS

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

MUNICIPAL ELECTRICITY AND WATER COMPANY

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

WATER SERVICE MANAGEMENT CONSOLIDATION

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



THE RESTORATION OF THE SUBURBAN AREAS OF ROME

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

LISTING ON THE STOCK EXCHANGE

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

DIGITAL SERVICES

The Work Force Management (WFM) system, a digital computer platform that enables the real-time coordination and monitoring of all Acea Group's activities was introduced. The new website, acea.it, was launched, designed to improve the quality and effectiveness of interactions with customer for water, electricity and gas services, thanks to the creation of the private MyAcea area for users online management, without needing to go to the information desk.

1970
1979

1980
1989

1990
1999

2000
2009

2010
2016

2017

PURIFICATION AND COGENERATION

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

NEW WATER MANAGEMENT BUSINESS ACQUISITION

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

A NEW IDENTITY

Acea identifies the foundations and strategic objectives on which to base its growth path through the Business Plan 2018-2022. A strong boost is given to infrastructural investments, in both the water and electricity sectors. Resilient technology and innovation, with a specific focus on sustainable development, the environment and people. The restyling of the logo projects Acea into the digital world.

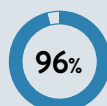


GROUP STRUCTURE

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



WATER



ACEA ATO 2



UMBRIADUE
SERVIZI
IDRICI



GESESA



ACEA ATO 5



OMBRONE
> 40% ACQUED.
DEL FIORA



G.E.A.L.



SARNESE
VESUVIANO
> 37% GORI



ACQUE BLU
ARNO BASSO
> 45% ACQUE



UMBRA
ACQUE



CREA
GESTIONI



ACQUE BLU
FIORENTINE
> 40% PUBLIACQUA



INTESA
ARETINA
> 46% NUOVE ACQUE



ENERGY INFRASTRUCTURE



ARETI



ACEA
ILLUMINAZIONE
PUBBLICA



ACEA
PRODUZIONE



ECOGENA



ENERGY COMMERCIAL AND TRADING



ACEA ENERGIA
> 50% UMBRIA
ENERGY



ACEA8CENTO



ACEA ENERGY
MANAGEMENT



ENVIRONMENT



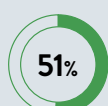
ACEA
AMBIENTE



AQUASER



ISECO



ACQUE
INDUSTRIALI



ECOMED



OVERSEAS



ACEA
INTERNATIONAL
> 100% ACEA
DOMINICANA
> 61% AGUAS
DE SAN PEDRO



AGUAZUL
BOGOTÁ



CONSORCIO
AGUA AZUL



ENGINEERING AND SERVICES



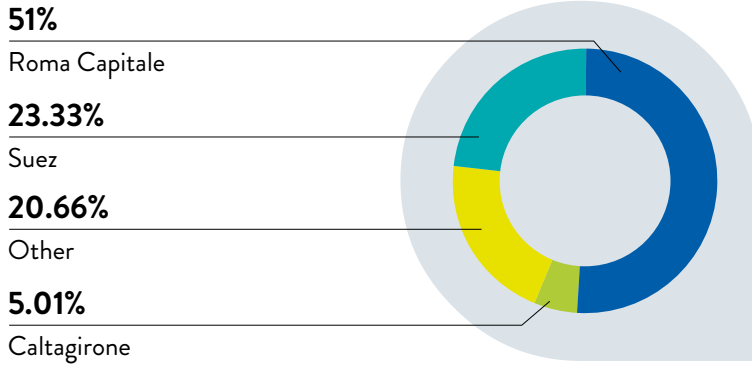
ACEA
ELABORI



TECHNOLOGIES
WATER
SERVICES

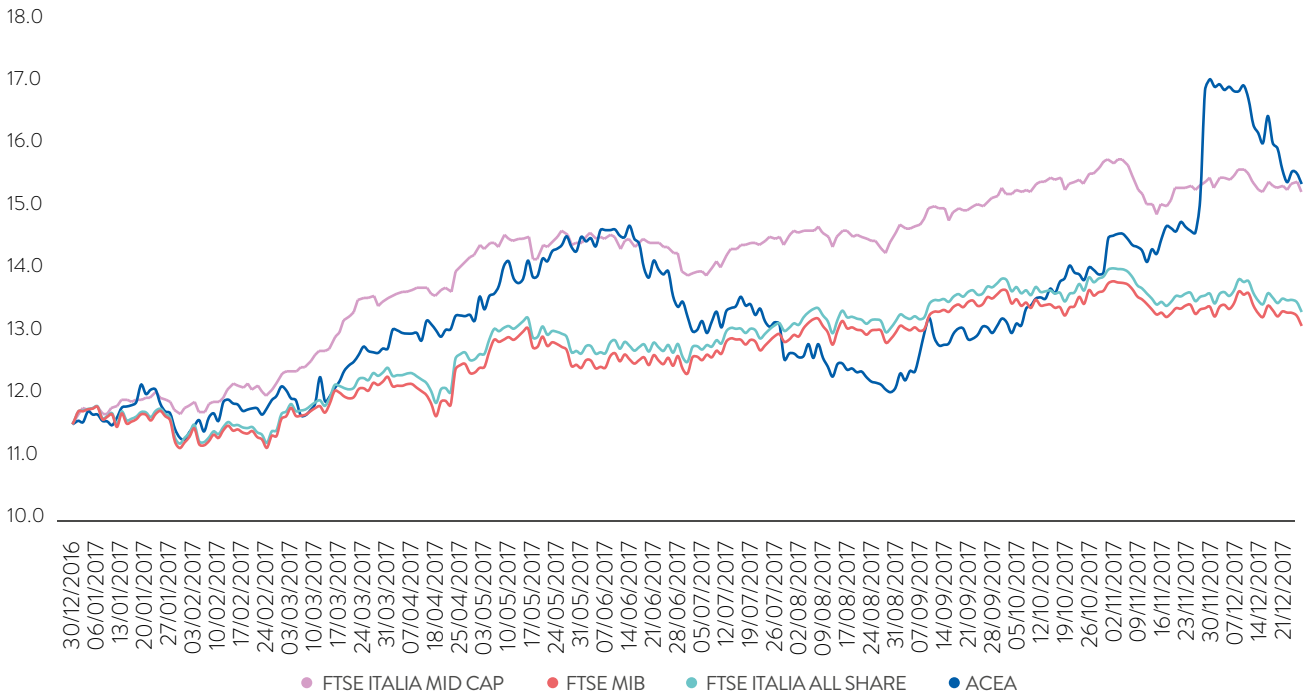
INVESTOR RELATIONS

AS AT 31 DECEMBER 2017, ACEA SPA SHARE CAPITAL WAS COMPOSED AS FOLLOWS:



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

COMPARISON BETWEEN THE ACEA STOCK AND STOCK EXCHANGE INDICES



(Source: Bloomberg)

CORPORATE HIGHLIGHTS



WATER

LEADING OPERATOR

in Italy in water services

With **9 million**

inhabitants served in Lazio, Tuscany, Umbria and Campania



ENERGY INFRASTRUCTURE

ONE OF THE MAIN

operators in Italy in energy distribution

With **10 billion kWh**

of electricity distributed



ENERGY COMMERCIAL AND TRADING

ONE OF THE MAIN

national operators in the energy market

With **6.8 billion kWh**

of electricity sold



ENVIRONMENT

FOURTH OPERATOR

in Italy in Waste Management

With **1,077,000 t**

of waste disposed of and treated



OVERSEAS

PRESENT WITH

4 companies operating in water services

3 million

inhabitants served in Latin America



ENGINEERING AND SERVICES

TWO DEDICATED COMPANIES

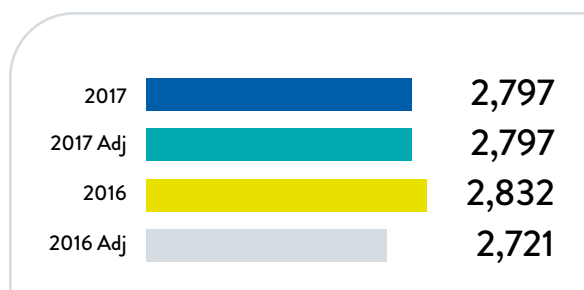
420,011 drinking water analyses

215,377 wastewater analyses

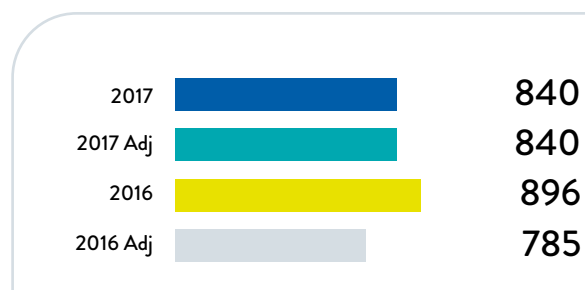
FINANCIAL HIGHLIGHTS

Monetary figures in million of euros

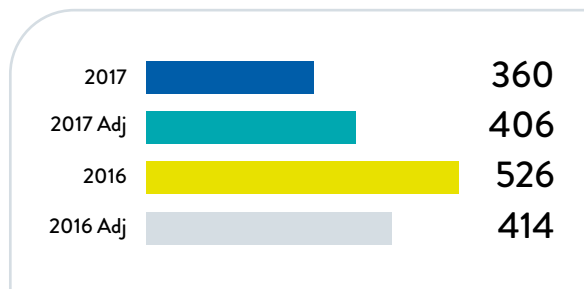
CONSOLIDATED REVENUES



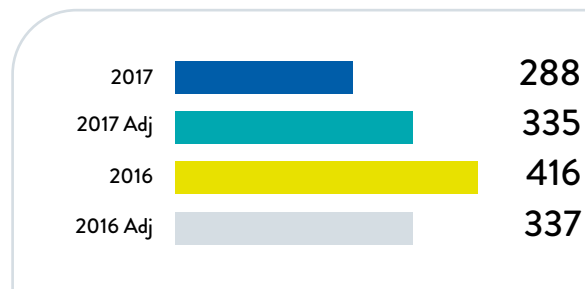
EBITDA



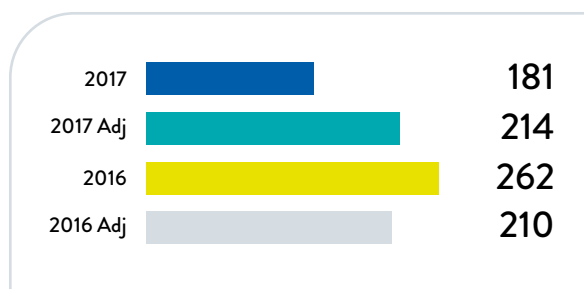
EBIT



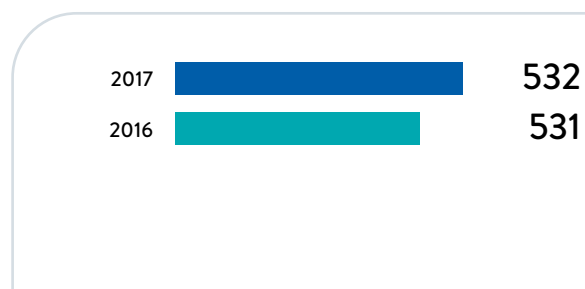
EARNINGS BEFORE TAX



NET PROFIT OF THE GROUP



GROUP INVESTMENTS



The adjusted economic data do not include:

- for 2017, the no recurring negative effects totalling €46 million gross of tax;
- for 2016, the positive effect (€111 million gross of tax) resulting from the so-called regulatory lag and the negative effect resulting from the repurchase transaction of a portion of the bonds issued (€32 million gross of tax).

THE ORGANISATIONAL MODEL

Acea has adopted an operating model based on an organisational structure that is founded on the Strategic Business Plan, based on the strengthening of the role of governance, direction and control of the Holding that is carried out, in addition to the current business portfolio, the areas of greatest value creation and the Group's strategic development in new businesses and territories. Acea's macrostructure is divided into corporate departments and six business areas: Water, Energy Infrastructure, Energy Commercial and Trading, Environment, Overseas and Engineering & Services. Below are the main economic and financial indicators of the six business areas.

Monetary figures in million of euros

EBITDA 2017
€840 m

76%

FROM REGULATED ACTIVITIES

24%

FROM UNREGULATED ACTIVITIES



WATER

The Acea Group is the leading Italian operator in the water sector. It manages integrated water services, monitoring the entire drinking water and wastewater cycle, in Rome, Frosinone and in the respective provinces and is present in other areas of Lazio, in Tuscany, Umbria and Campania. Its sustainable management of water and respect for the environment complete the quality of services provided.

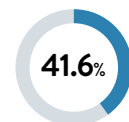
LEADING NATIONAL OPERATOR

- Drinking water distributed: 715 Mm³
- Customer: nearly 9 million
- Planning, development, construction and management of integrated water services

EBITDA +4.1%



INVESTMENTS +19.5%



41.6%
of consolidated EBITDA



ENERGY INFRASTRUCTURE

Acea generates energy mainly by hydroelectric power stations and residually via combined cycle and photovoltaic thermoelectric plants. It distributes 10 TWh of energy in the city of Rome, where it manages public and artistic-monumental lighting. The industrial area is characterised by a digital and innovative development of services, with a resilient management of networks.

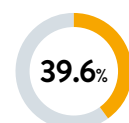
ONE OF THE MAIN OPERATORS IN ITALY

- Electricity distributed: 10 TWh in the city of Rome
- Energy generation: 426 GWh
- Rome public and artistic lighting management: over 224,400 street lights
- Energy efficiency projects

EBITDA -14.3% (EBITDA ADJ +20.2%)



INVESTMENTS -7.3%



39.6%
of consolidated EBITDA



ENERGY COMMERCIAL AND TRADING

The Acea Group is one of the key national players in the sale of electricity and offers innovative and flexible solutions for supplying electricity and natural gas, with the aim of consolidating its position as a dual fuel operator.

ONE OF THE MAIN OPERATORS IN ITALY

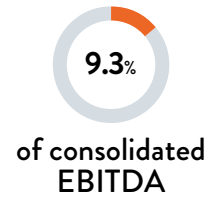
• Electricity sold: ~ 6.8 TWh

• Customers: 1.4 million

EBITDA -20.3%



INVESTMENTS -29.3%



OVERSEAS

The Area currently includes the water companies that manage the water service in Latin America. Specifically in Honduras, Dominican Republic, Colombia and Peru, serving approximately 3 million people. The activities are carried out in partnership with local and international partners, including through staff training and the transfer of know-how to local entrepreneurs.

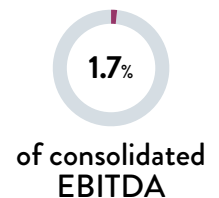
• Drinking water distributed: 128 Mm³

• Water management in Latin America

EBITDA n.s.



INVESTMENTS



ENVIRONMENT

For over 10 years, Acea has been present in the Waste Management business, especially in waste disposal and waste-to-energy development. It is confirmed as one of the key national players and reference operator for Central Italy, with approximately 1 million tonnes of waste treated per year. Its activities include: disposal, waste-to-energy, composting and biogas, sewage sludge treatment and liquid waste.

FOURTH OPERATOR IN ITALY

Umbria, Lazio and Tuscany

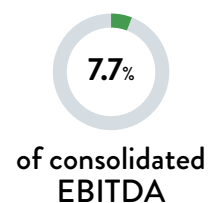
• Waste treated: 1,077,000 Tonnes

• Electricity generated (WTE): 384 GWh

EBITDA +12.6%



INVESTMENTS -54.8%



ENGINEERING AND SERVICES

The Group has state-of-the-art know-how in the planning, construction and management of integrated water systems; it develops applied research projects, aimed at technological innovation in the water, environmental and energy sectors. Particular importance is dedicated to laboratory services (analytical controls) and to engineering consultancy.

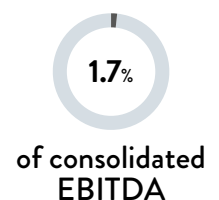
• Analytical determinations on water intended for human consumption: 420,011

• Laboratory analysis on wastewater: 215,377
• Number of on-site inspections: 8,884

EBITDA n.s.

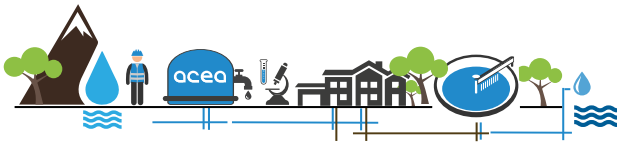


INVESTMENTS n.s.



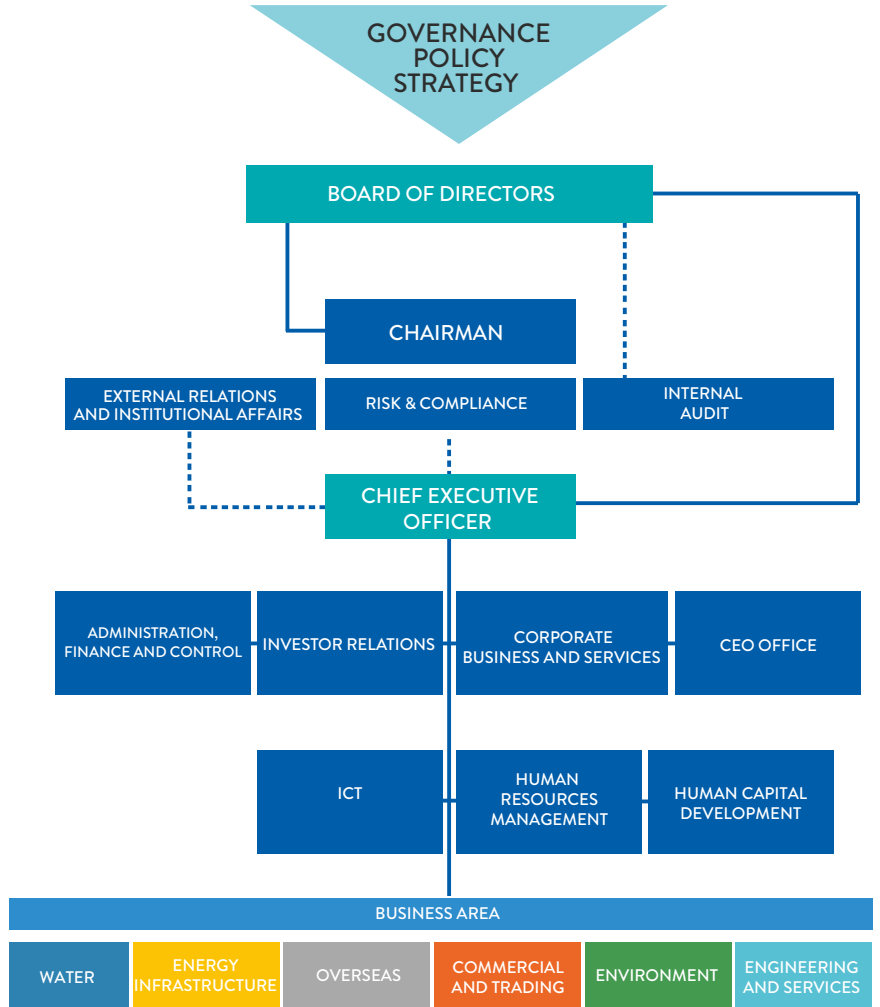
THE ACEA BUSINESS MODEL

A WATER SUPPLY CHAIN: INTEGRATED WATER SERVICE



SCENARIO:
national policies, market,
economy, innovation, sustainability, etc.

NATURAL ENVIRONMENT



regulatory evolution, sector regulation,
mega trends (social, environmental situation), etc.

B ENVIRONMENT SUPPLY CHAIN: CIRCULAR ECONOMY



A WATER SUPPLY CHAIN: INTEGRATED WATER SERVICE

The water supply chain starts with the resource collection phase: water required by the network serving the communities is collected from the sources and strata existing in the region. The quality of the water resource is monitored and guaranteed by Acea, throughout its entire journey, to comply with the regulatory standards set for its end uses. Subsequently, the waste collection and purification phase is initiated, to recover and return the resource to the environment in the best possible conditions to return it to its natural cycle.

B ENVIRONMENT SUPPLY CHAIN: CIRCULAR ECONOMY

Waste-to-energy and circular economy: the aim of the environment supply chain is waste-to-energy development, through conversion into biogas and secondary solid fuel (SSF) for use in the energy generation process, or through conversion into compost for agriculture and floriculture. Specifically, Acea, with a view to circular economy, exploits the integration of water activities to recover sludge from the purification process and treat it for composting purposes.

C ENERGY SUPPLY CHAIN: TRADING AND SALES

Energy and gas sales: the purchase of commodities (energy and gas) takes place by trading on market platforms (Power Exchange), where retailers, such as Acea Energia, based on their respective trade policies, procure supplies to re-supply customers. In Italy, the demand market is divided into two large sectors: the largest protection market, which, to date, still characterises the domestic market and which will cease in 2019 and the free market, where each customer can choose their preferred supplier and related services. Sales companies develop relationships with customers based on their type, through increasingly innovative and digital contact channels, whilst keeping traditional tools active, such as a telephone line and branches that can be accessed by the public. To promote their products, sales companies use specially selected sales agencies that are trained and monitored in the commercial practices put in place.

D ENERGY SUPPLY CHAIN: PRODUCTION AND DISTRIBUTION INFRASTRUCTURE

Electricity generation and distribution: Acea generates energy mainly at hydroelectric power stations and residually via combined cycle thermoelectric plants (gas) and photovoltaic plants. Users receive electricity thanks to the distribution network managed and developed by Acea. The digital and innovative development of services, driven and demanded by an increasingly evolved market, commits the Distributor to direct itself towards smart city-based solutions. This is accompanied by a resilient management of the networks, which may support the future movement and increased use of electric vehicles.

C ENERGY SUPPLY CHAIN: TRADING AND SALES



STAKEHOLDERS

D ENERGY SUPPLY CHAIN: PRODUCTION AND DISTRIBUTION INFRASTRUCTURE







REPORT
ON OPERATIONS

CORPORATE BODIES

Board of Directors¹

Luca Alfredo Lanzalone	Chairman
Stefano Antonio Donnarumma	CEO
Alessandro Caltagirone	Director
Massimiliano Capece Minutolo Del Sasso	Director
Michaela Castelli	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

Responsible Officer²

Giuseppe Gola

Independent Auditors¹

PricewaterhouseCoopers SpA

¹ Appointed by the Shareholders' Meeting of 27 April 2017

² Appointed by the Board of Directors of Acea on 3 August 2017 with effect from 1 September 2017

SUMMARY OF RESULTS

Economic data

€ million	2017	2016	Change	Change %
Consolidated revenues	2,797.0	2,832.4	(35.4)	(1.3%)
Consolidated operating costs	1,983.9	1,965.4	18.4	0.9%
Income/(Costs) from equity investments of a non-financial nature	26.9	29.3	(2.5)	(8.5%)
- of which: EBITDA	149.6	146.4	3.1	2.1%
- of which: Amortisation, depreciation, provisions and impairment charges	(100.9)	(94.5)	(6.4)	6.8%
- of which: Financial Management	(6.8)	(7.3)	0.5	(6.9%)
- of which: Cost income from equity investments	-	-	-	(100.0%)
- of which: Taxes	(15.1)	(15.3)	0.2	(1.6%)
Income (Costs) from commodity risk management	-	-	-	0.0%
EBITDA	840.0	896.3	(56.4)	(6.3%)
EBIT	359.9	525.9	(166.1)	(31.6%)
Net Profit	192.2	272.5	(80.3)	(29.5%)
Profit/(loss) attributable to minority interests	11.5	10.2	1.3	13.0%
Net Group result	180.7	262.3	(81.7)	(31.1%)

Adjusted economic data³

€ million	2017	2016	Change	Change %
Gross operating margin (EBITDA)	840.0	784.8	55.2	7.0%
Operating profit (EBIT)	406.2	414.4	(8.2)	(2.0%)
Pre-tax profit (EBT)	334.6	336.6	(2.1)	(0.6%)
Net profit (NP)	226.2	220.7	5.5	2.5%
Net Group Profit	214.5	210.5	4.1	1.9%

EBITDA per operating segment

€ thousand	2017	2016	Change	Change %
ENVIRONMENT	64.5	57.2	7.2	12.6%
COMMERCIAL AND TRADING	78.1	98.0	(19.9)	(20.3%)
OVERSEAS	14.4	4.4	10.0	n.s.
WATER	349.6	336.0	13.6	4.1%
Integrated Water Service	349.2	335.4	13.8	4.1%
Lazio - Campania	327.6	313.4	14.2	4.5%
Tuscany - Umbria	21.5	22.0	(0.4)	(1.9%)
Other	0.5	0.6	(0.1)	(21.9%)
ENERGY INFRASTRUCTURE	332.6	388.3	(55.7)	(14.3%)
Distribution	287.3	353.3	(66.0)	(18.7%)
Generation	40.8	32.0	8.8	27.6%
Public Lighting	4.4	3.0	1.5	48.8%
ENGINEERING AND SERVICES	14.5	14.6	(0.1)	(0.4%)
ACEA (CORPORATE)	(13.7)	(2.1)	(11.6)	n.s.
TOTAL EBITDA	840.0	896.3	(56.4)	(6.3%)

³ Adjusted economic data does not include:

- for 2017 adverse effects - totalling €46.4 million gross of tax effect - produced:
 - for € 9.5 million from the sentence that determined the reintroduction in property of Autoparco
 - for €15.7 million from the reduction of the value of the loan by areti to GALA
 - for €6.4 million from the reduction of the value of the loan to ATAC
 - for €12.2 million from the devaluation of the assets of Acea Ambiente and Acea Produzione as a result of the impairment test
 - for €2.6 million from the provision made by areti for rental fees.
- for 2016 the positive effect (€111.5 million gross of the tax effect) following the elimination of the regulatory lag and the negative effect resulting from the repurchase operation of part of the bonds issued (€32.1 million gross of the tax effect).

Equity data

€ million	31/12/2017	31/12/2016	Change	Change %
Net Invested Capital	4,244.9	3,884.9	360.1	9.3%
Net Financial Debt	(2,421.5)	(2,126.9)	(294.6)	13.9%
Consolidated Shareholders' Equity	(1,823.2)	(1,757.9)	(65.3)	3.7%

Adj. Balance Sheet Figures⁴

€ million	31/12/2017	31/12/2016	Change	Change %
Net financial debt (NP)	2,325.1	2,126.9	198.2	9.3%

Net Financial Debt per Operating Segment

€ million	31/12/2017	31/12/2016	Change	Change %
ENVIRONMENT	195.3	173.7	21.6	12.4%
COMMERCIAL AND TRADING	(4.9)	14.8	(19.7)	(133.5%)
OVERSEAS	7.4	12.9	(5.5)	(42.9%)
WATER	921.2	780.4	140.8	18.1%
Integrated Water Service	930.1	783.5	146.6	18.7%
Lazio - Campania	939.3	783.5	155.8	19.9%
Tuscany - Umbria	(9.2)	0.0	(9.2)	n.s.
Other	(8.9)	(3.1)	(5.8)	185.9%
ENERGY INFRASTRUCTURE	1,032.9	814.9	218.0	26.8%
Distribution	905.4	693.3	212.1	30.6%
Generation	121.7	123.6	(1.8)	(1.5%)
Public Lighting	5.8	(2.0)	7.8	n.s.
ENGINEERING AND SERVICES	12.3	(1.8)	14.1	n.s.
ACEA (Corporate)	257.3	332.1	(74.8)	(22.5%)
TOTAL	2,421.5	2,126.9	294.6	13.9%

Investments per operating segment

€ million	31/12/2017	31/12/2016	Change	Change %
ENVIRONMENT	15.4	34.0	(18.6)	(54.8%)
COMMERCIAL AND TRADING	19.4	27.4	(8.0)	(29.3%)
OVERSEAS	5.2	1.5	3.7	n.s.
WATER	271.4	227.1	44.3	19.5%
Integrated Water Service	271.4	226.5	44.9	19.8%
Lazio - Campania	271.4	226.5	44.9	19.8%
Tuscany - Umbria	0.0	0.0	0.0	n.s.
Other	0.0	0.7	(0.6)	(94.4%)
ENERGY INFRASTRUCTURE	209.4	225.8	(16.4)	(7.3%)
Distribution	185.7	196.6	(10.9)	(5.5%)
Generation	23.1	27.9	(4.8)	(17.1%)
Public Lighting	0.6	1.3	(0.7)	(52.5%)
ENGINEERING AND SERVICES	0.8	1.8	(0.9)	(53.0%)
ACEA (Corporate)	10.7	13.2	(2.5)	(19.1%)
TOTAL	532.3	530.7	1.5	0.3%

⁴ The adjusted net financial debt does not include, for 2017, the impact of the GALA affair (€30 million), that related to ATAC (€6 million), as well as the effects arising from the split payment (€60 million).

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

Definition of alternative performance indicators

On 5 October 2015, the ESMA (European Security and Markets Authority) published its own guidelines (ESMA/2015/1415) on the criteria for the presentation of the alternative performance indicators, which replaced the recommendations of CESR/05-178b as of 3 July 2016. These guidelines have been acknowledged in our system by Notification no. 0092543 of 3 December 2015 emanated by CONSOB. The content and meaning of the non-GAAP measures of performance and other alternative performance indicators used in these financial statements are illustrated below:

for the Acea Group, *gross operating profit* is an operating performance indicator and as of 1 January 2014, includes the summary result of the joint ventures for which the consolidation method has been changed as a consequence of the entry into force of international accounting standards IFRS10 and IFRS11. The *gross operating profit* is the sum of *Operating profit* and “Amortisation, depreciation, provisions and impairment charges” as they are the main non-cash items. It must be noted that the adjusted economic data does not include the positive effect as a result of the elimination of the so-called *regulatory lag*, the effects as a result of the buyback of a portion of the bonds issued as well as, for 2017 the negative effect due to return to owner-

ship of the property Autoparco (following the sentence delivered in June), that arising from the exposure assessment of areti to GALA and the Group to ATAC, write-downs of some assets operated on Acea Ambiente and on Acea Produzione as well as a provision operated on areti rental fees;

1. 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 (loans and receivables and securities other than equity investments), Current borrowings and Other current liabilities net of Current financial assets, Cash and cash equivalents. It is specified that the adjusted net financial position does not include the impact arising from the GALAL affair, that relating to ATAC and the effects of the application of the split payment;
2. *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*;
3. *net working capital* is the sum of the current receivables, inventories, balance net of other current assets and liabilities and current payables, excluding the items considered in the calculation of the *net financial position*.

SUMMARY OF RESULTS: ECONOMIC RESULTS PERFORMANCE

Economic data

€ million

	2017	2016	Change	Change %
Revenue from sales and services	2,669.9	2,708.6	(38.8)	(1.4%)
Other revenues and income	127.1	123.8	3.3	2.7%
External costs	1,768.6	1,766.2	2.4	0.1%
Personnel costs	215.2	199.2	16.0	8.0%
Net income/(costs) from commodity risk management	0.0	0.0	0.0	0.0%
Income/(Costs) from equity investments of a non-financial nature	26.9	29.3	(2.5)	(8.5%)
Gross Operating Margin	840.0	896.3	(56.4)	(6.3%)
Amortisation, Depreciation, Provisions and Impairment Charges	480.1	370.4	109.7	29.6%
Operating Profit	359.9	525.9	(166.1)	(31.6%)
Financial Management	(72.0)	(111.6)	39.6	(35.5%)
Equity investment management	0.3	1.7	(1.4)	(84.8%)
Profit/(loss) before tax	288.2	416.1	(127.9)	(30.7%)
Income tax	96.0	143.5	(47.6)	(33.1%)
Net Profit	192.2	272.5	(80.3)	(29.5%)
Profit/(loss) attributable to non-controlling interests	11.5	10.2	1.3	13.0%
Net profit/(loss) attributable to the Group	180.7	262.3	(81.7)	(31.1%)

The scope of consolidation is varied as a result of the acquisitions of 3Q 2016 and 2017

The following acquisitions took place at 31 December 2017 that led to a change in the consolidation area with respect to 2016. In particular:

- With effect from 1 January 2017, the Parent company acquired 51% of **Acque Industriali** from Acque SpA; this led to its consolidation;
- On 8 February 2017, the transfer of the shares in **GEAL** held by Veolia Eaux Compagnie Generale des Eaux SCA to Acea was completed: as a result of this acquisition the Group’s share is 48%. The result of the consolidation of GEAL (shareholders’ equity Method) was allocated among “Income/(Costs)

from equity investments of a non-financial nature”;

- On 23 February 2017, the **TWS** (Technologies for Water Services) Group held by Severn Trent Luxembourg Overseas was acquired and 0.9% of **Umbriadue** held by Severn Trent (W&S) Limited. The Group was consolidated on a line-by-line basis;
- on 1 April 2017, the stake held by Acea in **Gori Services** was sold to Gori, therefore, involving its consolidation to shareholders’ equity.

For more information, please refer to the paragraph “Criteria, procedures and consolidation area”.

The consolidation of Aguas de San Pedro on a line-by-line basis, following the acquisition of 29.65% which occurred during the

last quarter of 2016 contributes to the change to the economic scope. In addition to the 31% share previously held it was possible to obtain exclusive control of the company. Also, in 2016, following the changes to the composition of the Board of Directors in relation to the number of Board members of CAEA, AguaAzul Bogota was consolidated using the *Equity Method*. It should also be noted that on 22 November 2016, Acea Inter-

national S.A 100% controlled by Acea was formed, to which the shareholdings Aguas de San Pedro and Acea Dominicana were conferred in April.

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	Acque Industriali	GEAL	TWS Group	Aguas de San Pedro	AguaAzul Bogotà	Acea Gori Servizi	Total
Revenues	8.3	0.0	27.7	31.2	0.0	0.0	67.2
EBITDA	0.4	1.3	2.7	12.6	0.0	0.1	17.1
EBIT	(0.1)	1.3	1.9	6.7	0.0	0.1	9.9
EBT	(0.2)	1.3	3.1	4.9	(0.3)	0.1	8.9
NE	(0.3)	1.3	3.3	2.7	(0.3)	0.1	6.9
NFP	(1.0)	0.0	3.1	0.0	0.0	0.0	2.1

Revenues from sales and services totalled €2.7 billion up from €76.1 million on the adjusted basis

At 31 December 2017, revenues from sales and services grew to €2,669.9 million, on the adjusted basis, €76.1 million (+ 2.8%) compared to those of 2016, for contrasting reasons: the change in the consolidation scope contributes to a growth in revenues totalling €67.2 million and, likewise, mark an increase in revenues from the integrated water service and those from biomass transfer and landfill operations amounting to €28.1 million and €14.1 million respectively.

Revenues from the integrated water service suffered tariff updates in the second half of 2016 including those relating to commercial quality: in this capacity the best estimate of the award granted to Acea Ato2 is recorded in the year 2017 (€30.6 million). The positive change in revenues from biomass transfer and landfill operations is influenced by the consolidation of Acque Industriali for €6.2 million and, for the remaining part, by the major contributions and by the increase in the quantity of waste treated at the Aprilia plant.

On the contract, the trend recorded by revenues from the sale and transmission of electricity which fell overall, on the adjusted basis, by €4.4 million due to the effect of the decrease in the quantities sold on the free and standard market (- 1.473 GWh) as a consequence of the optimisation of the customer portfolio and taking account of price developments, as well as the tariff dynamics introduced by the fifth regulatory cycle (resolution ARERA 654/2015). It is recalled that in 2016, the amount of €111.5 million was recorded in relation to the so-called *regulatory accounting* equal in 2017 to €47.6 million (for more details please refer to the paragraph "Trend of operating segments - Energy Infrastructure Operating Segment").

Other revenues amounting to €127.1 million

An increase of €3.3 million has been recorded, mainly due to the following effects:

- from the inclusion of €42.2 million of contributions earned on white certificates (TEE) in the portfolio up by €26.6 million compared to 2016; these revenues are balanced by the costs incurred for the purchase of the TEE;
- from the recording in 2016 of revenues (€9.6 million) linked

to the effects of the contract signed in March 2006 for the sale of digital meters.

These effects were partially offset by lower non-recurring gains (- €16.2 million) relating mainly to Acea Energia.

External costs amounting to €1.8 billion up slightly compared to 2016

This item shows an overall increase of €2.4 million (0.1%) compared to 31 December 2016. The change is due to opposite effects and mainly:

- the lower costs for the supply of electricity both on the standard market and on the free market, and also the reduction of the relevant transport costs (- €66.2 million overall) as a consequence of the reduction of the quantities sold;
- the higher purchase costs of white certificates by areti (€30.2 million) for the fulfilment of the energy efficiency regulatory obligation;
- the increase in costs for raw materials resulting from the consolidation of the TWS Group and Aguas de San Pedro amounting to €9.0 million and major purchases during the observation period of areti (+ €2.6 million), mainly concerning the LED Plan;
- the increase in costs for services (+ €36.0 million) mainly related to the consolidation of the new company (€20.3 million), as well as to the running costs of the IT platform;
- the decrease in the various operating charges (- €8.2 million) due to the effect of the decrease of non-recurring losses (- €15.5 million) recorded in 2016 following the establishment of energy items originating from previous years. .

Staff costs up by 8%

The rise in the cost of labour is mainly due to the change in the consolidation area amounting to €9.4 million, partially mitigated by the increase in the component intended for investments amounting to €3.8 million; this component is a consequence of the complex project of amending the information systems and business processes in which the last go-live occurred at the start of the year. The average number stood at 5,494 employees and rose by 446 units compared to 2016.

€ million	2017	2016	Change	Change %
Staff costs including capitalised costs	327.8	307.9	19.9	6.5%
Capitalised costs	(112.5)	(108.7)	(3.8)	3.5%
Staff costs	215.2	199.2	16.0	8.0%

The water company TUC recorded results that were down by €2.5 million as a result of higher amortisation, depreciation, impairment charges and provisions

The income from equity investments of a non-financial nature represent the consolidated result according to the equity method

€ thousand	2017	2016	Change	Change %
EBITDA	149.6	146.4	3.1	2.1%
Amortisation, depreciation, impairment charges and provisions	(100.9)	(94.5)	(6.4)	6.8%
Total (Costs)/Income from Equity Investments	0.0	0.0	0.0	(100.0%)
Financial Management	(6.8)	(7.3)	0.5	(6.9%)
Taxes	(15.1)	(15.3)	0.2	(1.6%)
Income from equity investments of a non-financial nature	26.9	29.3	(2.5)	(8.4%)

EBITDA up by €840,0 million on adjusted basis of 7%

The EBITDA increases from €896.3 million in 2016 to €840.0 million in 2017, a decrease of €56.4 million equal to 6.3% (adjusted EBITDA increased by 7.0%). This trend is caused by the change in the consolidation area amounting to €13.8 million (the main contribution results from Aguas de San Pedro amounting to €10.1 million). The increase, recorded within the same scope, results mainly from the tariff dynamics of the water sector (+ €12.6 million) which are followed, with regard to the significant increase in the margin, by the distribution and generation sectors (+ €55.8 million net of regulatory proceeds of €111.5 million recorded last year) resulting from tariff updates of the fifth regulatory cycle and from the increase in the quantities produced by hydroelectric plants; also the Environment Segment marks a growth of €5.2 million as a result of the greater amount of electricity sold. The Commercial and Trading Segment and the Parent

included among the components forming the consolidated Gross Operating Profit of the companies previously consolidated using the proportional method. The following is a breakdown of the composition, while the trends of the single companies are in the comments to the Water Operating Segment.

Company mark, instead, a decrease IN EBITDA of €19.9 million and €11.6 million respectively as a consequence, respectively, of the reduction in the margin on the free market and due to the transfer of the Facility Management branch to Acea Elabori with effect from 1 November 2016.

Adjusted EBIT €406.2 million (-2.0%)

The EBIT, on an adjusted basis, marks a decrease of €8.2 million compared to the year 2016. The items that affect this marginality indicator are affected by three extraordinary events that characterised the financial year: the reintroduction in the ownership of the property Autoparco following a sentence, the exposure assessment in respect of GALA and ATAC (totalling €31.5 million), the devaluation of certain assets of Acea Ambiente and Acea Produzione (€12.2 million), as well as the provision in areti for rental fees (€2.6 million).

€ million	2017	2016	Change	Change %
Amortisation and depreciation	328.9	254.2	74.7	29.4%
Provision for doubtful debts	90.4	64.7	25.7	39.7%
Provision for risks	60.8	51.5	9.4	18.2%
Amortisation, depreciation, impairment charges and provisions	480.1	370.4	109.7	29.6%

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 Acea2.0 of the main companies of the Group. This item covers impairment relating to some Acea Ambiente plants (in particular Monterotondo, Paliano and Sabaudia) totalling €9.6 million. These impairments were made necessary as a result of the impairment tests performed at the end of the financial year 2017. It should be noted that following sentence No. 11436/2017 of 6 June 2017 by the Court of Rome, the invalidity of the contract of sale of the real estate complex owned by Acea, Piazzale dei Partigiani (so-called Autoparco) was declared, accepting Acea's demand to be released from the contractual relationship with Trifoglio and recover the properties in the area. The asset was therefore entered again in assets at its book value at the time of the transfer, generating a value reduction of €9.5 million equal to the capital gain recorded at time of sale at the end of 2010. For more details, please refer to the section "Update on major disputes and litigation".

The **provisions** net of releases for excess funds, up by €9.4 million mainly due to the combined effect of: **i)** the increase in allocations to deal with the plan for the reduction of staff through the adoption of early retirement and voluntary redundancy programmes for the staff of the Group (+ € 5.5 million), **ii)** the increase in provisions to deal with legal risks (+ €10.8 million) **iii)** the decrease in provisions to deal with regulatory risks (generally the reduction is by

€4.8 million); **iv)** reduction in allocations to fund restoration charges (- €2.1 million).

The increase in the **provisions** for doubtful receivables is mainly related to companies of the water segment (+ €13.7 million) following assessments resulting from historical analysis, in relation to the age of the receivable, the type of recovery actions undertaken and the status of the receivable itself. This item includes the reduction in value (€15.7 million) of receivables, only relating to the transport part, owed to areti by GALA and those relating to ATAC amount to €6.4 million; for more information please refer to the section "Trend of operating segments - Energy Infrastructure Segment" for the GALA affair and to comment on the equity results for ATAC.

Financial management improves by €39.6 million

The financial management result is a loss of €72.0 million and marks an improvement of €39.6 million compared to 2016. The previous financial year was influenced by the operation of partial repurchase of two tranches of bonds that resulted in the incurrance of a total cost of €32.1 million including expenditure relating to operations. Apart from this phenomenon, the good performance (- €7.5 million) is largely due to the reduction of interest on medium-long term debt (- €7,1 million) due to the *asset and liability management* operation in October 2016. In fact, at 31 December 2017, the overall average 'all-in' cost of the Acea Group's debt stood at 2.57% compared to 2.94% in the same period of the previous financial

year. It should also be noted that the *Post mortem* Fund on the land-fill plant in Orvieto amounting to €4.6 million was updated.

Tax rate at 33.3% down by 1 pp

The estimate of the tax burden is €96.0 million vs. €143.5 million in the same period of the previous year. The overall decrease recorded during the period, amounting to €47.6 million, results from

the reduction in the IRES rate. The tax rate for 2017 is 33.3% (34.5% at 31 December 2016).

The net profit/(loss), adjusted basis up by 1.7%

The net profit/(loss) attributable to the Group, net of extraordinary events for the period, amounted to €214.5 million and marks an increase of €4.0 million compared to 2016.

SUMMARY OF RESULTS: TRENDS IN FINANCIAL POSITION AND CASH FLOWS

Equity data

€ million	31/12/2017	31/12/2016	Change	Change %
NON-CURRENT ASSETS AND LIABILITIES	4,514.2	4,335.5	178.7	4.1%
NET WORKING CAPITAL	(281.5)	(450.6)	169.1	(37.5%)
INVESTED CAPITAL	4,232.7	3,884.9	347.9	9.0%
NET FINANCIAL DEBT	(2,421.5)	(2,126.9)	(294.6)	13.9%
Total shareholders' equity	(1,811.2)	(1,757.9)	(53.3)	3.0%
Total Funding	4,232.7	3,884.9	347.9	9.0%

Non-current assets and liabilities up by 4.1% due to investments over the period

Compared to 31 December 2016, the non-current assets and lia-

bilities increased by €178.7 million (4.1%), mainly due to the increase in the fixed assets (+ €136.5 million).

€ million	31/12/2017	31/12/2016	Change	Change %
Tangible/intangible fixed assets	4,320.6	4,184.1	136.5	3.3%
Equity investments	283.5	263.5	20.0	7.6%
Other non-current assets	505.3	470.5	34.8	7.4%
Staff termination benefits and other defined benefit plans	(108.4)	(109.5)	1.1	(1.0%)
Provisions for liabilities and charges	(209.6)	(199.3)	(10.3)	5.2%
Other non-current liabilities	(277.1)	(273.7)	(3.4)	1.3%
Non-current assets and liabilities	4,514.2	4,335.5	178.7	4.1%

The change in fixed assets is also due to investments, reaching €532.3 million, and amortisations and reductions in value amounting to €323,2 million.

See the table below with regard to the investments made by each Operating Segment.

Investments per operating segment

€ million	31/12/2017	31/12/2016	Change	Change %
ENVIRONMENT	15.4	34.0	(18.6)	(54.8%)
COMMERCIAL AND TRADING	19.4	27.4	(8.0)	(29.3%)
OVERSEAS	5.2	1.5	3.7	n.s.
WATER	271.4	227.1	44.3	19.5%
Integrated Water Service	271.4	226.5	44.9	19.8%
Lazio - Campania	271.4	226.5	44.9	19.8%
Tuscany - Umbria	0.0	0.0	0.0	n.s.
Other	0.0	0.7	(0.6)	(94.4%)
ENERGY INFRASTRUCTURE	209.4	225.8	(16.4)	(7.3%)
Distribution	185.7	196.6	(10.9)	(5.5%)
Generation	23.1	27.9	(4.8)	(17.1%)
Public Lighting	0.6	1.3	(0.7)	(52.5%)
ENGINEERING AND SERVICES	0.8	1.8	(0.9)	(53.0%)
ACEA (CORPORATE)	10.7	13.2	(2.5)	(19.1%)
TOTAL	532.3	530.7	1.5	0.3%

Investments grow by €1.6 million (+ 0.3%)

Investments of the **Environment Segment** relate to:

1. interventions on the slag extraction system of the San Vitore WTE plant in Lazio,

- the purchase of a warehouse for the WTE plant in Terni,
- interventions to the biogas waste and production treatment plant site in Orvieto and,
- adaptation and developments work at the composting plants sites in Aprilia and Sabaudia.

The **Commercial and Trading Segment** reported a reduction of €8.0 mainly attributed to Acea Energia (- € 6.9 million). This reduction mainly relates to investments linked to Acea2.0.

The **Foreign Segment** reported an increase of €3.7 million mainly attributed to the company Aguas de San Pedro, for the purchase of plant machinery and industrial equipment.

The **Water Segment** made investments totalling €271.4 million, with an increase of €44.3 million relating to the companies Acea Ato2 (+ €34.5 million) and Acea Ato5 (+ €8.4 million) for the extraordinary maintenance, repair, modernisation and expansion carried out on the water and sewerage network and on sewage treatment plants also with reference to the measures aimed at alleviating the shortage of water resources.

The **Energy Infrastructure Segment** reported a decrease in investments of €16.4 million as a consequence of expansion, renewal and upgrading activities of the HV, MV and LV network, interventions on primary and secondary substations as well as of the activities relating to the Acea 2.0 programme. The investments made by Acea Produzione mainly relate to the plant re-vamping work of the Castel Madama hydroelectric plant, to the project to modernise the Tor di Valle Plant and the extension of the district heating network in the district of Mezzocammino in the area south of Rome.

The **Engineering and Services Segment** reported investments amounting to €0.8 million, mainly linked to the purchase of indus-

trial and commercial equipment by the company Acea Elabori.

Corporate made investments in hardware and software within the scope of the Acea2.0 project, as well as some extraordinary maintenance on installations related to Remote Control apparatuses of the public lighting network in the Municipality of Rome. The Group investments in Acea2.0 totalled €40.1 million.

The reintroduction in ownership of the property Autoparco as a consequence of the sentence delivered in June, to which reference is made in the section “*Update on disputes and litigation*” also contributes to the increase in fixed assets for the period; the property mentioned was entered at €4.5 million matching the book value at the time of the sale.

The **equity investments** increased by €20.0 million compared to 31 December 2016. The change primarily reflects the valuation of the companies consolidated using the equity method in accordance with standard IFRS 11.

The stock of **Staff termination benefits and other defined benefit plans** reported an increase of €1.1 million, mainly due to the effect of the change in the consolidation scope (+ €2.4 million), partly offset by the decrease in the rate used (from 1.31% at 31 December 2016 to 1.30% at 31 December 2017).

The **Provisions for liabilities and charges** increased by 22.5%, mainly due to the effect of the allocation of a total of €60.8 million, of which most is to deal with early retirement and voluntary redundancy procedures.

€ thousand	31/12/2016	Uses	Provisions	Payment of Redundancy Funds	Reclassifications/ Other changes	31/12/2017
Legal	11.0	(4.6)	5.4	(1.0)	0.9	11.7
Tax	4.4	(0.3)	3.4	(0.1)	2.0	9.3
Regulatory risks	57.3	(4.4)	9.0	(0.8)	0.0	61.0
Investees	1.9	(0.1)	0.0	(0.1)	9.1	10.8
Contributory risks	2.7	(0.1)	0.1	0.0	(0.1)	2.6
Insurance excess	2.0	(0.7)	0.8	0.0	0.0	2.1
Other liabilities and charges	23.7	(10.7)	7.7	(0.8)	(0.3)	19.6
Total Provisions for Liabilities	103.0	(21.0)	26.4	(2.8)	11.6	117.2
Early retirements and redundancies	2.1	(11.9)	28.1	0.0	(0.1)	18.2
Notes on change to VAT	8.8	0.0	0.0	0.0	17.9	26.7
Post mortem	23.0	0.0	0.0	0.0	(5.7)	17.3
Provisions for liquidation costs	0.0	(0.2)	0.0	0.0	0.4	0.2
Provisions for Expenses due to others	0.0	0.0	0.1	0.0	0.3	0.4
Provisions for restoration charges	62.4	0.0	9.1	0.0	(41.8)	29.7
Total Provisions for Charges	96.4	(12.1)	37.2	0.0	(29.1)	92.4
Total Provisions for Liabilities and Charges	199.3	(33.0)	63.7	(2.8)	(17.5)	209.6

Other changes and reclassifications relate to:

- €17.9 million to provisions entered as a consequence of the amendment by Law No. 208/2015, of the rules on the notes of changes for VAT purposes as a result of termination due to breach of electricity, gas and water supply contracts,
- €4.7 million for changes in accounting estimates relating to the discounting of the so-called Post mortem debt on the landfill plant for non-hazardous waste, located in Pian del Vantaggio in Orvieto,
- €1 million to the allocation of the decommissioning costs of the Tor di Valle plant of Acea Produzione,
- €41.7 million for changes in accounting estimates used for the purposes of determining the provisions for restoration charges relating to concessions for the water company and,
- amounting to €2.7 million to the change in the consolidation scope. The usages mainly relate to the Group's early retirement and redundancy procedures (€11.9 million) and the signing of the settlement agreement by Acea Produzione and the Municipalities of the Bacino Imbrifero Montano (mountain catchment basin) to determine the amounts relating to the additional fee (€4.4 million), and
- for the effect resulting from the entry according to the method of the provisional acquisition of the first consolidation of the TWS Group.

€ million	31/12/17	31/12/16	Change
Current receivables	1,022.7	923.4	99.3
- due from end users/customers	933.7	849.5	84.2
- due to Roma Capitale	52.5	45.6	6.9
Inventory	40.2	31.7	8.5
Other current assets	210.1	207.0	3.1
Current payables	(1,237.8)	(1,292.6)	54.8
- due to Suppliers	(1,106.7)	(1,149.2)	42.5
- due to Roma Capitale	(126.1)	(139.2)	13.1
Other current liabilities	(316.7)	(320.1)	3.5
Net working capital	(281.5)	(450.6)	169.1

The net working capital was a loss of €281.5 million and is up by €169.1 million compared with the end of 2016

The change to net working capital compared to 31 December 2016 is due to the increase in receivable from customers amounting to €46.1 million (of which €16.5 million results from the change in the consolidation scope).

The change to receivables from customers affected by an improvement in the stock of the Water Segment (+ €29.3 million), as well as that of the Energy Infrastructure Segment (+ €15.9 million): in relation to the first, more receivables are indicated amounting to €53.7 million for effects resulting from the inclusion in Acea Ato2 of the commercial quality award (€30.6 million gross of disposals made) while the second change mainly relates to Gala and the effects arising from the regulatory changes that led to the inclusion of income arising from the elimination of the so-called *regulatory lag*, which at the end of 2017 amounted to €53.4 million (+ €12.4 million compared to the end of 2016) not including the non-current of €68.9 million. As regards receivables from GALA, the impairment of EUR 15.7 million was carried out, representing the proportion of receivables of the single transport part accrued. In relation to the receivables from ATAC (€9.0 million), on 27 September 2017, the Court of Rome upheld the application for an arrangement with creditors aimed at continuing operations presented by ATAC by granting the term of 60 days (27 November 2017) for the presentation of the plan: an impairment of €6.4 million was

then performed of which €4.8 million relates to receivables entered in Acea Ato2. Receivables from customers are exposed net of the Provision for Doubtful Debts which amounts to €403.6 million compared to €344.4 million at the end of 2016. Receivables totalling €1,314.6 million were transferred without recourse during 2017, of which €232.7 million to the Public Administration.

The change to net working capital also contributes to the increase in inventory was mainly due to the consolidation of the TWS Group (+ €5.2 million).

Roma Capitale: net balance receivable of €63.1 million

As regards **relations with Roma Capitale**, at 31 December 2017, the net balance receivable by the Group amounting to €63.1 million rose compared to 31 December 2016. The change in receivables and payables results from items accrued in the period and as a result of the compensations and payments received. In particular, Acea paid Roma Capitale dividends relating to 2016 (€67.3 million) and received the total amount of €87.6 million of which €28.1 million related to electrical and water utilities billed in 2012 and 2013; the remaining part relates to receivables for public lighting.

The following table shows together the amounts deriving from the relations between Roma Capitale and the Acea Group, and also those concerning the credit and debit positions, including the items of a financial nature.

Receivables from Roma Capitale

€ million	31/12/17	31/12/2016	Change
Services billed	51.3	44.2	7.1
Services to be billed	1.4	1.3	0.1
Total Trade Receivables	52.7	45.5	7.1
Financial receivables for Public lighting services	135.5	121.6	13.9
Total receivables due within one year (A)	188.2	167.2	21.0

Payables due to Roma Capitale

€ million	31/12/17	31/12/2016	Change
Trade payables due within one year (B)	(115.5)	(128.0)	12.5
Total (A) + (B)	72.7	39.2	33.5
Other financial receivables/(payables)	1.2	9.1	(7.9)
Other trade receivables/(payables)	(10.8)	(10.9)	0.1
Total other Receivables/(Payables) (C)	(9.6)	(1.9)	(7.9)
Net balance	63.1	37.4	25.6

Current payables down by 4%

Current payables are down by €54.8 million compared to the end of 2016 due to the decreased stock of suppliers (- €42.5 million) mainly as a result of the optimisation of the customer portfolio of Acea Energia (besides that of the change in commodity prices) and Acea Ambiente. The change in the consolidation area generates more debts payable to suppliers totalling €12.4 million.

Other Current Assets and Liabilities are up by €3.1 million and a down by €3.5 million respectively compared to the previous year. In detail, other assets rose by €12.6 million to take account of the income and expenditure for the financial year, irrespective of the date of receipt or payment and amounting to €2.8 million relating to prepaid expenses mainly related to Acea Energia and the Parent company; on the other hand, they fell by €12.7 million due to the effect of the reduction of tax credits.

As regards liabilities, the decrease results from less tax payables (- €7.5 million), due to the effect of the lower estimate of the tax burden for the period that amounts to €96.1 million (€143.5 million at 31 December 2016), partially offset by more payables due to Cassa Conguaglio (+ €4.8 million).

Shareholders' equity reaches €1.8 billion

Shareholders' equity amounts to €1,811.2 million. The changes that occurred, amounting to €53.3 million, are analytically illustrated in the relevant table and are mainly due to the distribution of

dividends, the accrual of profit for the year, the change in the consolidation area and the change in the cash flow hedge reserves and those comprising actuarial profits and losses.

The adjusted net financial debt increased by €198.2 million compared to the end of 2016

The **net financial debt** of the Group increased overall by €294.6 million, from €2,126.9 million at the end of the 2016 financial year to €2,421.5 million in 2017. This change is a direct consequence of the investments in the period and by expanding the consolidation scope as a result of the acquisitions which took place at the start of 2017. The worsening of the receivables of the Water Segment also contributes to the change because of slowing recovery activities as a result of problems relating to information systems substantially resolved from October. The effects resulting from the increased exposure to GALA, accrued by areti, although mitigated by actions put in place, the exposure to ATAC following the arrangement with creditors and impacts arising from the adoption of the so-called split payment, introduced by Legislative Decree 50/2017, as converted into Law 96/2017, generate negative effects on the net financial debt. Excluding these events, net financial debt at 31 December 2107 would have amounted to €2,325.1 million.

The comparative values were the subject of reclassifications in respect of published data for the purpose of better understanding the changes.

€ million	31/12/2017	31/12/2016	Change	Change %
Non-current financial assets/(liabilities)	2.7	2.1	0.7	32.0%
Parent Companies, Subsidiaries and Associates non-current financial assets/(liabilities)	35.6	25.7	10.0	38.8%
Non-current borrowings and financial liabilities	(2,745.0)	(2,770.9)	25.8	(0.9%)
Net medium/long-term financial position	(2,706.7)	(2,743.1)	36.4	(1.3%)
Cash and cash equivalents and securities	680.6	665.5	15.1	2.3%
Short-term liabilities	(544.6)	(79.2)	(465.3)	0.0%
Current financial assets/(liabilities)	32.9	(78.1)	111.0	(142.1%)
Parent Company and Associates non-current financial assets/(liabilities)	116.2	108.0	8.2	7.6%
Net short-term financial position	285.1	616.2	(331.1)	(53.7%)
Total net financial position	(2,421.5)	(2,126.9)	(294.6)	13.9%

The net medium/long-term debt increased by €36.4 million

With regard to the **medium-long term** component, the reduction of €36.4 million relates to €25.8 million to the reduction of non-current debt and financial liabilities and amounting to €13.4 million to the increase of non-current financial assets due to con-

solidation on a line-by-line basis of Umbriadue which has a receivable due from S.I.I. connected to a shareholders' loan agreement. Non-current payables and financial liabilities are broken down as shown in the table below:

€ million	31/12/2017	31/12/2016	Change	Change %
Bonds	1,695.0	2,019.4	(324.4)	(16.1%)
Medium/long-term borrowings	1,050.0	751.4	298.6	39.7%
Total medium/long-term debt	2,745.0	2,770.9	(25.8)	(0.9%)

Bonds amounting to €1,695.0 million reported an overall reduction of €324.4 million essentially for the reclassification amounting to €328.8 million of the bond loan expiring on 12 September 2018.

Medium/long-term borrowings amounting to €1,050 million reported an overall increase of €298.6 million which refers to the Parent Company (€316.5 million) offset in part by areti (- €20.5 million). The Parent Company change is essentially due to the

provision on 2 May 2017 of EIB funding amounting to €200 million in the context of the Network Efficiency III Project, and of two new lines of funding totalling €250 million maturing in the first half of 2018, partially offset by the reclassification amounting to €100 million of the short-term portion of EIB funding maturing in June 2018.

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

Bank Borrowings:	Total residual debt	Due by 31.12.2018	Between 31.12.2018 and 31.12.2022	Due after 31.12.2022
fixed rate	518.7	22.3	349.9	146.5
floating rate	646.0	126.1	184.3	335.6
floating rate to fixed rate	36.8	8.3	28.4	0.0
Total	1,201.5	156.8	562.6	482.1

The fair value of the Acea hedging derivatives was a negative €3.4 million and has reduced by €1.8 million compared to 31 December 2016 (it was a negative €5.3 million).

The short-term component is a positive €204.9 million and has reduced by €331.2 million

The **short-term** component is positive €285.1 million and with respect to the end of the financial year 2016 showed an increase of €331.2 million explained by €437.8 million from the reclassification by maturing bonds and bank loans of the Parent Company compensated by the start-up of a short-term deposit maturing on 3 April 2018, also of the Parent Company. Cash and cash equivalents increased by €15.1 million originating from the decrease of

the Parent Company (- €49.9 million) and Acea Ato2 (- €16.8 million) offset by an increase of areti (+ €53.9 million) and Acea Energia (+ €21.6 million).

It must be noted that at 31 December 2017, the Parent Company had unused uncommitted lines for €769 million, of which €739 million was unused. No guarantees were issued to obtain these credit lines.

The Acea rating

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

- Fitch “BBB+”;
- Moody’s “Baa2”

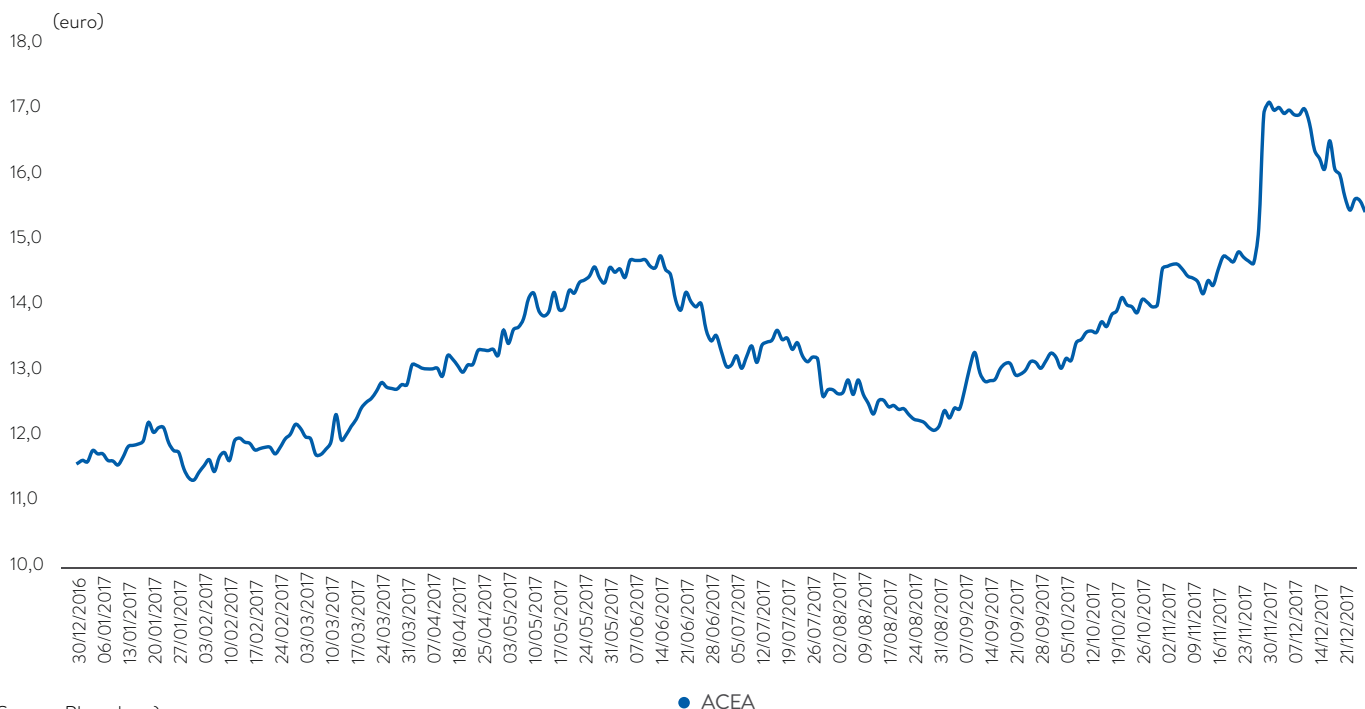
REFERENCE CONTEXT

PERFORMANCE OF THE EQUITY MARKETS AND ACEA SHARES

In 2017, the international equity markets were up overall. Acea reported growth of 33.3%. In detail, Acea share prices closed

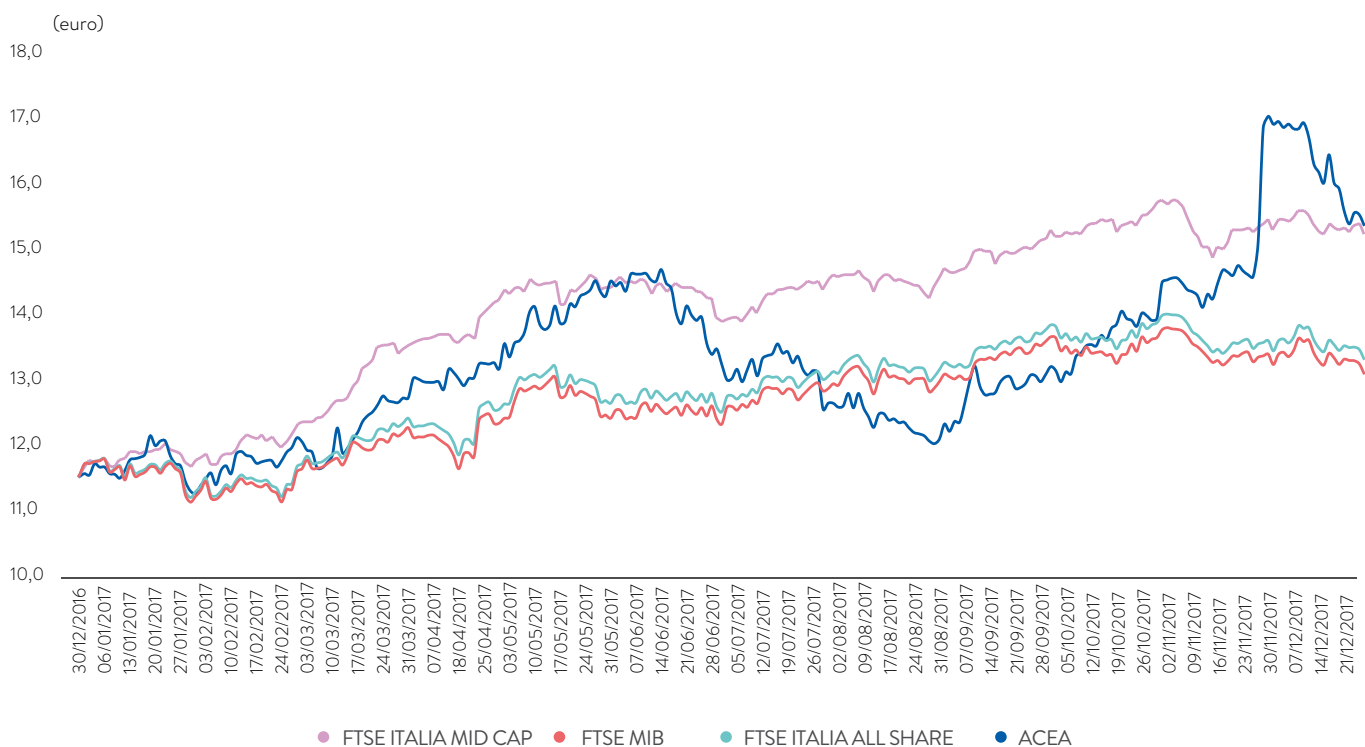
at €15.40 as at 29 December 2017 (capitalisation: €3,280 million). The highest value of €17.08 was reached on 30 November after the presentation of the new 2018-2022 Industrial Plan, while the lowest value of €11.30 was recorded on 1 February.

During the financial year, daily average volumes were over 140,000 (in 2016, about 110,000).



(Source: Bloomberg)

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



Re-based graph to the values of Acea – Source Bloomberg

Acea	+33.3%
FTSE Italia All Share	+15.6%
FTSE Mib	+13.6%
FTSE Italia Mid Cap	+32.3%

170 reports/notes were published on Acea shares in 2017.

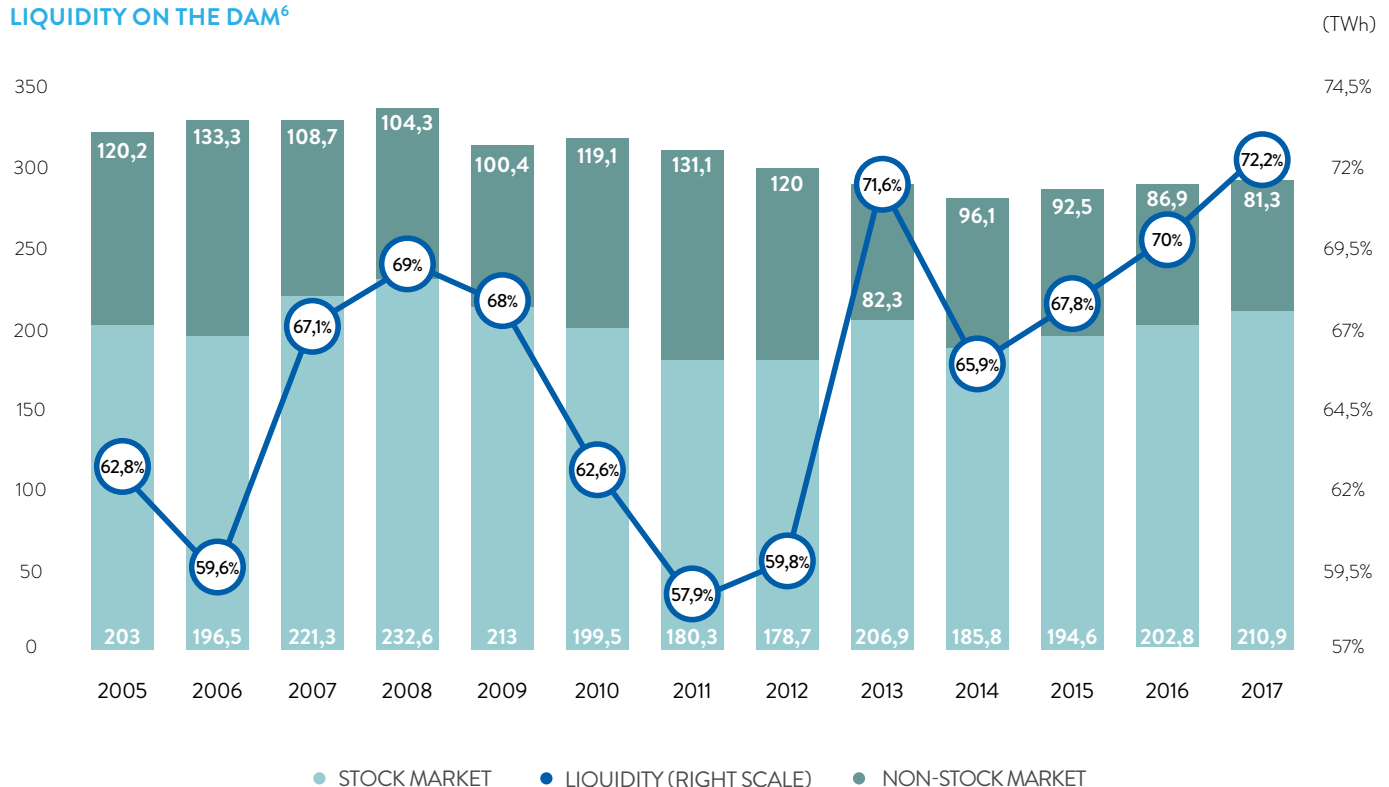
ENERGY MARKET

In 2017, electricity demand in Italy (320,437 GWh⁵) increased with respect to 2016 by 2.0%, in seasonally adjusted terms the change is + 2.3%. 89% of the electricity requirement was covered by national (Italian) production, and the remaining 11% by imports from abroad (the balance of imports was + 2.0% compared to the same period in the previous year). The net national production (285,118 GWh) increased significantly by 1.9% compared to the same period in 2016. Specifically, electricity produced from thermal production sources rose by 4.6%, as did that produced from photovoltaic sources (+ 14.0%), while production from geothermal (- 1.4%) and wind power (- 0.2%) and water (- 14.3%) sources fell. In reference to the outcomes of the electricity market, there was

an increase on an annual basis of 1.1% which represents the biggest increase over the last five years.

Electricity trading in the Day-Ahead Market are at the highest level in the last 5 years – 292.2 TWh – showing an increase of 1.1% compared to 2016 following a very strong dynamic in the first eight months of the year (+ 6.2%) and less significant in the remaining part of the year (+ 0.4%). Growth was boosted by volumes traded on the Italian electricity trading system (Borsa Elettrica) which, at its highest value since 2010, totalled 210.9 TWh (+ 4.3%), supported on the sales side by non-institutional domestic and foreign operators (+ 6.6%) and on the purchase side especially by the Single Buyer (+ 26.6%), which in 2017 purchased over 93% of its requirements in the stock market (it was less than 70% in 2016 and slightly more than 50% in 2015). This dynamic progressively reduced over the counter trades registered on the PCE and nominated on the DAM which, on the third consecutive decline, reached a historic low of 81.3 TWh in 2017 (- 6.2%). A direct consequence is the level of market liquidity that reached the highest level ever a 72.2%.

LIQUIDITY ON THE DAM⁶



The National Single Price (PUN) stood at €53.95/MWh and, although up by €11.17/MWh compared to the historic low in 2016 (+26.1%), the values are no higher than in the two-year period 2014/2015. This bullish dynamic characterised every month of

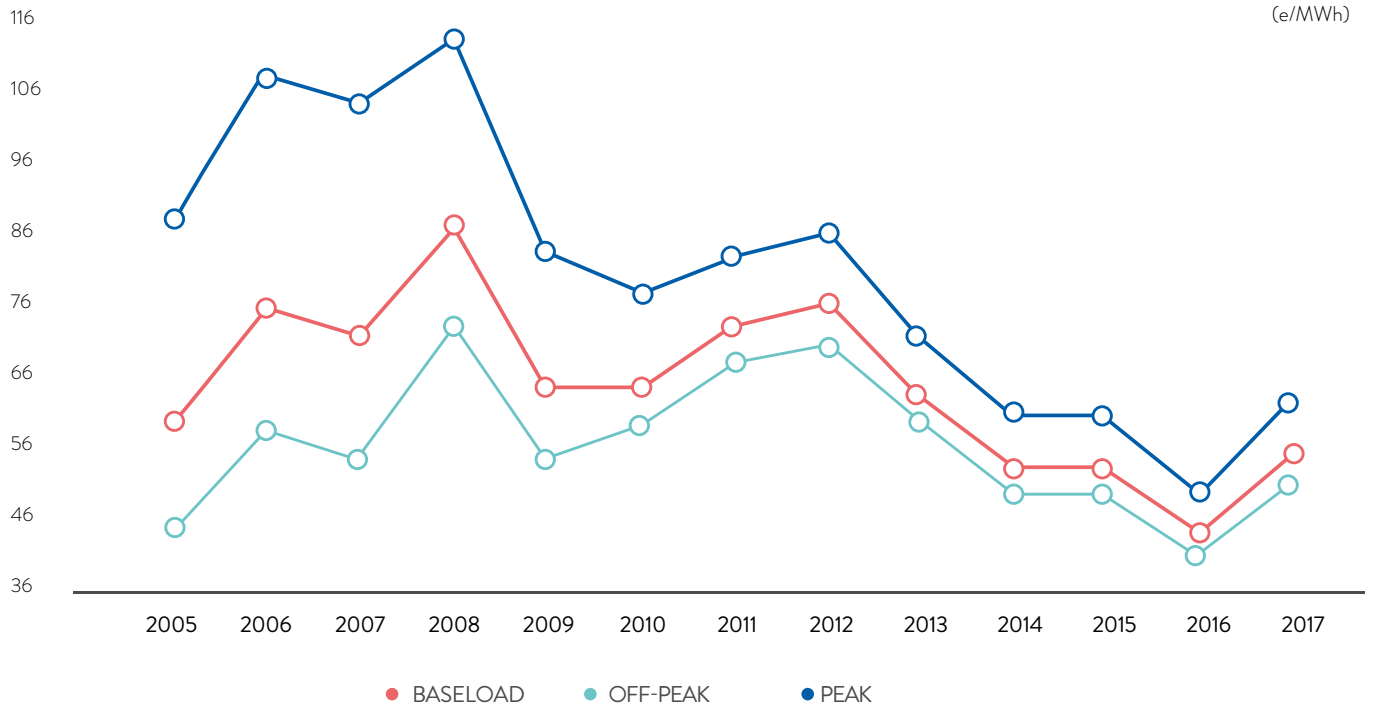
2017, being influenced in the first part of the year by the tensions on the French market, and in August, for effect by the exceptional levels of demand linked to high temperatures.

⁵ Source: Terna – December 2017, monthly report on the electricity system

⁶ Source: Energy Market Operator (GME) December 2017 Newsletter

DAM: NATIONAL SINGLE PRICE (PUN)⁶

(€/MWh)



In Italy, the sales prices returned to 2014/2015 levels in recovery with respect to the lows recorded last year and are fluctuating between €49.80/MWh in the south and €60.76/MWh in Sicily. The increments reflect the growth of local purchases, the reduced level

of sales from renewable sources, especially hydraulic in the North (lowest in the last decade) and wind power in Sicily as well as the highest generation costs.

DAM: SALES PRICES⁶

(€/MWh)



Source: Energy Market Operator (GME) December 2017 Newsletter

TARIFFS FOR TRANSPORT SERVICES

2017 is the second year in the new regulatory period, the duration of which has been increased from four years to eight years (2016-2023), subdivided into two sub-periods: the first four using the same methods, the others subject to additional implementation.

The regulatory dispositions are contained in three Integrated Texts: the “Integrated Text of dispositions of the Authority for the supply of 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 measurement service (TIME)”, Annex B to resolution 654/2015/R/eel, and the “Integrated Text of dispositions of the Authority for the economic conditions of the supply of connecting services” (TIC), Annex C to resolution 654/2015/R/eel, all published on 23 December 2015.

For the distribution service, the ARERA has confirmed the decoupling of the tariff applied to the end customer (so-called obligatory tariff) and the reference tariff for the determination of the restriction on the revenue admissible for each firm (so-called reference tariff).

The main novelties introduced compared to the previous regulation period (2012-2015) are represented by:

1. Regulatory lag and remuneration of the invested capital;
2. Extension of the regulatory lifetime;
3. Tariff regulation criteria: cot, measurement.

As regards the first point, the ARERA has modified the methods of compensation of the regulatory lag in recognising new investments, for both Distribution and Measurement (not retroactive).

The founding principle behind the increase in the rate of remuneration of the invested capital for new investments, amounting to 1% (for the year $t-2$) has been replaced by the introduction of the recognition of the capital base (so-called RAB) for investments in year $t-1$ as well, valued on the basis of pre-forecast data. On 24 March 2017, with Resolution 188/2017/R/eel, the ARERA published the final reference tariff for the electricity distribution service for the year 2016 and, on 28 April 2017, with Resolution 286/2017/R/eel, the ARERA published the provisional reference tariff for the electricity distribution service for the year 2017.

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 $t-2$).

As regards the amortisations recognised in the tariff (reference year $t-2$), the new regulation increases the regulatory lifetime of some assets, such as HV electrical lines (from 40 to 45 years), MV and LV voltage lines and “user sockets” (from 30 to 35 years).

The rate of remuneration of the net invested capital (wacc), the calculation parameters for which were published in resolution 654/2015/R/eel, is 5.6% for the distribution service for investments made up to 31 December 2016.

As regards the operating costs, the new firm tariffs cover the specific costs through a coefficient for the modulation of the mean national costs, which is calculated by the ARERA on the basis of the effective costs of the firm and the scale variables.

According to that defined in Decision 654/2015, in calculating the firm tariffs, these costs are increased by the lump sum connection fees recognised nationally, considered as capital grants and are no longer deducted from the operating costs.

Furthermore, the lump sum connection fees for each firm are deducted directly from the capital invested by the firm, being considered the equal of MV/LV assets.

The update of the reference tariff for distribution for years subsequent to the first year is made individually on the basis of the equity increases notified by the firms in the framework of the collection

of RAB data. The criterion for updating provides that:

- the part of the tariff hedging the operating costs be updated using the price-cap mechanism (with the goal of a 1.9% recovery of productivity);
- the part hedging the costs concerning the remuneration of the invested capital be updated through the deflator of the fixed gross investments, the change in the volume of service provided, the gross investments that are operational and differentiated by level of voltage and rate of change connected to the increased remuneration recognised for incentivised investments;
- the part hedging the amortisations be updated through the deflator of the fixed gross investments, the change in volume of service provided, the rate of change connected to the reduction in the gross invested capital due to disposal, withdrawal and end of useful lifetime and the rate of change connected to the investments that are now operational.

The ARERA also confirmed the mechanism for 2017, already introduced in the third regulatory cycle, of greater remuneration of certain categories of investments entered in operation until 2015 not specifying at the same time if this mechanism will be confirmed in the new cycle.

As regards marketing activities, the ARERA has introduced a single reference tariff which reflects both the costs for the management of the network service and the marketing costs, applying the regime of punctual recognition of the capital costs for investments made in marketing as well.

As regards the transmission tariff, the ARERA has retained the binomial tariff (power and consumption) for high voltage customers and the cost tariff structure for the transmission service for Terna (CTR), introducing a payment that is also binomial. The presence of two tariffs confirms the mechanism of equalisation.

The mechanisms of general equalisation of the distribution costs and revenue for the current regulatory cycle are as follows:

- equalisation of the revenues from the distribution service;
- equalisation of the transmission costs;
- equalisation of the value of the difference between effective losses and standard losses.

Starting from the year 2017, the ARERA has introduced a tariff applied to domestic customers no longer divided between D2 and D3 but only (TD) as specified in the resolution 799/2016/R/eel of 28 December 2016, resulting in the cancellation of the mechanism for calculating the equalisation of revenues for the supply of electricity to domestic customers, in force until 2016.

In the new Integrated Transport Text, the ARERA confirmed the recognition mechanism in advance, bi-monthly, of the balances of the equalisation of revenues relating to the distribution service and transmission costs. With letter No. 5770 of 6 June 2017, CSEA proceeded with the quantification of the amounts of advance payment of such equalisations for 2017.

The Integrated Text for Measurement (TIME) governs the tariffs for the measurement services broken down into the installation and maintenance of devices, collection, validation and recording of measurements. The payment structure has been changed from the last regulatory cycle only as regards the payments for the collection and validation of measurements, previously divided and now unified into a single payment.

The ARERA has introduced a new method of recognising the capital costs for low voltage electronic meters, for firms serving more than 100,000 grid points, based on criteria for determining the investments effectively realised by the single firms and retaining the criterion of calculating the measurement service tariffs on the basis of the national costs for the remote management systems and the

electromechanical devices still being used (residual cost), also retaining the measurement equalisation for the fifth regulatory cycle. 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.

The ARERA published the final tariff for measurement for 2016 on 30 March 2017, in resolution 199/17/R/eel. On 28 April 2017, with resolution 287/2017/R/eel, the ARERA published the provisional reference tariff for electricity meter reading for 2017.

The tariffs hedging the measurement service are updated, as are those for the distribution service, using the price-cap mechanism for the part hedging the operating costs (with the goal of a 1% recovery of productivity) and with the deflator, variation in invested capital and rate of change of the volumes supplied for the part hedging the invested capital and amortisations. The rate of remuneration of the measurement capital is the same as that for the distribution service.

The ARERA with resolution No. 646/2016/R/eel of 10 November 2016, has shown how the definition and recognition of costs related to second generation (2G) smart metering systems for measuring low voltage electricity. On 8 March 2017, it issued a statement in which it updated the assessment plan for commissioning the 2G smart metering system proposed by e-distribution SpA

Starting from the year 2017, and only with reference to investments entered operation in 2017, the ARERA establishes in the same resolution that, for the purposes of the annual updating of the return on capital invested and depreciation relating to the measurement points effective in low voltage, for each distribution company the maximum gross investment value that can be recognised per meter installed is 105% of the corresponding gross investment value per meter for investments that entered into operation in 2015.

The “Integrated Text of dispositions of the Authority for the economic conditions of the supply of connecting services” (TIC), Annex C to resolution 654/2015/R/eel, disciplines the economic conditions for the supply of the connecting service and specific services (transfer of network system requested by the user, cancellations, takeovers, deactivation, etc.) of the passive utilities, in substantial continuity compared to the previous regulatory period.

WATER CONTROL

The following is a description in terms of their impact on the observation periods of the three resolutions published at the end of December 2015 in which the AEEGSI definitively introduced the new regulations for contractual quality which entered into force as of 1 July 2016 (Resolution 655/2015), the draft Agreement for the regulation of relations between the authorities awarding and managing the SII (Resolution 656/2015) and the tariff methods applicable in the second regulatory period MTI-2 -2016-2019 (Resolution 664/2015).

In **Resolution 655/2015/R/idr** dated 23 December 2015, the ARERA approved the Integrated Text for the regulations for contractual quality of SII, in other words each of the single services comprising it (RQSII). The minimum levels and objectives of the contractual quality of the SII were defined, by identifying indicators consisting of maximum time thresholds and minimum quality standards for the services to be provided to users, the same nationwide, also determining the methods for recording, communicating and checking the data from the services supplied by the operators. In the event of failure to respect the specific quality standards for the individual services supplied to users, the Authority has intro-

duced automatic indemnities to be paid to users in well-defined times and methods, while for the general quality standards, referring to the overall services, a mechanism of fines has been put in place. Sanctions are also provided for the failure to respect the standards in the event of repeated breaches of the standards and in the event of breaches being ascertained during checks by the Authority.

The Integrated Text (RQSII) included 44 standards (30 specific and 14 general) concerning services involved in the start-up, management and termination of contractual relations, charging, billing, payment and division into instalments, complaints, written requests for information and billing rectification, the management of outlets, the quality of telephone services and obligations in the event of the application of art. 156 of Legislative Decree 152/2006. The new quality regulations, introduced in the end of 2015 resolution, came into force on 1 July 2016, except for certain aspects concerning automatic indemnities (especially the mechanism for increasing the indemnity for failure to respect minimum standards over time), the obligations to notify the Authority and Framework Government Authorities (EGA) and the quality obligations for telephone services, which were applicable from 1 January 2017. The Resolution also provides for the possibility that the framework government authorities, also on proposal by the operator, make specific claims requesting the application of higher standards than those in the RQSII, also stating the date of their entry into force.

In **Resolution 656/2015/R/idr**, also dated 23 December 2015, the ARERA adopted the draft Agreement for the regulation of relations between the awarding and managing authorities of the SII, defining the minimum essential contents. The resolution was drafted after a consultation period of almost two years (DCCO 171/2014 dated 10 April 2014; DCO 274/2015 dated 4 June 2015; DCO 542/2015 dated 12 November 2015). Retaining the draft agreement structure submitted in the last consultation, the resolution governs the following aspects: the general dispositions (scope, legal framework, perimeter of activities awarded and duration of the Agreement), the Scope Plan, the tools for maintaining the economic-financial balance, termination and takeover, fines and sanctions and other agreement obligations.

The resolution expressly states that the ongoing management agreements be made compliant with the draft agreement and sent to the approval authority in the framework of the first useful tariff planning session, according to the methods provided for the Water Pricing Method for the second regulatory period (MTI-2), and in any event within 180 days of the publication of the resolution itself (29 December 2015).

With **Resolution 918/2017/R/idr** of 27 December 2017, the ARERA proceeded with the biennial update of the tariff arrangements of the integrated water service. At the end of the year, the Authority issued Resolution 918/2017/R/idr “Biennial update of the tariff arrangements of the integrated water service”. The measure defines rules and procedures for the purposes of the biennial update (2018-2019) of the tariff arrangements of the integrated water service, integrating Annex A of the water tariff method 2016-2019 MTI-2 (Resolution 664/2015/R/idr). The deadline for submitting the tariff arrangements to the Authority for the two-year period 2018-2019 is **30 April 2018**.

For the purposes of recalculating tariffs, the parameters relating to rates of inflation are updated for the update of operating costs, to the values of gross fixed capital formation deflator and the average cost of electrical supply in the sector. Within the scope of measures in support of investments, the measure provides for specific controls on the actual implementation of the investment planned for the years 2016 and 2017 in continuity with the previous two-year period, as well as on the consistency between the priority ob-

jectives laid down for subsequent years and the economic-financial management sustainability, and updates all the main parameters for calculating financial and tax burdens, recognised in the tariff. In addition, the measure requires the relevant government body to review and update its programme of interventions outlining, during the transposition of the specific objectives identified by the technical quality regulations, the intervention strategies to be favoured, with the related effects in tariff terms. With the resolution in question, the tariff component UI2, to be allocated primarily to the promotion of technical quality and, with reference to the introduction from 1 January 2018 of the social bonus for water for household appliances in a proven state of economic hardship, the tariff component (IU3) for the equalisation of the costs relating to the provision of the social bonus for water are finally quantified.

With **Resolution 917/2017/R/idr** of 27 December 2017, the ARERA has defined the rules on the technical quality of the SII with an approach that takes into account the specific conditions of the various contexts in order to identify the correct and effective stimuli to promote benefits for users of various services.

ARERA (FORMERLY AEEGSI) ELECTRICITY ACTIVITIES

DCO 46/2017/R/tlr - Regulations for contractual quality of the district heating service (district heating and district cooling). Framework and initial guidelines

With consultation document 46/2017/R/tlr, and the subsequent document **438/2017/R/TLR** of 15 June 2017, the ARERA has illustrated the guidelines for the regulations for some contractual quality profiles of the district heating service, connected at start-up, to the management and the closure of service contracts. The regulations it intends to initiate would last for four years and would require the application of automatic compensation in the event of failure to comply with the specific standards established for the sector and with reference to causes attributable to the operator. The value of this compensation should be commensurate to the power contractually committed to by the user to take into account the size of the user concerned by the breach.

Resolution 69/2017/R/eel - Standard service: compensation mechanism of fixed costs incurred by service operators

On 16 February 2017, the Authority published its Resolution 69/2017/R/eel with which it defined the compensation mechanism of the fixed costs of the standard operator due to customers leaving the related service, by introducing Art. 16-quater in the TIV (Integrated Text on Sales).

The mechanism shall apply from 2016 and provides:

- differentiated compensation to take account of cases of customers leaving to enter the free market of the same standard operator, that cases of leaving to go to other traders, recognising 35% of the recognised costs (RCVsm), if the customer moved to the free market with the same operator, or 60% if the customer moved to another trader;
- a leaving rate threshold for participation in the mechanism distinguished between domestic and non-domestic customers and differentiated according to whether moving to the free market of the same standard operator or to a different trader.

On 20 April 2017, Acea Energia notified the appeal challenging Resolution 69/2017/R/eel in order to obtain an increase in the value of the recognised cost in addition to the application of the mechanism also to the years 2014 and 2015. On 24 May, Acea Energia sent CSEA the request for participation to in the mechanism, as corrected on 25 July following a request for information received from the Authority.

Resolution 80/2017/C/eel - Appeal against sentences of the Regional Administrative Court of Lombardy, Section II, 13 January 2017, 75 and 76, 26 January 2017, 201 and 31 January 2017, 236, for partial cancellation of the resolution of the Authority 522/2014/R/eel

The Authority, with Resolution 80/2017/C/eel of 23 February 2017, decided to appeal against sentences of the Regional Administrative Court of Lombardy for the 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 1 January 2013 to 31 December 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. The discussion of the appeal has been postponed to a hearing in the chambers of the Council of the State Council on 20 September 2018.

Resolution 109/2017/C/eel - Start of process for compliance with the sentences of the Regional Administrative Court of Lombardy, Section II, 31 January 2017, 237, 238, 243 and 244, relating to the resolutions of the Authority 268/2015/R/eel, on the subject of guarantees for the collection of the general costs of the electricity system

Resolution 109/2017/R/eel of 3 March 2017 following the sentences of the Regional Administrative Court of 31 January 2017, Nos. 237, 238, 243 and 244, which cancelled the Network Code (Resolution 268/2015/R/eel) in the part which also considered general charges not collected in the calculation of the amount of the guarantee due by the seller to the distributor.

The Authority appealed against these sentences to the Council of State with Resolution **79/2017/C/eel** of 23 February 2017, defining the transitional rules with Resolution 109 according to which distributors have the obligation to:

- reduce the number of guarantees by 5.6% (this reduction was motivated by the shortening of the contractual resolution times in case of the seller's non-fulfilment, as provided for by Resolution 553/16);
- apply a further reduction of 4.9% to the proportion of the guarantee amounts (already reduced) only relating to general costs (this reduction was determined based on the estimate of the charges normally levied);
- adjust the guarantees by 14 April 2017.

At the same time, the Resolution initiates a process to identify, by 31 December 2017, the final rules for the guarantees of the Network Code and adopt compensation mechanisms for sellers and the distributors for any non-collection of the general costs of the system, applicable from January 2016.

Resolution 109 was contested by Gala SpA with the request for a precautionary measure rejected by the Regional Administrative Court on 24 March 2017, while on 25 May, the Council of State accepted its appeal on the order of the TAR, temporarily suspending the reductions in the amounts of guarantee in favour of the distributor.

The Council of State, on 30 November 2017, dismissed the appeals presented by E-Distribuzione and by the Authority against the sentences of the Regional Administrative Court of January 2017, confirming therefore, the cancellation of the provisions of the Network Code which provide for the inclusion of the general costs of the system not collected in the calculation of the guarantees that sellers must pay to distributors to conclude the transmission contract. As a result of this, in the statement on 29 December 2017, the Authority stressed that the transitional rules defined by Resolution 109 fully apply in all parts.

DCO 112/2017/R/tlr - Provisions for connection fees and the procedures by which the user can exercise their right to turn off and disconnect the district heating service (district heating and district cooling)

With consultation document 112/2017/R/tlr, and the subsequent document **378/2017/R/tlr** of 25 May 2017, the Authority provides the guidelines in relation to defining the criteria and procedures for connecting users to the network and the procedures by which the user can exercise their right to turn off the supply and disconnect from the district heating network.

Resolution 188/2017/R/eel – Calculation of the final reference tariffs for the electricity distribution service for 2016

The Resolution approves the values of the final reference tariffs for 2016 for the electricity distribution service. For areti, the flat-rate fees are slightly lower than those determined by the ARERA provisionally and made known with Resolution 233/2016/R/eel.

Resolution 199/2017/R/eel – Calculation of the final reference tariffs for the electricity meter reading service for 2016

The measure finally determines components T(ins) and T(rav) the reference tariff T(MIS) referred to in Article 15 of the TIME (Integrated Text On Meter Readings), for companies that serve more than 100,000 grid points.

Resolution 206/2017/R/tlr – Calculation of the final reference tariffs for the electricity meter reading service for 2016

With Resolution 206/2017/R/tlr, the Authority has started a process to monitor the prices of the remote heating service, in order to exercise regulatory powers in terms of the transparency of economic conditions of service delivery, quality of service and tariffs, as well as the powers of control conferred by Legislative Decree No. 102/14 and, more generally, to monitor the impact of sector regulation interventions on the prices charged to users by operators. The process should be completed by 31 December 2017.

Resolution 228/2017/R/com - Adoption of the Code regarding preparatory measures for the confirmation of the electricity and/or natural gas supply contract and voluntary reinstatement procedure TIRV

Despite the TIRV having entered into force on 1 May 2017, the Authority has nevertheless submitted the most innovative parts of the text for consultation, i.e. the new deadlines for submitting complaints to contest the conclusion of the contract by domestic customers as well as the procedures and the deadline for signing up to the reinstatement procedure always for the latter and, finally, also the provisions relating to non-domestic customers.

The TIRV, which repealed Resolution 153/2012, applies to contracts negotiated away from business premises or remotely and provides:

- that in the case of a domestic customer complaint about the irregularities in the confirmation of the contract:
 - the reinstatement rules that can only be activate as a result of the customer signing up in writing within a mandatory period (20 days from the date of delivery of the reply to the complaint to the postal carrier/sending of the email);
 - a new deadline for the submitting complaints (40 days from the issuance of the first bill);
 - further information obligations in the reply to the complaint by sellers;
- if the domestic customer does not sign up to the reinstatement procedure, they can activate the conciliatory procedure with the Authority's Conciliation service or with other organisations;
- for removal as requested by the European Commission of any reference "to contracts or activations not requested" to eliminate any ambiguity about the application of the resolutions in words to any provisions not requested referred to in the Con-

sumer Code (Art. 66 D);

- differentiated rules applicable to non-domestic customers (regarding preventive measures and the lodging of a complaint).

Salespeople already signed up to the procedure of 153/12 are automatically entered in the new list of vendors participating in the TIRV. With Resolution **543/2017/R/com** of 20 July, the Authority has made changes to the TIRV that require the seller, when receiving a complaint from a domestic customer, to also inform them about the measures that will be adopted in the case where the same customer has not expressed their participation in the reinstatement procedure (which may also match the procedures governed by the TIRV).

Resolution 275/2017/R/gas - Start of the process for compliance with the decision by the Council of State 4825/2016, on cancelling the Authority's Resolution ARG/gas 89/10, with respect to calculating the value of the raw material gas for the period from October 2010 until the gas reform by the Authority. Measures to protect end customers

With this Resolution, the Authority has arranged for the initiation of a procedure for compliance with the decision by the Council of State 4825/2016 with which Resolution ARG/gas 89/10 on the value of the raw material gas to standard customers is definitively cancelled. Specifically, the k reduction coefficient has been cancelled that, introduced in the corresponding QEt, resulted in a reduction of the amount of the supply costs recognised in the tariff for customers for the raw material gas; this coefficient was valid for the thermal year 1 October 2010 - 30 September 2011, but, as a result of updates, was also applied for the period 1 October 2011 until 30 September 2012.

The Authority, to comply with said decision, with Resolution **737/2017/R/gas** of 2 November 2017, decided to raise the value of the k coefficient of the component QE to 0.952 compared to the previous values of 0.925 and 0.935 (to apply for the entire period 1 October 2010 - September 2012); with regard to the method of regulating the amounts to be billed to end customers, an appropriate DCO (Consultation Document) will be published in such a way as to be able to conclude the process by July 2018.

Resolution 279/2017/R/com - Bill 2.0: incentive mechanism for greater dissemination of electronic bills direct to the customers served by standard schemes and amendments to Bill 2.0

With Resolution 279/2017/R/com of 21 April, the Authority introduced a mechanism, starting from 2016, aimed at encouraging the dissemination of electronic bills to end customers, also through specific incentive methods, for the benefit of operators the protection, which provide for the reinstatement of the differential between the level of the discount applied to customers served (with bills in electronic format and direct debit as provided by Bill 2.0) and the cost savings made by the operator by issuing bills in non-paper format. To access this mechanism, a minimum requirement is having billed the discount for an electronic bill to at least 7% of customers served in the standard scheme.

For 2016, Acea Energia does not meet this minimum requirement and will not, therefore, ask to participate in said mechanism.

Resolution 286/2017/R/eel – Calculation of the provisional reference tariffs for the electricity distribution service for 2017

The resolution makes the provisional 2017 reference tariffs for the electricity distribution service known, including the pre-final value of the balance of the equity increments entered in the year and fixed assets during 2016.

Resolution 291/2017/R/eel - Criteria for allocating the flat-rate contribution payable by the Revenue Agency, to cover the charges incurred by sellers of electricity for debiting the (television) licence fee at the same time as bills for the years 2016 and 2017

The Authority shall establish the arrangements for allocating a lump sum contribution to cover the costs incurred for debiting the television licence fee in the bill. The full contribution is €14 million for 2016 and € 4 million for 2017, from which an amount allocated to the Single Buyer is subtracted, estimated to be approximately €250,000 (i.e. €0.0054 per average number of POD (electricity grid point) with a paid TV licence fee).

The Authority has established that the contribution will be calculated directly by the Revenue Agency based on the information that will be transmitted by the Single Buyer relating to the average number of domestic grid points served and the average number of grid points for which the sales company collects the licence fee, in the respective years, without requiring operators to send any more data.

The formula for calculating the contribution, although differing from that suggested by operators (euro/POD classified by size) reintroduces the differentiation between the investment costs and operating costs: the first are divided into a fixed part (€ once) and a part that depends on the number of domestic customers served (€/POD served), while the second are defined as only variable costs based on the average number of PODs with a TV Licence Fee collected (€/POD with TV Licence Fee).

The Authority has stated, moreover, that any possible differences, positive or negative, between the total annual contribution payable and the sum of the contributions payable as a result of this calculation shall be divided between the sales companies in proportion to the average number of grid points for which the sales company has collected the licence fee. As provided for by Resolution No. 189448/2017, in **November 2017** the Revenue Agency notified Acea Energia that the flat-rate contribution payable for the year 2016 is €536,615.80 and in the month of December paid part of this contribution equal to €514,975.01. The balance will be paid upon the outcome of the revaluation of the contribution that the Revenue Agency will make following any acceptance by the Single Buyer of the observations submitted by certain operators in relation to the data supplied by the same Single Buyer to perform the calculation.

DCO 307/2017/R/com - Criteria for the recognition of costs incurred by electricity and natural gas distribution companies for the change of brand and related notification policies

The document follows Resolution 237/2017/R/com of 13 April 2017 with which the ARERA initiated the procedure for the specific recognition of the costs incurred by distribution companies for the change of brand and related notification policies as a result of the introduction of the provisions of the Integrated Text on Functional Unbundling (TIUF).

In particular, the debranding obligations had to be fulfilled before the 30 June 2016 (change of company name, brand, signs and other distinctive features) and by 1 January 2017 (information channels, physical spaces and separate staff).

The text breaks down the eligible costs (capex and opex) relating to the three-year period 2015-2017 which will only be recognised for distributors who have given separate accounting evidence, with the correct allocation in separate annual accounts.

Resolution 419/2017/R/eel - Temporary increase in value of actual imbalances pending the definition of the scheme's rules based on nodal prices

The temporary increase in value of actual imbalances has been re-defined, postponing the final rules until January of 2019. In particular, the following is envisaged:

- the non-macrozonal arbitrage fees introduced immediately

(1 July 2017) to neutralise the economic advantages that dispatching users could receive from the difference in the zonal prices within the same macrozone;

- the new method for calculating the sign of the aggregate imbalance zonal proposed by Terna is applied with effect from 1 September 2017, finally using the value of the sign determined on day "D+1" (with prior publication within 30 minutes of the delivery period as soon as possible and in any case with effect from January 2018), without making adjustments in the month "M+1";
- the restoration of the single pricing mechanism for dispatching points for unauthorised units also as from 1 September 2017, in the meantime maintaining the contrasting mechanisms currently in force (such as the mixed single-dual pricing system) inadequate scheduling strategies in respect of the system laid down in Resolution 800/2016.

Contextual innovations relating to the detailed rules for calculating the sign of the aggregate zonal imbalance and the introduction of charges for non-macrozonal arbitration allow the risk that dispatching users could receive significant economic benefits, even to the detriment of the electricity system to be reduced considerably. Thus allowing, for all unauthorised units to be upgraded to single pricing, fully in line with the European Regulation concerning electricity balance, which recommends single pricing as a general rule for increasing the value of actual imbalances.

Resolution 425/2017/I/com - Annual report on the quality of the telephone services of vendors of electricity and gas 2016

"Annual report on the quality of the telephone services of the vendors of electricity and gas" for 2016 published.

As regards Acea Energia, all 3 general standards are met highlighting the contractions due mainly to December's performance. The indicator AS "Access Service" (standard $\geq 95\%$) stood at 99.96%, slightly down compared to 100% in 2015; the indicator AHT "Average hold time" (standard ≤ 200 seconds) stood at 194.25 seconds, up compared to 161.17 seconds in 2015 and finally the indicator SL "Service Level" (standard $\geq 80\%$) stood at 85.19%, slightly down compared to 86% in 2015. In 2016 however, the percentage of the number of telephone calls per customers served improved, which although it remained above the national average (1.25%), fell to 2.71% from 3.25% in 2015.

The report also highlighted the fact that, following the approval of the new TIQV (Resolution 413/2016/R/com), as of 1 January 2017 there is a change to the AHT and SL standard that will be more restrictive at ≤ 180 and $\geq 85\%$ respectively.

Finally, it is recalled that the indicators measure and monitor the possibility of enjoying the telephone service, but do not allow the quality of the response provided to the customer who used the service to be measured.

Resolution 435/2017/R/efr - Definition of the tariff contribution to cover costs incurred by the electricity and natural gas distributors subject to the obligations within the framework of the mechanism of energy efficiency certificates

The resolution to revise the rules for determining the tariff contribution granted to electricity distributors who fulfil the energy saving obligations in the framework of the energy efficiency certificates (TEE) mechanism, for the years of obligation from 2017. In more detail:

- the so-called relevant session reference price determined by the average price, weighted according to the amount of the transactions performed in each session and concluded at a price within a range of $\pm 12\%$ compared to the relevant reference price of the previous session has been introduced, to determine the contribution;
- the reference contribution has been defined (formerly esti-

mated contribution) taking into account the weighted average (on market transaction volumes and concluded through bilateral agreements) of the last two final contributions, providing a temporary one for the year of obligation 2017, which is why a higher weighting has been given to the 2016 final contribution compared to that of 2015;

- the parameters that constitute the k coefficient have been changed, which is applied to the difference between the reference contribution and the trade prices on the market;
- the tariff contribution to be provided on the occasion of the new annual expiry date for achieving the objectives by 30 November of each year has been defined, proceeding with the provision in advance based on the final contribution of the previous year, to apply to a limited target amount for each distributor (40% of the specific target for the year of the obligation and 75% of the residual amount of targets for previous years of obligation);
- the absence of limits to retaining TEEs in owned accounts has been confirmed, without envisaging an expiry date for them.

With regard to the application of the accruals basis, initially introduced from the year of obligation 2017, it has been postponed with subsequent measure **634/2017/R/efr** of 15 September 2017:

- as regards certificates relating to remaining targets for the year of obligation 2017, the previous cash basis applies;
- as regards, on the other hand, certificates relating to the remaining targets for the years of obligation between 2018 and 2020, the accruals basis will only apply to portions of them, gradually and uniformly increasing in time. The number of certificates to which the accruals basis apply will be quantified by the application of the parameter (0.25, 0.5 and 0.75 respectively) to certificates delivered by distributors subject to the obligations to apply to compensation for previous years of obligation. For certificates relating to the remaining portions of each remainder, the cash basis will apply instead.

The full application of the accruals basis will only be reached with reference to the remaining targets for the years of obligation subsequent to 2020.

Given that e-distribuzione has proposed an extraordinary appeal to the President of the Republic against Resolution 435/2017/R/efr, notified to ARERA on 11 October 2017, with Resolution **707/2017/C/efr** of 26 October 2017, the Authority has therefore decided to propose objecting to said appeal.

Resolution 474/2017/E/com - Start up of a pilot end customer satisfaction survey for responses to written complaints or requests for information received by vendors of electricity and natural gas

With Resolution 474/2017/E/com of 28 June 2017 the Authority has decided to implement a pilot end customer satisfaction survey for responses to written complaints or written requests for information; this survey, carried out by means of the call-back method will be completed by 30 November 2017. The project involves sellers who received at least 1,500 written complaints on average per month in the second half of 2016 and, on a voluntary basis, sellers who during the same period received at least 300 complaints on average per month. Acea Energia, based on the data reported for the half-yearly collection on commercial quality, did not fall under the scope of being automatically involved in the pilot survey.

Resolution 481/2017/R/eel - Tariff structure of the general costs of the system for the electricity sector applicable from 1 January 2018. Definition of the groupings of the system's general costs

The Authority has defined the new tariff structure of the general costs to be applied from 1 January 2018 to non-domestic customers relating to components A2, A3, A4, A5, As, MCT, UC4, UC7,

providing in particular for:

- two groupings: 1) general charges related to supporting renewable energy and cogeneration (ASOS) and 2) remaining charges (ARIM);
- these groupings to have a trinomial form, characterised by three rates (a fixed amount expressed in euro cents per grid point per year; a power amount expressed in euro cents/kW per year; and a variable amount expressed in euro cents/kWh);
- the structure of the ASOS grouping to be differentiated by classes of incentives provided for companies with a high electricity consumption (energy-hungry) defined with Resolution 921/2017/R/eel of 28 December 2017;
- that for the sake of simplicity, the afore-mentioned tariff structure is also applied to domestic customers and also concerns the tariff components UC3 and UC6, which are not related to general costs.

Resolution 491/2017/R/eel - Determinations in relation to the request for admission to the reinstatement of costs scheme formerly Authority resolution 111/06, for the electricity power plant in Capri. Changes and additions to resolution 111/06

With Resolution 491/2017/R/eel the Authority has made changes to the general rules on the reinstatement of costs of installations essential for the safety of the electricity system, in the part which relates to the methodology for determining the advances of the reinstatement fee and the process of their recognition making it more timely: the advance, in fact, can now be requested for the same year as the request and no longer just for the previous year.

As regards installations which are essential for a calendar year, the amount of the advance shall be calculated on the first half of the year for 2017, and over the period January - August, from 2018 onwards. With Resolutions **797/2017/R/eel** of 30 November 2017 and **863/2017/R/eel** of 14 December 2017, the reinstatement of the balance of 2015 costs and the reinstatement in advance of 2016 costs were recognised respectively for the Montemartini power plant.

DCO 544/2017/R/com - Reform of the switching process on the natural gas retail market

With consultation document 544/2017/R/com the Authority submitted their guidelines concerning the reform of the switching process on the natural gas retail market for consultation. In line with what has already been implemented in the electricity sector, the Authority first intends to centralise and standardise the gas switching process through the Integrated Information System (SII) and, in more generally, intends to also merge other processes on the SII such as, for example, the activation of last resort services and administrative termination procedures. Acea Energia participated in the consultation process through trade associations, welcoming the Authority's proposals.

Decision 555/2017/R/com - PLACET (Italian acronym of "Prezzo Libero A Condizioni Equiparate di Tutela", meaning an offer at free prices at conditions equivalent to those of the standard offer) offers and minimum contractual conditions for supplies to domestic and small business end customers in free electricity and natural gas markets

With Resolution 555/2017/R/com of 27 July, the Authority, following DCO 204/2017/R/com, has approved the rules on PLACET (Italian acronym of "Prezzo Libero A Condizioni Equiparate di Tutela", meaning an offer at free prices at conditions equivalent to those of the standard offer) offers together with minimum contractual conditions for all other free market offers other than PLACET offers; these provisions will come into force on 1 January 2018. In particular, the Resolution provides that PLACET offers must 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 scm). As regards the general supply conditions, the seller may alternatively choose 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 €/scm. 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).

With Resolution **848/2017/R/com** on 5 December, 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.

DCO 592/2017/R/eel - Italian capacity market. Latest technical-economic parameters

In 2017, the Authority continued with the consultation phase in regard to the development of the capacity market with consultation paper 592/2017. The paper refers to the technical-economic parameters that will characterise the Italian capacity market, in particular the exercise price, the economic parameters of the new type of capacity demand curve (following Terna consultation) and the conditions for which demand can actively participate in the capacity market (the so-called Demand Side Response).

The paper therefore submits the methodology for calculating the exercise price and the values of the awards corresponding to the various significant points of the capacity demand curve for consultation. It is recalled that the rules on the capacity market refer to the rules of operation of the production capacity market (power) of electricity, adopted pursuant to Legislative Decree No. 379/03 and in accordance with the criteria and conditions defined by ARERA with Resolution ARG/elt98/11, as amended by Resolution 375/2013/R/eel.

The purpose of the Italian capacity market mechanism is to provide appropriate incentives for operators so that an amount of resources at least equal to that needed for the system to be “adequate” is available in the system, i.e. that needed to ensure the system’s electricity demand is covered without having to resort to involuntary load shedding. To this end, the system - through Terna - acquires from operators the commitment to offer its own power, within the limits of the contractually agreed amount, in energy markets and dispatching services.

In January 2017, Terna, to supplement previous consultations carried out in 2016, submitted a proposal for consultation to simplify the methodology for constructing the demand curves per Segment envisaged in the capacity market. The consultation illustrates the rationale underlying the definition of the details of the points on which the demand curve is constructed and describes the methodology for constructing the curves per Segment. This is a methodological exemplification in so far as the specific adequacy values at national level will be defined in the approval of Capacity Market Rules by the Ministry of Economic Development.

At the end of 2017, the Authority had not yet followed with a resolution measure in the consultation phase that was held in the years 2016-2017.

Resolution 593/2017/R/com - Changes to the indemnification system: implementation in the SII and rules of its application to the natural gas sector

With Resolution 593/2017/R/com on 3 August, the Authority approved the TISIND (indemnification system for the defaulting end

customer system in the electricity and natural gas sectors integrated text), i.e. the return to the rules of the indemnification system already in force since 2010 in the electricity sector: it envisages implementation of the rules in the Integrated Information System (SII) and also its extension to the field of natural gas. In the new text, the indemnification quantification criteria are confirmed for the electricity sector and also extended to gas, only envisaging an update of the indemnification calculation which will be equal to the lowest of either the receivable relating to consumption in the last 4 months or the average value of 3 months of provision of the supply, recognising the extension of the potential shortfall period of sellers following some regulatory changes on formal notice and switching. Moreover, the TISIND simplifies the operational methods and streamlines the set of texts that make up the current transitional rules. The SII Operator, by 31/05/2018, will be responsible for implementing the technical specifications (in consultation until 16/10/2017) and the related functional testing. Based on the outcome of these activities, the Authority will identify the date of entry into force of the TISIND with a subsequent measure, possibly also separate for each sector, electric and gas.

Resolution 594/2017/R/eel - Provisions concerning the management of meter reading data in the context of the Integrated Information System (SII), with reference to the electricity sector

The measure assigns the SII the role of a unique interface for the provision of periodic meter reading data and related adjustments between distributors and sellers, as well as for data made available by the distribution companies in cases of change of ownership and switching. Consequently, the compensation provided for by the regulation in force shall also apply, as standard, with reference to the provision of meter reading data in respect of the SII.

With regard to the implementation times, the resolution:

- envisages that the experimental phase of tests, inspections and checks shall apply from the provision of the data for October 2017, because of the time necessary to set up the essential information tools;
- confirms that the meter reading data made available through the centralised process by the SII acquires an official character starting from:
 - the data made available in February 2018, with reference to regular readings and adjustment;
 - the meter reading data relating to transfer of ownership requests in January 2018;
 - the meter reading data related to switching with effect from 1 February 2018.

Resolution 629/2017/R/eel - Provisions for distributors and sellers for companies that consume large amounts of electricity for billing and payments in instalments for the years 2014 and 2015 and measures to reduce the financial burden of sellers

With Resolution 629/2017/R/eel of 14 September the Authority has arranged that sellers bill and split balances into instalments for the years 2014 and 2015 relating to the application of incentives for companies that consume large amounts of electricity. In addition, to reduce potential financial and economic criticalities of the sellers concerned, the resolution envisages the possibility of obtaining advance instalment amounts (starting from February 2018), as well as participating in an appropriate mechanism for the recognising uncollected receivables as of 30 April 2019.

Resolution 683/2017/R/eel - Application of the totex approach in the electricity sector. The first guidelines for the introduction of incentive-based adjustment schemes on overall control of expenditure

The paper shows the first of the Authority’s guidelines on the new

incentive-based adjustment approach on overall control of expenditure, the so-called *totex approach*. This approach has the following main features:

- focusing on total expenditure improving on the current scheme which considers operating costs and investments separately;
- forward-looking with the simultaneous strengthening of the regulator's capacity to critically assess the expenditure forecasts made by companies, as summarised in their business plan. In particular, the regulator must find its own assumptions about the development of the development path not only of operating costs, but of total expenditure (so-called baseline) therefore also comprising capital expenditure estimates;
- application of the adjustment menu (IQI matrix) that combines incentives with efficiency incentives to formulate accurate forecasts to tackle the problem of information asymmetry between the regulator and the entities regulated.

The paper identifies four main themed areas prior to the development of the *totex* approach:

1. business plan: the companies submit their business plan to the regulator (with a time horizon of 5-10 years), in which they explain their assessments on the question of service (in terms of expected quantity and quality levels) and on the basis of which they make their investment decisions, specifying the objectives pursued and proving that they adopt the most effective solutions to achieve them. These activities will be complemented by the public debate process in which the companies acquire the point of view of stakeholders;
1. cost assessment: refers to the estimation of the baseline by the regulator and the acquisition activities and data necessary to manage the *totex* approach, both in the predictive stage, and in that of actual consumption and control;
2. Incentives: the intention is to continue with the incentives system of the current regulations, in addition to implementing the incentives of the IQI matrix;
3. managing uncertainty: the intention is to start an interactive process with companies to provide the regulator with a certain quality of information needed.

With reference to the scope of application, the paper seeks to assess the possibility of providing for the fifth regulatory period, the application of the approach to the national transmission operator and, in relation to the distribution service, ensuring extensive coverage of the territory while initially limiting the number of stakeholders.

Resolution 716/2017/R/eel - Provisions relating to remuneration recognised on incentive-based investments, carried out in the years 2012-2013 by the company areti SpA, for the tariff years from 2014 to 2017

The measure arranges for CSEA to dispense the amounts referring to the increase in the capital remuneration rate (WACC) for investments that entered into operation in the years 2012 and 2013, for amounts of approximately €530,000.

DCO 725/2017/R/tlr - Provisions concerning the accounting separation obligations for the district heating service operators (district heating and district cooling) - First guidelines

With consultation paper 725/2017/R/tlr, the Authority presented the first guidelines for district heating service operators regarding the accounting and administrative separation obligations (accounting unbundling): these obligations are based on the size of the operators. The activities and sectors for the district heating sector to allocate the balance sheet items to are also identified and is also has the introduction of a specific criterion for allocating the accounting entries relating to the combined production of electricity and heat.

Resolution 762/2017/II/eel - Proposal to the Minister for Economic Development in relation to the list of authorised entities for the sale of electricity to end customers

The measure approves the Authority's proposal to the Ministry of Economic Development (MISE) on the criteria, requirements and procedures for the admission of operators of the sale in the List provided by Competition Law (Law No. 124 of 4 August 2017) with which it has been decided to subject the sales activities of energy to end customers to an authorisation scheme.

The key points are listed below:

- the rules governing the List only concern so-called commercial counterparts, i.e. companies that sell electricity directly to end customers. Transport users that serve wholesale customers are, therefore, excluded;
- to be entered in the List, sellers, as well as the companies that perform any management and coordination activities in their respect (typically the parent company): **a)** must not be in a state of insolvency or liquidation, **b)** must not be in an agreement with creditors, even if under conditions of business continuity. For sellers who are already operating in the market on the date of entry into force of the List (and for companies that carry out management and coordination activities in their respect), only compliance with the requirement referred to in point a) is relevant. These companies, already credited to the SII, will be inserted *ex officio* in the first version of the List. Also, with reference to exclusion from the List, only the failure to comply with the requirement referred to in point a) applies: otherwise, a seller who is in an agreement with creditors with business continuity, at a time subsequent to entry, may continue their activities;
- requirements of a financial nature required of sellers: minimum share capital threshold (€ 50,000) and punctuality of payments to Terna and distributors: as regards distributors, consistently with what already provided for in the Network Code, this requirement is met by the seller if two or more late payments do not occur, even non-consecutively, within six months;
- technical requirements of sellers: timely transmission of offers for sale in the comparability portal established on the MISE website and additional indicators to be defined later relating to commercial quality, billing and arrears;
- identification of "reliability classes" sellers will be entered in according to the degree of compliance with the aforementioned requirements. In particular, entry in the "observation class" involves the start of a specific analysis by the Ministry as a result of which they may be excluded from the list with immediate termination of contracts with end customers.

The Authority has also postponed the defining of more imperative requirements, aimed at identifying a procedure for periodically checking the powers with regard to legislation and regulations of persons with responsibilities at the companies included in the List to a subsequent measure.

The adoption of the ministerial decree which will establish the List of sellers, envisaged by the Competition Law by 30 November 2017, is still pending.

DCO 763/2017/R/com - Portal for publishing offers intended for domestic and small business end customers on electricity and natural gas retail markets.

Guidelines for formulating the Authority's provisions for the Portal's implementation and management (pursuant to art. 1, paragraph 61 of Law 124/2017)

With DCO 763/2017/R/com, the Authority has outlined its guidelines for the comparability of offers portal intended for domestic and small business end customers, as established by Resolution 610/2017/R/com and by the Competition Law. The portal managed by the SII, will aim to collect and publish all offers on the

retail market of operators. Only PLACET offers will be inserted in the first phase of operation of the portal, which may be transmitted by sellers to the SII from 1 February 2018. Acea Energia participated in the consultation process through trade associations.

Guidelines 771/2017/E/com - Notice to fulfil the obligations to provide a response to requests for information from the energy consumer help-desk

With Resolution 771/2017/E/com of 23 November, the Authority has given notice to Acea Energia SpA, areti SpA and another 36 operators to fulfil the obligations to reply to requests for information from the energy consumer help-desk, proved to be pending on the date of 31 October 2017. On 27 December 2017, Acea Energia SpA and areti SpA informed the Authority that they have complied with the above obligations.

Resolution 783/2017/R/com - Provisions regarding the revision of the implementation procedures relating to the rules on terminating electricity and gas supply contracts

Following DCO 544/2017/R/com, with Resolution 783/2017/R/com of 23 November, the Authority revised the rules on terminating electricity and gas supply contracts.

The Resolution provided for the entry into force from 15 February 2018 of Annex 1 which only provides centralised management by the SII of the termination process for changing supplier for the electricity sector, while it has postponed the entry into force of Annex 2 until approval of the reform for switching gas via the SII, which also provides for the termination management by means of SII for the gas sector.

In particular, the resolution envisaged that:

- sending the switching request will also constitute exercising termination for a supplier change;
- the obligation to notify the SII of the contractual termination for a supplier change is removed;
- the obligation for the conferral of the right to terminate when concluding the contract for the supplier change applies to all final customers electricity (even industrial).

Resolution 793/2017/R/eel - Calculation of awards and fines concerning the output-based regulation of the electricity distribution service for 2016

The measure determines the results relating to the continuity of the distribution service recoveries for 2016: for areti the balance between awards and penalties led to a payment of about €942,000.

Resolution 867/2017/R/eel - Postponement of the completion of the reform of the tariff components to cover the general costs of the system for domestic electricity customers, referring to Authority Resolution 582/2015/R/eel

The resolution differentiates from 1 January 2019 the implementation of the reform of the tariff components to cover the general ASOS and ARIM costs of the DispBT component (marketing of the sale) for domestic electricity customers, providing to maintain the tariff structures currently in force throughout 2018 with differentiated rates for consumption bands (above and below 1800 kWh/year) and distinguishes between residents and non-residents. The extension is necessary to avoid the combined effects of the revision of the incentives for energy-hungry companies and of the last phase of the tariff reform for domestic customers on the electricity bills of the same domestic customers.

Resolution 882/2017/R/eel - Update for 2018, of 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

The resolution updates the mandatory tariffs for the distribution

and meter reading services for 2018 and extends the parametric methods for recognising the costs of 1G meters also for investments that will come into operation in 2018 for which the maximum value recognisable per meter installed will be, as was the case for 2017, 105% of the value corresponding to the investments that entered into operation in 2015.

Resolution 927/2017/R/eel - Update of the RCV and DISPbt components relating to the sale of electricity. Modifications to the TIV. Further provisions for populations affected by the earthquakes that occurred on 24 August 2016 and in the following days

With Resolution 927/2017/R/eel of 28 December 2017, 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.

Imbalance islands. Compliance ruling against Resolutions 333, 2015 and 333 of 2016

With Resolution 333/2015/R/eel, the Authority initiated a process in order to adopt a new rule for imbalances for the period between July 2012 and February 2015 in which the Authority's resolutions 342/12, 239/13, 285/13, cancelled by the ruling of the Regional Administrative Court of June 2014 applied, finally confirmed by the Council of State in March 2015 No. 1532.

With Resolution 333/2016/R/eel of 24 June 2016, the Authority established the rules from time to time in force when market participants were called to schedule their injections/withdrawals up to September 2014, since that date the restoration of the rules of resolution 111/06 were already known, and gave Terna a mandate to perform the related balances for imbalances. For Acea Energia, Terna set the balance payment at €3,625,371 paid by the Company in the month of January 2017.

Subsequently, Illumia SpA appealed for compliance with the ruling of the Council of State No. 1532 of 2015 asking for the cancellation of resolutions 333/2015/R/eel and 333/2016/R/eel. The Regional Administrative Court, with ruling 955 of 26/04/2017, confirmed the validity of the contested resolutions. However, since the applicant also proposed some reasons which do not pertain to a

breach of that ruled, such as e.g. the error and/or lack of motivation, it converted the compliance law into an ordinary law.

Budget Law 2018 (Law 205 of 27 December 2017)

As regards the energy market, Law 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.

Provisions in favour of electric cars were also inserted in the same budget law by prescribing that the Ministry of Economic Development (MISE) identifies criteria and methods to promote the dissemination of integration technology between vehicles and the electricity network (vehicle to grid) before 1 July 2018, also providing for the definition of the rules for participation in the electricity markets and specific measures to rebalance the purchase costs with respect to energy resale prices.

The name of the Authority for the electricity gas and water system was also changed, replacing it with the regulatory Authority for energy networks and the environment (ARERA), in virtue of the allocation to it of regulation and control functions in the field of waste as of 1 January 2018.

ARERA WATER SERVICES ACTIVITIES

Resolution 43/2017/R/IDR - Notice to fulfil the obligations in the field of measuring the use of the integrated water service, approved by Authority Resolution 218/2016/R/idr

With this resolution, the Authority notified 47 operators who requested exemption from the application of resolution 218/16 on the measurement of the SII (including Acea Ato2, Gori, Gesesa and all the Tuscan companies of the Acea Group) to by and no later than 31 December 2017 with the obligations relating to:

- the rules on changing delivery points with inaccessible or partially accessible meters after 2 failed attempts (Art. 7.3 I);
- the communication to the user of the day and time slot for the switchover for the collection of the meter reading within 5 - 2 working days prior to the switchover (Art. 7.4 I);
- the communication of information obligations on metered use to the ARERA (Art. 15).

A breach of the new terms (subsequent to that laid down in the resolution 218/16) is prerequisite for the launch of a formal investigation aimed at the adoption of disciplinary measures characterised by the serious nature of the breach due to the importance of the public interest that the metering rules aims to protect.

Resolution 440/2017/R/IDR - Procedures for the transfer, by operators, of amounts due to the special accounts of the Sole Commissioner referred to in Art. 2 of Legislative Decree 243/2016

The measure, approved following prior consultation (DCO 281/2017/R/idr) defined the procedures with which the operators concerned - taking into account the maintenance of the economic and financial equilibrium - will transfer to the special accounts of the Sole Commissioner (referred to in Article 2, paragraph 1, of Decree Law 243/16) the amounts intended for the implementation of the interventions (for the part covered by tariffs) functional to ensure its adaptation to the rulings of the Court of Justice of the European Union pronounced on 19 July 2012

(Case C-565/10) and 10 April 2014 (Case C-85/13) concerning collection, sewerage and purification.

Press Release 20 March 2017 - CONTRACTUAL QUALITY data collection

With the communication on its website, starting from 20 March 2017 the ARERA launched the collection through the Extranet of the data and information relating to the Contractual quality of the integrated water service with reference to the period 1 July 2016 - 31 December 2016 pursuant to Art. 77, paragraph 1, of the Integrated Text on the regulations on the contractual quality of the SII (RQSII) annexed to resolution 655/2015/R/IDR. The deadline for operators to send data was 11 April 2017, while for validation by the EGA deadline was set at 27 April 2017.

Acea Ato2 and Acea Ato5 sent the data and information requested by the deadline provided.

Resolutions 569/2017/E/idr and 627/2017/E/idr - “Approval of the ten (4 for resolution 569 and 6 for resolution 627) audits in the field of tariffs of the Integrated Water Service”

With the two separate measures the Authority approved the execution of new audits in respect of operators of the integrated water service, i.e. in respect of government entities in the field and other relevant actors, to be carried out by 31 March 2018. Four audits will affect operators or Entities in the field of matters relating to tariff regulation for the first and the second regulatory period (years 2012-2015 and 2016-2019), and six audits will cover situations in which the determination considers there to be *ex officio* tariffs or exclusion from the tariff update.

The audits and any consequent disciplinary measures will be carried out in accordance with resolution 388/2017/E/com “Changes to the regulations governing the disciplinary procedures and procedural arrangements for assessing commitments”.

DCO 603/2017/R/IDR - Directives for the adoption of procedures for reducing arrears in the Integrated Water Service. General framework and initial guidelines.

The consultation fits into the framework of the procedure initiated by the Authority with resolution 638/2016 regarding regulating arrears in SII. The proposed objectives are those of introducing minimum homogeneous rules at national level, therefore overcoming the differences of the procedures currently provided for in the Service charter and in the User regulations adopted by the various operators, but also to fully implement the provisions contained in the DPCM dated 29 August 2016 which, in line with the specific provision contained in the so-called “*Collegato Ambientale*” (Committee on Environmental Accounting) (Law of 28 December 2010 No. 221), has broken down the rules and the principles to be observed in the guidelines and in the reduction of arrears (including the principle of the minimum vital quantity to be guaranteed to domestic resident users in conditions of economic-social hardship, guaranteed to all domestic resident users at a preferential tariff, always in respect for the economic-financial balance of operations). In this context and with these aims, the Authority proposes the first guidelines in respect of the procedures for formal notice of users in arrears who can be cut off as well as the operator’s obligations to notify the user before suspending the supply, the times and procedures for reactivating the suspended supply due to being in arrears, to cases of consumers in arrears who cannot be cut off. As regards domestic resident users and residents who live in conditions of economic-social hardship, the Authority proposes that the suspension of the supply cannot be carried out if the users in question are recipients of the social bonus for water. In the case of apartment building users, moreover, the Authority is inclined to believe that the operator’s contact person is represented by the apartment building or by the apartment building user

represented by the administrator of the condominium, to whom the procedures governing the envisaged formal notice and suspension of the supply will therefore be applied.

Resolution 665/2017/R/IDR “Approval of the integrated text on water fees (TICSI) laying down the criteria for the tariff structure applied to users”

The measure adopted after a structured consultation process, defines the principles and guidelines for reorganising the fees in the interests of streamlining the types (and sub-types) of use - whether domestic or non-domestic - as well as of the homogenisation of the tariff structures currently in force. In particular, for the domestic type it foresees a simplification and containment of the sub-types (domestic resident, apartment building use, non-resident domestic use and any two further sub-types of uses). For domestic resident uses, the tariff structure provides for each aqueduct, sewerage and purification service, a variable amount proportional to consumption and - limited to the aqueduct service - modulated by bands (preferential, basic and from one to three excess bands) and a fixed amount, not correlated to consumption. For the variable aqueduct amount, the application of a minimum preferential consumption band is envisaged (determined with reference to the minimum vital quantity set by the DPCM of 13 October 2016 at 50 litres/inhabitant/day) and configured based on a per capita criterion. The variable amount of the aqueduct service, moreover, is defined according to the actual number of components, if this information is already available to the EGA; otherwise according to a standard per capita criterion (domestic resident user type equal to 3 components), until the completion of the information set necessary, to be implemented by 2021 at the latest. For non-domestic uses, there is the obligation (from 2018) of equating the types of non-domestic use to the six envisaged by the authorities (industrial use; artisan and commercial use; agricultural and livestock farming use; public use that cannot be cut off; public use that can be cut off; other uses). For this type the overcoming of the minimum committed and a binomial tariff structure (fixed rate and variable rate) is also envisaged. As regards the tariff rates application for the year 2018, the Authority establishes that the operator, at least in the last billing cycle of 2018, must issue bills based on the new approved tariff structure.

For the collection and purification tariff of industrial wastewater, the application of a trinomial structure based on a fixed amount is envisaged (entirely attributed to the sewerage service), “capacity” amount (entirely attributed to sewerage) and variable amount (proportional to volumes discharged and quality of wastewater) and compliance with the expected constraint on revenues (maximum flexibility of +10%) and the condition of sustainability per individual industrial user (increase in expenditure no higher than 10%).

The new rules for reorganising the final user rates, including the application of the trinomial structure of the tariff for the collection and purification of industrial waste, apply as of 1 January 2018, postponing until 2020 (in coordination with the *unbundling* rules) the application of a uniform criteria for allocating the cost of treatment between industrial and domestic users, and however, imposing starting from 1 January 2022, the mandatory application of the per capita criterion based on the actual size of the components for the variable amount of the aqueduct service for domestic resident users.

Resolutions 917/2017/R/IDR - Adjustment of the technical quality of the Integrated Water Service or of each of the individual services that it comprises (RQTI)

With this measure, the Authority has defined the rules on the technical quality of the SII with an approach that takes into account the specific conditions of the various contexts in order to identify the correct and effective stimuli to promote benefits for

users of various services. The new model, defined as a result of and in continuity with the extensive consultation carried out (DCO 562/2017/R/idr and DCO 748/2017/R/IDR) is based on a system of indicators comprising:

- **prerequisites:** that represent the conditions required for admission to the incentive mechanism associated with the general standards;
- **specific standards:** that identify the performance parameters to be ensured in the services provided to the individual user and failure to comply with them leads to the automatic application of compensation;
- **general standards:** divided into macro-indicators and simple indicators that describe the technical conditions for the provision of the service to which an incentive-based mechanism is associated.

Each macro-indicator is associated with a classification table which allows the relevant class to be identified and the consequent annual objectives that the operator is required to achieve, articulated into maintenance objectives of the highest class and the improvement objectives for the other classes with differentiated values based on the starting conditions encountered.

A system of incentives is applied, structured into awards and penalties to be allocated from the year 2020, according to the performance of operators recorded in each of the two previous years and with three assessment stages (basic, advanced and excellent). The allocation takes place in a symmetrical way for awards and penalties, in accordance with an approach that takes account of the initial situation and performance changes. For the advanced and excellent levels, a multiple criteria analysis is applied that uses the TOPSIS (Technique for Order Of Preference by Similarity to Ideal Solution) methodology.

The hedging of costs related to compliance with the specific standards and the achievement of the objectives set out in the Technical Quality takes place as determined by the tariff method (MTI-2), as supplemented by resolution 918/2017/R/idr. In particular, expenditure for investment concerning measures adopted and included in the interventions programme (IP), is financed in the framework of updating the relevant economic-financial programme (EFP) or, in the case of the conditions are met, in application of the provisions laid down with regard to the extraordinary review. The government Entity in the field may however, formulate a specific request to hedge any additional operating costs.

The resolution provides for the application of the system of indicators based on the Technical Quality - as well as the start of their monitoring - starting on 1 January 2018 (based on the value assumed by the macro-indicators in the year 2016, while from 1 January 2019 it will be based on the value in the previous year, where available), and from 1 January 2019 the application of the rules concerning the recording and archiving of data obligations provided by the same measure.

The incentive-based mechanism (awards/penalty) is planned to enter into force for the sole macro-indicator M2 from 2020, without prejudice to the monitoring obligation.

The definition of the timescales and procedures for reporting the data monitored and the Technical Manual have been postponed until subsequent measures.

Resolutions 918/2017/R/IDR - Biennial update of the tariff arrangements of the integrated water service

After the consultation in November 2017 (DCO 767/2017/R/Idr) the Authority issued the final measure that defines the rules and procedures for the purposes of the biennial update (2018-2019) of the tariff arrangements of the integrated water service, integrating Annex A of the water tariff method 2016-2019 MTI-2 (resolution 664/2015/Ridr). The deadline for submitting the tariff arrangements to the Authority for the two-year period 2018-2019

is 30 April 2018. For the purposes of recalculating tariffs, the parameters relating to rates of inflation are updated for the update of operating costs, to the values of gross fixed capital formation deflator and the average cost of electrical supply in the sector. Within the scope of measures in support of investments, the measure provides for specific controls on the actual implementation of the investment planned for the years 2016 and 2017 in continuity with the previous two-year period, as well as on the consistency between the priority objectives laid down for subsequent years and the economic-financial management sustainability, and updates all the main parameters for calculating financial and tax burdens, recognised in the tariff. In addition, the measure requires the relevant government body to review and update its programme of interventions outlining, during the transposition of the specific objectives identified by the technical quality regulations, the intervention strategies to be favoured, with the related effects in tariff terms. With the resolution in question, the tariff component UI2, to be allocated primarily to the promotion of technical quality and, with reference to the introduction from 1 January 2018 of the social bonus for water for household appliances in a proven state of economic hardship, the tariff component (IU3) for the equalisation of the costs relating to the provision of the social bonus for water are finally quantified.

DCO 899/2017/E/ldr - Protection system for users of the integrated water service for handling of complaints and the out-of-court settlement of disputes. Final guidelines

The measure (that follows the first consultation on the subject DCO 667/2017/E/ldr) defines the Authority's final guidelines for defining the extension procedures to users of the water service of the protection system currently in place for customers of other regulated sectors. The measure submits the "Transitional rules scheme (for a period of one year) for the water sector concerning voluntary procedures of out-of-court settlement of disputes between users and operators of the SII" and the "Scheme of rules relating to activities carried out by the help-desk with reference to handling complaints made by users of water services" for consultation.

Resolutions 900/2017 and 920/2017 complements the regulatory framework for the extension of the protection system expanding the AU's recourse activities also to the water sector (with charges incurred by the "Account for the promotion of the quality of the aqueduct, sewerage and purification services" fed by the component UI2) and changing the name of the "Energy consumer help-desk" to the "Energy and Environment consumer help-desk".

Budget Law 2018 (Law 205 of 27 December 2017)

As regards the Integrated **Water Service**, Law 205 of 27 December 2017 approved the so-called amendment on "maxibollette" (maximum bills), reducing the period of limitation of the right to remuneration in **water service** supply contracts in relations between customers (domestic, professionals and micro-enterprises) and the seller to two years. These rules apply with reference to bills that fall due after **1 January 2020**.

Administrative Court of Lombardy sentences on the appeals submitted by some Operators

On 15 April 2016, the panel of experts identified in Ordinance 4745/2015 by the Council of State, in the framework of the proceedings pending before it concerning the appeals against resolution 585/12/R/ldr on the transitory (water) pricing method – MTT, filed the draft report prepared in order to respond to the questions of the arbitration panel.

These questions concerned the following matters:

1. whether the formulas and parameters for calculating the base interest rate (art. 18.2) and the risk hedging component (art. 18.3) were within the limits of reliability and reasonableness of the technical-scientific sector of the industrial economy or not, from the viewpoint of their suitability in terms of reflecting the tariff component strictly limited to the hedging of the cost of the invested capital;
2. whether the parameters applied constitute or otherwise the duplication of risk factors already considered in other part of the resolution in question, and whether the coefficients determined on that basis imply or otherwise an illogical overestimation of the risk factor within the risk hedging component (art. 18.3).

In response to these questions, the panel of experts affirmed that, in overall terms, the methodology contained in the Resolution (and the individual parameters adopted in art. 18 of Annex A to the Resolution) is largely based on the standard methodology of the WACC and, as such, is certainly reliable, reasonable and consistent with the know-how of the industrial economy, and is also in line with the practice of regulation in Italy and abroad.

Lastly, the panel of experts did not find any duplication of risk factors already considered in other part of the Resolution in the formulas and parameters and believes that the coefficients determined do not imply an illogical overestimate of the risk factor within the risk hedging component. On 15 December 2016 the final hearing of the ruling took place and on 26 May 2017 sentence No. 2481/2017 was published by which the Council of State, accepting the conclusions of the panel of experts reaffirmed the legitimacy of the tariff methodology adopted by the Authority as the definition of the individual parameters based on the criterion of the single hedging of the efficient cost and also the different calculation of the tax burden in the water sector with respect to electricity or gas sector, generally removes any guarantee of efficiency and leads to the result of the close hedging of the costs of the invested capital and the minimisation of user charges, in line with the referendum dictated and with the principle of *full cost recovery*. With this sentence, the Codacons and Acqua Bene Comune/Federconsumatori appeals were therefore rejected, with consequent confirmation of the sentences under appeal.

Other appeals made by companies of the Group to the Regional Administrative Court of Lombardy against Resolution No. 643/2013/R/ldr (MTI) and Resolution No. 664/2015/R/ldr the ARERA (MTI-2) are also still pending.

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 intersectorial adjustments. It is notified that, as a result of the approval of the new macrostructure which occurred during the financial year, operating segments have undergone some changes that resulted in the need to present the comparative data on a pro-forma basis. For more details about the changes please refer to the section “Sector information” shown in Annex D.

31.12.2017	Environment	Commercial and Trading	Overseas	Water	Energy Infrastructure					Engineering and Services	Other	Consolidated Total	
€ million					Generation	Distribution	IP	Adjustments	Total	Corporate	Consolidation adjustments		
Revenues	161	1,578	36	731	68	528	62	(1)	658	84	120	(545)	2,824
Costs	97	1,500	22	382	28	241	57	(1)	325	70	134	(545)	1,984
Gross operating margin	64	78	14	350	41	287	4	-	333	15	(14)	-	840
Depreciation and accumulated impairment charges	39	61	6	158	23	141	1	-	165	3	48	-	480
Operating income	25	17	8	191	18	147	3	-	168	11	(62)	-	360
Investments	15	19	5	271	23	186	1	-	209	1	11	-	532

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

31.12.2016	Environment	Commercial and Trading	Overseas	Water	Energy Infrastructure					Engineering and Services	Other	Consolidated Total	
€ million					Generation	Distribution	IP	Adjustments	Total	Corporate	Consolidation adjustments		
Revenues	137	1,676	13	699	56	571	122	(5)	744	43	112	(563)	2,861
Costs	80	1,578	9	363	24	218	119	(5)	356	28	114	(563)	1,964
Gross operating margin	57	98	4	336	32	353	3	-	388	15	(2)	-	896
Depreciation and accumulated impairment charges	27	74	1	118	26	95	6	-	127	3	20	-	370
Operating income	30	24	3	218	6	258	(3)	-	261	12	(22)	-	526
Investments	34	27	2	261	28	218	1	-	247	2	13	(55)	531

BUSINESS AREAS

Acea's macrostructure is divided into corporate functions and into six business areas: Water, Energy Infrastructures, Commercial and Trading, Environment, Overseas and Engineering and Services



ENVIRONMENT OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE YEAR

Operating data	U.M.	31/12/2017	31/12/2016	Change	Change %
WTE conferment	kTon	459	398	61	15.4%
RDF production plant conferment	kTon	0	0	0	n.s.
Net electricity transferred	GWh	354	302	52	17.2%
Waste coming into Orvieto plants	kTon	100	97	3	3.5%
Waste Recovered/Disposed of	kTon	518	327	191	58.2%
<i>of which</i>					
Waste from Composting Plants, Slurries and liquids disposed of	kt	438	255	183	71.3%
Slag and Ash produced by WTE	kt	80	72	8	11.5%

Equity and financial results

€ million	31/12/2017	31/12/2016	Change	Change %
Revenues	161.1	136.8	24.3	17.8%
Costs	96.7	79.6	17.1	21.5%
Gross operating margin (EBITDA)	64.5	57.2	7.3	12.6%
Operating profit (EBIT)	25.1	29.9	(4.8)	(16.0%)
Average number of staff	355	238	117	49.0%
Investments	15.4	34.0	(18.6)	(54.8%)
Net financial debt	195.3	173.7	21.6	12.4%

Gross operating profit (EBITDA) Adj

€ million	31/12/2017	31/12/2016	Change	Change %
Gross operating profit ENVIRONMENT segment	64.5	57.2	7.3	12.6%
Gross operating profit GROUP Adjusted*	840.0	784.8	55.2	7.0%
Percentage weight	7.7%	7.3%	0.4 pp	

* The Group EBITDA 2016 is given net of the effects of the elimination of the so-called regulatory lag.

The Segment closed the financial year 2017 with an EBITDA level of €64.5 million (+ 12.6%). This trend was heavily influenced by the best performance record by Acea Ambiente which benefits from the effects produced by the greater amount of electricity sold with particular reference to line 1 of the San Vittore plant for which the first parallel was proceeded with on 1 October 2016. There were also positive effects by Acque Industriali (+ €1.2 million) and Iseco (+ €0.9 million) that, to date from 1 January and from 23 February respectively, are fully consolidated in the Segment. As regards the Monterotondo Marittimo and Sabaudia plants, an increase in the amount entered was recorded for the first and the maintenance downtime of the second.

The average number of staff at 31 December 2017 was 355, an increase of 117 compared to the same period in the previous year. Acea Ambiente and Aquaser contributed to the overall growth by 44 units from both the external market and from intragroup mobility, while the first consolidation of Acque Industriali and ISECO produced an overall increase of 73 units.

It should be noted that as a result of the impairment tests performed at the end of the financial year 2017 the impairments of some Acea Ambiente plants (in particular Monterotondo, Paliano and Sabaudia) were made necessary totalling €9.6 million. The investments of the Segment totalled €15.4 million and mainly relate to the slag extraction system of the plant located in San Vit-

tore, interventions by the waste and biogas production treatment plant of the landfill in Orvieto and the purchase of a warehouse in the province of Terni. The change with respect to the previous year (- €18.6 million) is due to the higher investment made as a result of the work carried out during the third quarter of 2016 to revamp the plant located in San Vittore owned by Acea Ambiente.

The net financial debt of the Segment stands at €195.3 million (+ €21.6 million). The increase is mainly due to operating cash-flow dynamics. The contribution to this item of the companies acquired in 2017 is basically zero.

SIGNIFICANT EVENTS IN THE 2017 FINANCIAL YEAR

In the context of the wider reorganisation programme of the Environment Operating Segment was carried out at the start of the year for the acquisition of 51% of **Acque Industriali**. This operation was carried out following full consolidation (the company was previously consolidated with shareholders' equity being wholly controlled by Acque). In 2017, **Iseco** also entered the Segment, acquired at the end of February as part of the purchase transaction of the TWS (Technologies for Water Services) Group.

In 2017, activities were mainly dedicated to conducting the necessary

harmonisation processes of the various industrial realities acquired through the various operations carried out between the end of the last year (mergers by incorporation) and those of early 2017 (acquisitions). With reference to the individual local units, it is noted that:

Terni (UL1): the conferment of the pulper mill guaranteed the combustible requirements for the entire year and the expected performance levels were reached as regards both waste pre-treatment and the production of electricity. As a result of the presentation by Acea Ambiente of a new request for authorisation aimed at obtaining an expansion of the category of non-hazardous waste to start energy recovery, on 19 December 2017, the fifth Services Conference took place that concluded the AIA verification phase and the verification phase of the procedure for the Environmental Impact Assessment has, in fact, started at the competent offices of the Umbria Region.

Paliano (UL2): following the decision-making Services Conference for the release of the Environmental Integrated Authorisation, Acea Ambiente sent the Entities concerned the final project starting the related building and landscaping permits to ensure the forthcoming establishment of the Worksite. In this regard, the final design of the intervention has already been entrusted and the issuance of the final opinion by the competent municipal administration is therefore the next phase.

On 18 October 2017, the town of Paliano, Office of Public Works, Maintenance and Regional Planning expressed AN “unfavourable opinion” in the decision-making AIA Conference, on the compatibility of the CSS production plant (CDR) site in Castellaccio in the municipality of Paliano. The Company has therefore appealed to the competent Administrative Court to safeguard it for its own reasons.

San Vittore del Lazio (UL3): lines 2 and 3 of the plan, which are currently operating under normal conditions, ensured regular operations, in terms of both the electricity produced and the CDR started for energy recovery. On 3 March 2017, the GSE notified the conclusion of control activities and therefore accredited the green certificates relating to the years 2011 and 2012 to Acea Ambiente. With reference to line 1, the reconstruction was completed in September 2016 with the next start-up on 1 October, of the provisional operation that is implemented to check plant performance, the Lazio Region, having acknowledged the test, authorised the ordinary exercise of line 1 on 13 April 2017.

Orvieto (UL4): in compliance with the Integrated Environmental Authorisation and the contracts signed with the TAE and the local councils in the area of reference, the conferment of urban and special non-hazardous waste continued, starting the recovery and disposal operations within the terms provided therein. As regards the project submitted in 2014, concerning the morphological adaptation of the site and optimisation of the volumes and the *top capping* of the landfill, it should be noted that after a preliminary VIA/AIA procedure which lasted until January 2016, the Region of Umbria interrupted the verification phase without justification: Acea Ambiente started the appropriate safeguarding measures before the courts. In May 2017, moreover, the Company appealed to the courts for the cancellation, after suspension of the effectiveness of the Resolution of the Umbria Regional Council and of all acts prior to it, with which the Entity approved the resolution with which it had considered the objection stated by the Municipality of Orvieto in the context of the coordinated VIA procedure insurmountable. - AIA concerning the “Morphological adaptation of the site and optimisation of volumes and top capping - Landfill of Orvieto, Pian del Vantaggio No. 35/A” project.

A series of institutional meetings were held at the Umbria Region’s offices in June, July and September to verify any possible design change to allow for the full exploitation of the Site in question for the purposes of implementing the Regional plan for managing urban waste and in respect of the indications contained in the Regional Resolutions approved to date.

The talks that took place enabled the most suitable solutions to overcome the dissent expressed by some institutions towards the project in question to be found. In this respect, the Company submitted a project amendment that has allowed the continuation of the verification of environmental compatibility activities during the Environmental Impact Assessment. The work of the Services Conference restarted in January 2018.

Monterotondo Marittimo (UL5): the procedure of public evidence to identify the entity that will have the task of taking care of the design and construction of the new plant configuration, expanding the existing treatment capacity and developing a new energy recovery section has been completed. In terms of the procedure adopted, the bids received were assessed and the consequent identification of the entity that will perform the intervention.

The existing plant activities continued regularly in the reference period and were characterised by the implementation of the monitoring and control activities requested and in line with the new AIA authorising measure.

With Regional Decree No. 1175 of 7 February 2017, the Company received Integrated Environmental Authorisation No. 3866 of 8 June 2016 issued to the incorporated company Solemme on 8 September 2017, after the Region of Tuscany transferred the title to the Company.

Sabaudia (UL6): the plant currently operates on the basis of a formal extension on the part of Lazio Region, while awaiting the conclusion of the renewal process, which is expected to be successfully completed by the end of 2018. The plant is characterised by a stoppage to perform important renovation works which affected various areas of the plant (large squares and buildings, new electrical and electro-mechanical devices of the systems for managing and controlling processes): the restoration of ordinary activities is considered feasible before the end of the current year. In reference to the request to increase the treatment capacities presented by the Company, the Lazio Region held the first conference to check environmental compatibility which ended with a request for clarifications and additions.

Aprilia (UL7): in 2017 the plant guaranteed ordinary operation allowing the regular provision of different types of authorised waste. 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 criticalities found.

Acea Ambiente while considering being able to provide proof of having adopted correct management of the system in respect of the AIA requirements, is proceeding with the timely performance of all the requirements imposed and is confident of the imminent resolution of the current problems. The building work of the new plant configuration that will expand the existing treatment capacity with the introduction of an energy recovery section is currently underway. In this phase, the interventions are primarily related to carrying out the civil works.

COMMERCIAL AND TRADING OPERATING SEGMENT

OPERATING DATA AND ECONOMIC AND FINANCIAL RESULTS FOR THE YEAR

Operating data	U.M.	31/12/17	31/12/2016 Pro Forma	Change	Change %
Electricity sold on the free market	GWh	4,191	5,559	(1,368)	24.6%
Electricity sold on the protected market	GWh	2,652	2,757	(105)	3.8%
Electricity - Free market customers (P.O.D.)	N/000	320	295	25	8,5%
Electricity- Protected market customers (P.O.D.)	N/000	893	959	(66)	6.8%
Gas Sold	Msm ³	103	107	(4)	3.4%
Gas, No.of Free Market Customers	N/000	167	149	19	12,5%

Operating results and financial position € million	31/12/17	31/12/16 Pro Forma	Change	Change %
Revenue	1,578.4	1,676.2	(97.8)	5.8%
Costs	1,500.3	1,578.3	(77.9)	4.9%
EBITDA (gross operating margin)	78.1	98.0	(19.9)	20.3%
Operating profit (EBIT)	17.4	24.3	(6.8)	28.2%
Average no. of employees	474	473	1	0.2%
Investments	19.4	27.4	(8.0)	29.3%
Net financial debt	(4.9)	14.8	(19.7)	133.5%

Adj EBITDA (gross operating margin) € million	31/12/17	31/12/16 Pro Forma	Change	Change %
Gross operating margin Commercial and Trading Area	78.1	98.0	(19.9)	20.3%
Adjusted* GROUP gross operating margin	840.0	784.8	55.2	7.0%
Percentage weight	9.3%	12.5%	(3.2 p.p.)	

* The Group's 2016 EBITDA is shown net of the effects deriving from eliminating the so-called regulatory lag.

The Area, responsible for the Group's energy management policies, as well as for the management and development of electricity and gas sales and related customer relations activities, closed 2017 with an EBITDA level of € 78.1 million; this was down compared to 2016, by € 19.9 million.

The decrease is mainly due to the **Settlements and Litigation Area** (- € 9.7 million) following the inclusion in the 2Q of 2016 of revenues (equal to € 9.6 million) related to the effects of the contract signed in March 2006 for the marketing of digital meters. This amount was subject to a transaction in April 2017 for € 5 million.

The Energy Area recorded a decrease of EBITDA by € 10.7 million, mainly due to the growth in external costs, with particular reference to customer services non-recurring items. The overall decrease in the energy margin (- € 6.3 million compared to the end of 2016) through the decrease in the free market margin (- € 13.6 million) mitigated by the growth of the protected market margin (+ € 7.4 million also due to the increase in tariffs established by ARERA's resolution No. 816 of 29 December 2016) is highlighted. The reduction in the free market margin is caused by the contraction in electricity volumes sold (- 24.6% mainly in the B2B segment) despite the growth in the number of customers with particular reference to the small business and mass market segments.

Operating results show a decrease of € 6.8 million and recover about € 13 million compared to the changes in EBITDA mainly due

to the decrease in write-downs and provisions.

With reference to the workforce, the average number at 31 December 2017 stood at 474 employees; this number was up compared to the previous year by 1 employee. Acea8cento (+16), Umbria Energy (+ 22) and Acea Energia (- 18) mostly contribute to the above changes.

The Area's investments amount to approximately € 19.4 million and show a decrease of € 8.0 million, also as a result of information systems relating to the Acea2.0 project going live.

Net financial debt at the end of 2017 stood at - € 4.9 million, decreasing by € 19.7 million, compared to 31 December, 2016. 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.

SIGNIFICANT EVENTS FOR THE 2017 FINANCIAL YEAR

Energy Management

Acea Energia carries out the necessary "Energy Management" activities for the Group's operations, with particular regard to sales and production activities. It also acts as an interface with the Ener-

gy Markets Manager (GME) and with TERNA; with regard to the latter institutional party, the Company is the Shipper for dispatching on behalf of Acea Produzione and other companies of the Acea Group. During the period, it carried out the following main activities:

- the optimisation and appointment of the electricity produced by the Tor di Valle and Montemartini thermoelectric plants and the S. Angelo hydroelectric plant,
- the negotiation of contracts for the supply of fuels for generation plants,
- the procurement of natural gas and electricity for the sales company to final customers,
- the optimisation of the electricity supply portfolio and the management of the risk profile of companies in the Energy Area.

In 2017 Acea Energia SpA purchased electricity from the market for a total of 9,590 GWh, of which 7,713 GWh through bilateral contracts and 1,877 GWh through Borsa, for resale to end customers of the free market and for the optimisation of energy flows and the purchasing portfolio.

Sale of electricity

With regard to the sales market, the refocusing of Acea Energia's sales strategy continued through a more widespread and careful selection of customers, which tends to favour the contracting of small-sized customers (residential and micro-businesses).

In 2017, Acea Energia sold electricity on the Protected service for a total of 2,652 GWh, with a 3.8% reduction on a trend basis. The number of withdrawal points is equal to 893,319 units (958,855 as at 31 December, 2016). The sale of electricity on the free market amounted to 3,852 GWh for Acea Energia SpA and 339 GWh for the sales JV, for a total of 4,191 GWh, with a decrease with regard to the same period last year of 24.6%. The decrease has mainly affected the B2B segment and derives from the consolidation strategy in the small business and mass market segments.

In addition, the Company sold 103.0 million standard cubic metres of gas to end customers and wholesalers that involved 167,371 redelivery points while at December 31 2016 these amounted to 148,723. With reference to the proceedings initiated by the AGCM, the main updates are described below:

Proceedings PS9815 of the AGCM for unsolicited activations: at the end of the month of August, the Court of Justice suspended the discussion of the ruling in question, pending the definition of the preliminary questions raised by the Council of State, in a different ruling, with reference the application of the Directive on unfair commercial practices in the electronic communications sector. The Court of Justice did not accept Lazio Regional Administrative Court's request to adopt an "accelerated" procedure for a preliminary ruling.

Proceedings PS9354 of the AGCM for deceptive sales practices: during the month of February 2017, the Company paid the fine imposed by the AGCM (Italian Monopolies and Mergers Commission), stating that the payment does not in any way constitute compliance with the provision or the waiver of legal action. On 4 July 2017, the Company sent the AGCM a note containing some clarifications requested by the latter, concerning, in particular, the suspension process of reminder procedures and the consequent start of activities aimed at recovering the receivable in the event of claims concerning billing adjustments.

On 31 July 2017 the AGCM made a further request for additional information necessary for compliance with the aforementioned provision.

Acea Energia, with a note dated 15 September 2017, provided a timely response to the aforementioned additional requests by the AGCM which notified, on 7 December 2017, the notice regarding the acknowledgement of the measures to comply with the AGCM's penalty measure described by Acea Energia deeming them substantially adequate. In this regard, the AGCM itself requested that a report be provided, by and no later than June 30, 2018, concerning the measures definitively taken on that date to complete the implementation of the Acea 2.0 System, for full compliance with the above-mentioned penalty measures.

Proceedings A513 of the AGCM relating to abuse of a dominant position: in July 2017, following acceptance by the AGCM of the first request to access the documents, Acea Energia was able to view the reports received by the AGCM and which led to the initiation of the proceedings in question. In September, the Company issued a second request to access documents that was accepted, allowing the Company to also view the documentation drawn up by the AGCM at the offices of some agencies that carry out teleselling activities.

On 15 September 2017, at the headquarters of the AGCM, a hearing took place of some representatives of the companies involved in the proceedings, Acea SpA and Acea Energia, during which AGCM officials requested clarification on some inspection documents.

On 25 September, 2017, Acea Energia, together with Acea SpA, presented to the AGCM a proposal for commitments aimed at closing the proceedings for the disputed infringements.

On October 4, 2017, Acea Energia and Acea SpA provided written feedback to some of the requests for information formulated by the AGCM during the hearing held on 15 September, 2017, which required further in-depth reviews.

On November 16, 2017, AGCM notified Acea Energia of the formal rejection of the commitments presented jointly by Acea Energia and by Acea SpA on 25 September 2017, as the AGCM itself expressed its interest in ascertaining any infringements of the competition law implemented by a corporate Group integrated in the distribution and retail sale of electricity to domestic and non-domestic end customers connected in low voltage, in a market context in transition to the definitive overcoming of the system of greater protection and therefore towards the definition of new competitive structures.

On 18 January 2018 the AGCM, with the support of the Guardia di Finanza, carried out a further inspection.

During the inspection the AGCM notified a provision of objective and subjective extension of the A / 513 procedure. In detail, the AGCM deemed it necessary to extend the investigation both objectively with regard to the availability and use by Acea Energia of privileged information and subjectively to the electricity distribution company areti SpA, vertically integrated with Acea Energia, as a party who transfers this information to its sister company.

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

On 9 February 2018, following the extension granted by the AGCM, Acea Energia presented a request for confidentiality pursuant to Art. 13, paragraph 7 of Italian Presidential Decree no. 217/98 regarding the documents acquired during the inspection.

OVERSEAS OPERATING SEGMENT

OPERATING DATA AND ECONOMIC AND FINANCIAL RESULTS FOR THE YEAR

Operating data	U.M.	31/12/2017	31/12/2016	Change	Change %
Water volumes	Mm ³	44	44	0	n.s.
Operating results and financial position		31/12/2017	31/12/2016	Change	Change %
€ million					
Revenue		36.2	13.0	23.2	178.2%
Costs		21.7	8.6	13.2	153.4%
EBITDA (gross operating margin)		14.4	4.4	10.0	n.s.
Operating profit (EBIT)		8.3	3.4	4.8	142.2%
Average no. of employees		595	336	259	77.2%
Investments		5.2	1.5	3.7	n.s.
Net financial debt		7.4	12.9	(5.5)	42.9%
Adj EBITDA (gross operating margin)		31/12/2017	31/12/2016	Change	Change %
€ million					
Foreign Area gross operating margin		14.4	4.4	10.0	n.s.
Adjusted* GROUP gross operating margin		840.0	784.8	55.2	7.0%
Percentage weight		1.7%	0.6%	(1.2 p.p.)	

* The Group's 2016 EBITDA is shown net of the effects deriving from eliminating the so-called regulatory lag.

The Area, set up following the organisational changes in May 2017 (previously included in the Water Area) currently includes water companies that manage the water service in Latin America. In particular:

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

This area closed the 2017 financial year with an EBITDA of € 14.4 million (€ 4.4 million in 2016), essentially due to the consolidation of Agua De San Pedro (+ € 10.1 million) and the exclusion from the

scope of consolidation of AguaAzul Bogotá (+ € 0.3 million).

The average workforce at 31 December, 2017 stood at 595 employees and increased by 259 compared to the same period of the previous year due to changes in the scope of consolidation.

Net financial debt at 31 December, 2017 is of € 7.4 million and shows an improvement compared to the end of 2016 by € 5.5 million. The above change is attributable to Agua De San Pedro and essentially refers to the improvement in short-term availability accompanied by an increase in the need generated by changes in the working capital.

SIGNIFICANT EVENTS FOR THE 2017 FINANCIAL YEAR

The Overseas Operating Segment is affected by the reorganisation of investments abroad which should lead Acea International S.A. to play a role of direction and coordination. With this in mind, the transfer of the shareholdings that Acea held in Acea Dominicana S.A. and in Aguas de San Pedro in favour of Acea International has to be seen in this context. The above operations took place during the first half of 2017.

WATER OPERATING SEGMENT

OPERATING DATA AND ECONOMIC AND FINANCIAL RESULTS FOR THE YEAR

Operating data*	U.M.	31/12/2017	31/12/16 Pro-Forma	Change	Change %
Water volumes	mm ³	421	421	0	0.0%
Distributed consumed electricity	GWh	432	414	18	4.3%
Disposed sludge	kTon	143	161	(18)	11.1%

* The values refer to companies consolidated on a line-by-line basis

Operating results and financial position

€ million	2017	2016 Pro-Forma	Change	Change %
Revenue	731.1	698.7	32.4	4.6%
Costs	381.5	362.7	18.8	5.2%
EBITDA (gross operating margin)	349.6	336.0	13.6	4.1%
Operating profit (EBIT)	191.3	218.1	(26.9)	12.3%
Average no. of employees	1,796	1,818	(22)	1.2%
Investments	271.4	227.1	44.3	19.5%
Overall financial indebtedness	921.2	780.4	140.8	18.1%

EBITDA

€ million	2017	2016 Pro-Forma	Change	Change %
Water Area gross operating margin	349.6	336.0	13.6	4.1%
Adjusted* GROUP gross operating margin	840.0	784.8	55.2	7.0%
Percentage weight	41.6%	42.8%	(1.2 p.p.)	

* The Group's 2016 EBITDA is shown net of the effects deriving from eliminating the so-called regulatory lag.

The EBITDA of the Area stood at € 349.6 million at 31 December 2017 and increased by € 13.6 million compared to 2016 (+ 4.1%): the increase is essentially determined by the rate updates made starting from the second quarter of 2016. In particular, the performance of the Area is influenced by: 1. Acea Ato2, Acea Ato5 and Acque, which show increases of € 15.2 million, € 2.7 million and € 1.6 million respectively 2. Gori, Crea Gestioni and Publiacqua which show decreases of € 1.6 million, € 1.6 million and € 3.2 million, 3. GEAL for the new consolidation reports increases of € 1.2 million. Revenues for the period were valued based on the determinations made by the EGA and / or ARERA; as usual, they include the estimate of the adjustments related to the passing costs. As is known, starting from the second regulatory period the tariffs may also include components related to commercial quality: under certain conditions, the Managers may be recognized, alternatively, the Opex_{QC} component or the "contractual quality" premium: the lat-

ter is recognized to the Manager in the event that the indicators identified for measurement and monitoring (as from 1 July 2016) exceed the thresholds set by ARERA Resolution 655/2015. The amount of € 30.6 million recorded in the revenues of Acea Ato2 is the best estimate of the quality premium for 2017. It must also be noted that the penalties for commercial quality amounted to € 2.7 million. Below is a table that summarises the status of tariff proposals. The growth in revenues is also influenced by the change in the scope of consolidation (Umbriadue + € 15.4 million).

The average workforce as at 31 December 2017 decreased by 22 units mainly due to the deconsolidation of the associated company Gori Servizi which reduces the number of employees in the area by over 60 employees.

The following are the contributions to EBITDA of **water companies** valued at equity:

€ million	2017	2016	Change	Change %
Publiacqua	9.2	12.4	(3.2)	25.9%
Gruppo Acque	8.7	7.0	1.7	24.4%
Acquedotto del Fiora	2.3	3.2	(0.9)	28.0%
Umbra Acque	0.3	0.0	0.3	n.s.
Gori	1.8	3.4	(1.6)	46.9%
Nuove Acque and Intesa Aretina	0.5	0.5	0.0	0.0%

€ million	2017	2016	Change	Change %
Gori Servizi	0.1	0.0	0.1	n.s.
GEAL	1.3	0.0	1.3	n.s.
Total	24.2	26.5	(2.3)	9.0%

The operating results were affected by the increase in depreciation (+ € 16.2 million) in line with the performance of investments and the entry into service of the new features of the Acea 2.0 programme and greater write-downs (+ € 21 million); provisions for the period (€ 22.5 million) increased by € 3.2 million.

The financial indebtedness of the Area stood at € 921 million at 31 December, 2017 and worsened by € 141 million compared to 31 December, 2016. This last result is mainly linked to: 1) to Acea Ato5 following the loan of € 125 million, drawn for over € 100 million, granted by the Parent Company in June 2016 to allow the payment of commercial debt positions accrued mainly in respect of Group companies; 2) to Acea Ato2 substantially due to lower liquidity resulting from the lower level of collections achieved and partly from financial support for investments made.

The Area's investments amounted to € 271.4 million and are mainly attributable to Acea Ato2 for over € 200.0 million. The main in-

vestments in the period 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 and the interventions on the treatment plants and on the Acea2.0 application map.

SIGNIFICANT EVENTS IN 2017

Lazio - Campania Area

Acea Ato2

The Integrated Water Service in the Ato 2 Central Lazio - Rome was launched 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, which has not changed since 2016.

Acquisition situation

	No. of municipalities
Municipalities wholly acquired at the S.I.I.	79
Municipalities partially acquired in which Acea Ato 2 carries out one or more services:	14
Municipality with a protected entity	1
Municipalities where Acea Ato 2 does not manage any services	10
Municipalities that have declared that they do not wish to enter the S.I.I. *	8

* These are municipalities with less than 1,000 inhabitants who could express their will according to paragraph 5 of Italian Legislative Decree 152/06.

The company manages **the distribution of drinking water** in its entirety (collection, discharge, retail and wholesale distribution). Water is derived from sources by virtue of long-term concessions. Supply sources provide drinking water for about 3,700,000 inhabitants in Rome and Fiumicino and in more than 60 Municipalities of Lazio, through five aqueducts and a system of pipelines under pressure.

Three additional supply sources provide non-potable water to be fed into the Rome irrigation network.

The first period of the year was characterised (particularly in the months of January and February) by an extraordinary and prolonged lowering of temperatures, lower than the seasonal averages, such as to determine the breakdown of about 20,000 water meters and to make priority, due to of frost, even minor failures. The scenario described has generated a sudden and unexpected increase in flows introduced into the distribution networks, in some cases compromising water supply systems, leading to emergencies in many of the municipalities managed. Since spring, management has been characterised and strongly conditioned by a severe water crisis caused by drought.

The years 2016 and 2017 were, in fact, characterised by low rainfall on the Lazio side of the Apennines. This situation was exacerbated by high air temperatures, which resulted in higher water consumption. Spring flows of the large aqueducts that feed the Roman water system have experienced significant decreases, in particular, there are serious decreases in flow rates of the Marcio and Capore

aqueducts, which are more sensitive to drought and which - at the end of September 2017 - are still decreasing. In December, due to the rains that occurred, the first signs of recovery were recorded.

At the beginning of 2017, precise climatic and hydrological indications signalled the risk of an increased aridity already manifested in 2016 and the subsequent observations of the first months of 2017 have then validated 2017 as a drought. During periods of drought prolonged for more than a year, part of the water resource, due to the natural decline of sources not replenished by autumn and winter rain, is lost and constitutes unwanted deficits.

The year 2017 was characterised by a rainfall of 40% on average lower than the period on the entire national territory, in such a way, according to approximate calculations, to produce a deficit of about 20 billion cubic metres of water. In Rome, in the first 6 months of 2017, about 120 mm of rain fell; this corresponds to 30% of average rain fall on the city for the period under consideration (the lowest quantity since 2009).

The situation is getting worse if we observe that 2017 is the second consecutive year in which there has been low rainfall: in autumn / winter 2016-2017 and in 2015-2016 rainfall recorded was equal to about 50% less of that recorded in autumn-winter of 2014 -2015 and 30% less than the average for 2009 - 2016.

The above weather conditions have provoked a difficult situation for replenishing the aquifers, also aggravated by the fact that 2017 was characterised by high temperatures that, statistically, are asso-

ciated with increases in water consumption.

Furthermore, there was a decrease in the water availability to supply sources of over 1200 l / s average per year; this deficiency was covered, for the first part of the year, through the availability of Lake Bracciano, which is used (especially during the summer months) as an emergency reserve to support the increase in water demand.

For this reason Acea Ato2 has prepared a substantial plan of interventions to ensure the water supply of utilities served, as well as to preserve the strategic emergency reserve (Lake Bracciano) affected due to drought.

In particular, a plan to check for leaks has been launched in the municipalities of the Province of Rome, with priority for those with lower reserves in terms of water availability and / or structural interconnection with the supply network; interventions on these territorial realities have allowed to identify points where to install useful tools to contain operating pressures, in order to reduce the values of flows introduced into the network and the stress on pipes and, therefore, also the incidence of damages.

Extraordinary activities have also been planned and / or carried out for the Municipalities of Rome and Fiumicino; specifically:

- works to modernise the raising of the Peschiera springs which have allowed an increase of about 200 l / s in addition to 2016;
- in order to preserve the strategic reservoir of Lake Bracciano, the reallocation of use of some unused sources in 2016 as well as maintenance activities of some water centres was planned. The above intervention has allowed, together with other extraordinary electromechanical maintenance activities, the recovery of about 650 l/s of water. The aforesaid works were completed in July 2017 with the completion of the electromechanical works for the lifting of the aforementioned Cavallino Sorgente, which provided additional 50 l / s previously uncharged to the aforementioned 650 l / s for a total of about 700 l / s;
- interventions to replace the regulation valves of the EUR Water Centre have allowed a greater continuity and management flexibility in the water supply of the Roman coast;
- the Grottarossa plant was affected by interventions essential for continuous operation (and not seasonal);
- the study of water areas of the Municipality of Rome was launched with the aim of updating them and installing new measuring points for flow rates and pressures for purposes of remote control, to intensify the monitoring of these parameters and optimise the distribution of this resource in Italy. For modalities through which checks and inspections will be carried out on the distribution network, it will also be possible to identify any hidden damage that is not immediately evident as it does not appear on the surface.

As at 31 December 2017, Acea Ato2 manages a total of approximately 6,665 kilometres of sewerage system, 600 sewage lifting stations- of which 195 are in the City of Rome - and a total of 166 sewage plants - of which 32 are in the City of Rome -, for a total amount of treated water equal to 542 million cubic metres (data referring to managed purifiers only).

The Company manages the purification system and lifting systems connected to the network and to the sewers.

During the year the main **sewage plants** a volume of water equal to about 476 million cubic metres, with a decrease of about 9% compared to the same period of the previous year - around 518 million cubic metres, attributable to the scarce rainfall that has affected the area. The production of sludge, sand and grating related to all the plants managed was about 130 thousand tonnes, with a decrease of about 10 thousand tonnes compared to 2016. The above decrease is mainly due to the commissioning of the dryer and the anaerobic sludge digester of the "Roma Est" sewage plant.

During the year 2017 the increase in the number of analyses per-

formed by Acea Elabori (certified external laboratory) is highlighted. The increase in calculations and analyses is attributable to the greater presence of the managed sewage plants and the relevant sewage systems. The above specific choice determines a more specific control over the managed territory.

As at 31 December 2017, the Company manages a total of 600 **sewage lifting systems**, of which 195 in the Municipality of Rome and a total of 166 wastewater treatment plants, 32 of which in the Municipality of Rome.

With reference to the issue related to the seizure of sewage plants, we hereby inform that the plants of Roma Nord, Marcellina Fonte Tonello and Colubro are still subject to an order. The Palestrina Carcchitti plant was temporarily released in order to get the plant up and running and the consequent verification of the sewage process.

In the early days of 2017, the "Botticelli" treatment plant was the subject of a seizure order based on the assumption of the withdrawal of the discharge authorization by the Metropolitan City of Rome. The aforementioned seizure provides for the right to use, conditional on the execution of certain activities that the Company - although disputing the act of revocation of the authorization to discharge - has performed. In July 2017, the Public Prosecutor's Office of the General Court of Tivoli notified the suspects in the proceedings of the notice of completion of the preliminary investigations.

With reference to the proceedings of the Anti-Trust Authority (AG-CM, or "Autorità Garante della Concorrenza e del Mercato") initiated against Acea Ato2 in spring 2015 and ended with the imposition of a pecuniary administrative penalty of € 1.5 million, we inform that the trial brought about by the Company is currently pending.

Acea Ato5

Performs the integrated water service on the basis of an agreement for the assignment of the thirty-year service signed on 17 June, 2003 between the company and the province of Frosinone (representing the Area Authority constituted by 86 municipalities). Given the assignment of the service, Acea Ato5 pays a concession fee to all Municipalities based on the date of effective acquisition of the management.

The management of the integrated water service in the Ato 5 region - Southern Lazio - Frosinone involves a total of 85 municipalities (the management of municipalities of Atina, Paliano still remains to be noted) for a total population of about 490,000 inhabitants, a population served of 481,000 inhabitants and a number of users equal to 194,360.

With regard to the purchase of the plants relating to the management of the **Municipality of Paliano**, following the hearing of 7 December 2017, the Latin TAR upheld the appeal brought by the Company against the Municipality of Paliano, which, for more than 10 years, had unlawfully opposed the transfer of the service to the Company, in order to preserve the continuation of the management of its investee company AMEA SpA.

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

However, the Mayor of the City of Paliano made known the will of the City of Paliano to appeal to the Council of State against the ruling of the TAR and not to proceed, therefore, to the transfer of the service until the Council of State decided on the appeal.

The Operational Technical Secretariat of the Area Authority, giving rise to the warning issued by Acea Ato5, convened the parties - for 23 January 2018 - to "undertake the activities related to the delivery of the water service infrastructure" At the aforementioned

meeting, the City of Paliano, in the person of the Director / Officer of the S.I.I., the Company AMEA SpA, in person of the Legal Representative, the S.T.O. of the A.T.O. 5 Lazio Meridionale-Frosinone and Acea Ato5 agreed to submit a formal request to the Lazio Regional Administrative Court - Latina section - to proceed with the appointment of the Acting Commissioner, in the defaulting Town Council of Paliano, to perform the necessary activities to allow for the delivery of Service Infrastructure of the Local Authorities of Paliano to Acea Ato5.

As for the **Municipality of Cassino**, on 29 May 2017, ruling 2532/2017 with regard to the Council of State - in accepting the appeal brought by the Company - declared the nullity of the trade union ordinance adopted by the **Municipality of Cassino** no. 226 of 10 September 2016, as it was issued circumventing the previous ruling of the Council of State no. 2086/2015, in which the Municipality of Cassino was to adopt all necessary acts to consent to the management of the water service by Acea Ato5. It must be noted that the Council of State has sent the documents to the Public Prosecutor's Office at the competent Court and to the Public Prosecutor's Office also for the assessment of tax liability concerning operators, in line with the actions already initiated by the Company.

Therefore, following the transmission by the Company of the aforesaid sentence to the Municipality of Cassino, on 7 June 2017 the Parties met at the headquarters of S.T.O. of the A.A.T.O. 5, in the presence of the Accountable Manager, to define the activities necessary for the transfer of the service to the Operator as agreed (and which actually took place) from 1 July 2017.

Other issues still pending today were also discussed at the same venue. Among these - in addition to those eminently technical and / or operational - it is of particular importance the question of determining the sums owed by the Municipality of Cassino to Acea Ato5 for the waste water treatment service owned by it, to the Company: the parties have established to set up a working group, composed of representatives of the STO, the Municipality of Cassino and the Operator, who will have the task of quantifying these sums. The activities of the above working group are still pending and the Company has repeatedly urged both the Municipality and the Area Authority to promptly define the issues in question.

Also as a consequence of the approach formed at the jurisdictional level with reference to the events described above relating to the Municipality of Cassino as well as to the repeated requests - of the STO of the A.A.T.O. 5 and the Operator - on 21 June 2017, in a meeting held at the STO, the **Municipality of Atina** expressed its willingness to proceed, with effect from 1 September 2017, with the transfer of the works and facilities relating to the management of the service. It must be noted that the relevant report has not yet been formally signed.

In any case, on 28 September, 2017 the municipal technicians and Acea Ato5 signed the report acknowledging the works and installations concerning the S.I.I. in the municipal area - without however arriving at the formal operational delivery of the SII - and, subsequently, the Operator acquired the list of utilities located in the aforementioned municipal area.

However, when the matter seemed by now to have reached its conclusion, the Municipality of Atina - despite repeated attempts made by the Company in order to finally proceed with the delivery of the equipment to the management of the SII in the municipal area - continued to maintain a purely delaying behaviour, repeatedly trying to circumvent, in a pretext and instrumental way, the decision of the administrative court that has established its obligation to proceed with the transfer of the water service in favour of the Operator.

In January 2018, further meetings took place at the S.T.O. of Ato

5, however, the Municipality of Atina is still in breach of its obligation - ascertained by the administrative judge with ruling no. 356/2013 confirmed by the Council of State with ruling no. 2742/2014 - "for the physical delivery of the works and plants belonging to the SII", the S.T.O. of the A.T.O. 5 Lazio Meridionale-Frosinone and Acea Ato5, in the meeting of 23 January 2018, decided to request that the President of the Province of Frosinone, as Acting Commissioner appointed by the Lazio Regional Administrative Court - detached section of Latina, with ruling no. 356/2013 of 21 March 2013, adopt all the appropriate initiatives, activities and appropriate and / or necessary actions to allow the conclusion of the transfer process to Acea Ato5 of the works and water and sanitation facilities relevant to the SII in the municipal area of Atina.

Immediately, the Company has, on the one hand, sent a formal request to the President of the Province of Frosinone, as Acting Commissioner, so that the latter provides, instead of the defaulting Municipality of Atina, the "concession" ... in addition to material delivery of the works and plants concerning the SII "in favour of Acea Ato5; on the other hand, at the same time it requested AR-ERA to initiate a procedure aimed at verifying the legitimacy of the tariffs applied by the Municipality of Atina to users, and asked the competent Supervisory Authorities - including the Public Prosecutor of Cassino and the Court of Auditors - to ascertain any liability, including criminal and / or with regard to the tax authorities, for the parties indicated, possibly adopting all the appropriate consequent initiatives.

The water - drinking system consists of plants and networks, supply and distribution, which are linked to 7 main sources from which so many aqueduct systems originate. The coverage of this service is of about 97%.

The sewerage - waste treatment system consists of a network of collectors and sewerage (1,775 km) connected to waste water treatment terminal plants (122 active and functioning). There are 211 lifting systems managed by the company and, with regard to waste treatment, there are 110 biological plants managed, as well as 14 Imhoff tanks and 3 percolators.

Following the surveys and the relevant census of the users connected to the sewage system (as a result of the Constitutional Court ruling No. 335/2008), it was confirmed that the coverage of this service is approximately of 68% compared to that of water utilities.

With reference to the significant events occurred during the year:

- in relation to the merger project - launched in 2015 between Acea Ato5 SpA and Acea Ato2 SpA on 11 September 2017, ruling no. 450/2017 with which the Lazio Regional Administrative Court - Latina section, accepted the appeal proposed by Acea Ato5 SpA against Ato 5 Lazio Meridionale Frosinone for the annulment of resolution no. 1 of 18 February 2016 of the Conference of Auditors, concerning the refusal on the assessment of the application for approval of the subjective change of the body entrusted with managing the IIS. With regard to the matter of the resolution of the Management Agreement, it must be noted that the Latina TAR, with ruling no. 638 published on 27 December 2017, upheld the appeal brought by the Company against the resolution of the Conference of Auditors which ordered the resolution, annulling the provision. The terms for the appeal before the Council of State are currently pending;
- on 9 February 2017, the Company appealed for the annulment of Resolution no. 6 of 13 December 2016 with which the Conference of Statutory Auditors of Ato 5 approved the tariff proposal of the IIS for the 2016-2019 regulatory period, providing for an amount of adjustments for the period lower than that determined in the Operator's proposal (€ 77 mil-

lions vs. € 35 million), as a consequence of the different quantification made by the STO essentially on four regulatory items: i) amount of FNI (psi coefficient 0.4 instead of 0.8 proposed by the Company); ii) recognition of charges for arrears (3.8% of turnover instead of 7.1%); iii) recognition of quality charges (Opex qc), effectively cancelled and not recognised by the STO; 4) penalties for € 11 million. On 8 March, 2018 the public hearing was held on the matter, at the outcome of which the Judge handed down a decision;

- on 28 February 2017, ruling no. 304/2017 of the Court of Frosinone, relating to civil proceedings, RG 1598/2012, pending between Acea Ato5 SpA and the Optimal Territorial Area Authority (OTA) no.5. Acea Ato5 had acted, in 2012, with the proposition of a monitoring action aimed at recovering its receivable (amounting to € 10.7 million) arising from the Settlement agreement signed with the Area Authority on 27 February 2007, by implementing the resolution of the Conference of Auditors no. 4 of 27 February 2007. The Area Authority opposed the injunction, contesting the existence of the receivable and the validity of the Transaction on the assumption that the latter had been engulfed by the cancellation by way of self-protection of resolution no.4 / 2007 (intervened in force of the subsequent resolution of the Conference of Auditors no.5 / 2009).

Moreover, the Area Authority itself had contested the legitimacy of the Transaction since, in its view, the latter was adopted in breach of the regulations in force at the time and in particular of the Normalised Method referred to in the Ministerial Decree of 1 August 1996, the Area Authority - in formulating opposition to the injunction order, for the substantial reasons mentioned above - had also made a counterclaim aimed at obtaining the conviction of the Company to pay the concession fees for the period 2006-2011 and quantified at about € 28 million.

In this context, the Court of Frosinone:

- rejected the grounds of opposition formulated by the Area Authority, highlighting, on the one hand, that the cancellation, by way of self-defence, of Resolution 4/2007 (due to the subsequent resolution no. 5/2009) did not produce effects on the underlying private relationship, and therefore on the validity of the Settlement Agreement of 27 February 2007; on the other hand, that the Transaction did not breach the Normalised Method since the so-called principle of the price cap only applies to any tariff increases;
- has instead annulled the injunction on the assumption of the nullity of the resolution of the Conference of Mayors No. 4/2007 and of the Settlement Act that would have been adopted by the Area Authority in breach of the publicity that required to identify the financial coverage of the act itself;
- rejected the requests made by Acea Ato5 defendants in the alternative (in the event that the Settlement was declared invalid), aimed at recognizing the claim by the Area Authority;
- finally, he dismissed the cause of the preliminary investigation as regards the counterclaim request formulated by the Area Authority which in its closing brief acknowledged the payment, by the Manager, of a large part of its debt, representing the existence of a residual credit of approximately € 7 million. At the hearing held on 17 November 2017, the following documents were filed on behalf of Acea: a copy of the transfer of 31 July 2017 for € 2 million; copy of the bank transfer of 4 October 2017 for € 2.244.089,20 and the Acea note of 16 November 2017. With reference to the note dated 16 November 2017, the following were highlighted:
 - a. Acea's commitment to pay € 1,370,000 by December 2017;
 - b. the dispute of any further debts regarding concession fees.

Against the aforementioned document production, the counterparty - initially convinced to recognise the amounts referred to the credit transfers on July 31, 2017 and October 4, 2017 against the amounts owed by Acea as a concession fee - took note of the document production, declaring the need, also due to the contents of the note of November 16, 2017, to have to "report" to Ato 5.

In light of the above, at the hearing of February 27, 2018, the new judge who took charge of the case, having acknowledged the discrepancies that emerged in the respective accounts of Acea Ato5 and AATO5, granted a postponement to 4 May 2018, inviting the Parties to clarify the reasons for such a discrepancy and indicating that, if not, they will appoint an expert witness.

Linked to this trial, is the appeal against the ruling of the Court of Frosinone that annulled the injunction decree of € 10,700,000 initially issued by the Court itself.

The first hearing was postponed by office on 11 May 2018.

The Regional Council of Lazio with Resolution no. 56/2018 has re-defined the number of optimal territorial SII spheres that go from 5 to 6. With the subsequent Regional Resolution no. 129/2018 the methods and timing for the transmission of the quantification of the investments of the SII manager in the territories that are transferred to a different scope have been identified and, finally, with Resolution 152/2018 it has defined that data transmission times from the SII manager to the ATO (120 days) start from the moment of signing the Cooperation Agreement between the municipalities rather than from the moment of publication of the provision on BURL. It must be noted that the outline of the Cooperation Agreement is delegated by the DGR 56/18 to a subsequent act.

The additional information contained in the paragraph "Information on services under concession" is fully summarised.

GORI

The Company manages the Integrated Water Service of the whole ATO no. 3 Sarnese Vesuviano of the Campania Region (76 Municipalities) which covers an area of 897 km² with a population of about 1.44 million inhabitants.

The currently managed water network extends for a total length of 4,501 km and is divided into a primary supply network that extends for 453 km and into a distribution network of about 4,048 km, while the sewage system extends for about 2,300 km.

As far as the plants are concerned, GORI currently manages 4 springs, 76 wells, 163 tanks, 98 water lifts, 162 sewage lifts and 7 treatment plants.

On the basis of a specific agreement signed with the Sarnese Vesuviano Area Authority on 30 September 2002, the Company has been entrusted with a 30-year term of the integrated water service. With reference to the significant events that occurred during the year, it must be noted that:

- on 3 March the decree of the Court of Naples was notified to GORI with the injunction to pay approximately € 19.5 million requested by the Campania Region for the wholesale supply of services for collecting and treating waste water for the 2015 - first quarter of 2016 period. The Company appealed against the above decree, summoning also the Area Authority; the hearing was set for 9 April, 2018;
- on 17 March, GORI purchased, with effect from 1 April, the shares of Acea Gori Servizi owned by Acea (55%) and ASM Pomigliano (5%) at a price of € 1.9 million and € 0.175 million respectively. The purpose of the purchase is to insure the activities of Acea Gori Servizi (now Gori Servizi) into GORI through the merger by incorporation at the beginning of 2018;
- TAR ruling /2017 was published on 29 May which upheld the appeal presented by GORI for the annulment of the Executive Decree no. 4/2016 of the Campania Region on the

drawing up of tariffs for the second 2016-2019 regulatory period for regional supplies of wholesale water; for this reason, the tariff for wholesale water services of the Campania Region for the year 2017 is determined by the Authority with resolution 338/2015 / R / idr;

- On 7 June, a preliminary meeting was held at ARERA with the Campania Region, the Ente Idrico Campano (“EIC”), the Special Commissioners of the Naples-Volturno District Areas (“Ato 2”) and Sarnese-Vesuviano (“ATO 3”), as well as the managers of “Azienda Speciale di Napoli ABC” (“ABC”), Acqua Campania and GORI, in order to conduct audits - “on the basis of the criteria and procedures referred to in resolutions 656/2015/R/idr and 664/2015/R/idr” - with regard to:
 - the general elements of the joint Campania Region / Campania Water tariff proposal and its impact on the regional management structure;
 - the failure to adopt the tariff arrangement relating to the treatment service provided by the Campania Region;
 - to the general elements of the specific regulatory schemes proposed for GORI and ABC;
 - to the transfer of the Regional Works as a result of the resolution by the Campania Region Council 243/2016 in respect of GORI’s operator;
 - the request for economic and financial rebalancing by the Sarnese Vesuviano Area Authority for the GORI operator;
 - to the wholesale rate charged by ABC’s operator.
- The Campano Water Authority has drawn up a schedule of activities to be carried out and be completed by 31 March, 2018 which fulfills the regulatory deadline for reorganising the tariffs of operators and that contemplates two critical issues: a preliminary investigation, in collaboration with ARERA’s offices, and approval of wholesale rates; suspension of proceedings in civil matters on past receivables / debts that may lead to risks of serious critical issues among operators.
- A tariff request was presented by the Operator on 30 May 2016 with an application for recognition of the $Opex_{QC}$.
- ARERA formally notified the EGA on 16 November 2016 and the EGA approved the tariff proposal on 13 December 2016, dismissing, among other, the request for recognition of the $Opex_{QC}$. We are awaiting approval by ARERA.

We also inform that:

- with the ruling of the Campania Regional Administrative Court the management decree of the General Manager of the Campania Region no. 4 of 8 August 2016 for determining the 2016-2019 tariffs for regional wholesale services (both water supply and purification) was annulled;
- with ruling of the Council of State no. 5534/2017 of 27 November 2017 the effectiveness of ARERA’s resolution 362/2015 / R / idr for determining the wholesale tariffs of Acqua Campania SpA was restored. 2012-2015, constituting a relevant precedent confirming the legitimacy of similar resolution of ARERA 338/2015 / R / idr.

As part of the definition of urgent criticalities of the SII of ATO 3 and of their interference with the timetable of activities as defined by the EIC, following the Conference of Services held on 3 August 2017 between the Campania Region, EIC, of Sarnese Vesuviano, Acqua Campania SpA and GORI, the EIC, considered that the tariff and debt / credit disputes represent an obstacle in the administrative procedure regarding the implementation of the timetable sent to ARERA, and sent on 31 August 2017 to the Vice President of the Regional Council of Campania and the Environment Directorate General of the Campania Region the Minutes of the CdS and the request to agree the postponement of the hearing set on 14 September in reference to the ruling pending before the Court of Naples between Acqua Campania SpA and GORI.

The handing down of the ruling was postponed to 2 April 2018 due

to the instructions given by the Campania Region to its concession holder Acqua Campania SpA and the reasoning behind this deferral decision was that of not nullifying the action initiated with Ente Idrico Campano.

Likewise, and for the same reasons, we also postponed the dispute between the same Region and GORI for the payment request of approximately € 19 million as fees for the regional service of “collecting and treating waste water “ relating to some responsibilities for 2015 and 2016.

Finally, we inform you that there are ongoing discussions- between GORI, the Campania Region, Ente Idrico Campano, the Sarnese Vesuviano Area Authority and the Authority - for defining an overall Industrial Agreement in which to find solutions to the following issues, including through access to the financial equalisation already requested to ARERA: i) the transfer of the Regional Works and of relevant personnel assigned according to the resolution of the Campania Region Council 243/2016 and the subsequent Implementation Agreement of this resolution signed between the Region and the Area Authority on 3 August 2016; ii) the tariff reconciliation for wholesale supplies to ATO3 for the years 2013 - 2017; iii) the regulation between the Campania Region and Gori of the relevant receivable and payable entries through an appropriate repayment plan commensurate with the recovery profile of tariff adjustments.

The Company believes that the Industrial Agreement can be the tool to definitively solve company issues.

The additional information contained in the section “Disclosure of services under concession” is also referred to in full with regard to the financial repercussions resulting from the conclusion of activities for acknowledging equalisation measures.

Tuscany - Umbria region

Acque

On 28 December, 2001 the management agreement was signed, entering into force on January 1, 2002, initially with a duration of twenty years (the deadline is now set at 2026). On the basis of this agreement, the Manager receives in exclusive custody the integrated water service of the ATO no. 2 made up of all the public services for the collection, supply and distribution of water for domestic uses, sewerage and waste water treatment.

This region includes 57 municipalities. Given the assignment of the service, Acque is to pay a concession fee to all the Municipalities, including for previous liabilities to be paid by the management pre-existing to the assignment.

With effect from 2 January, 2017, Acque sold 51% of Acque Industriali to Acea: the company therefore merged, from an organisational point of view, into the Environment field.

Publiacqua

On 20 December, 2001 the management agreement was signed, entering into force on January 1, 2002, with a duration of twenty years. 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 are managed through contracts inherited from the previous management of Fiorentinagas. Given the assignment of the service, the Operator is to pay a concession fee to all the Municipalities, including for previous liabilities to be paid by the management pre-existing to the assignment.

Acquedotto del Fiora

On the basis of this management agreement, signed on 28 December, 2001, the Manager (Acquedotto del Fiora) has been exclusively entrusted with the integrated water service of the ATO

no. 6 made up of all the public services for the collection, supply and distribution of water for domestic uses, sewerage and waste water treatment. The management agreement has a duration of twenty-five years with effect from 1 January 2002.

The Shareholders' Meeting approved the distribution of 2016 profits up to an amount of € 4 million; this decision is subject to the positive response by lending banks.

Umbra Acque

On 26 November, 2007 Acea was finally awarded the tender called by the ATO 1 Perugia Area Authority for selecting the private minority industrial partner of Umbra Acque SpA (expiry of the concession on 31 December, 2027) The entry into the capital of the company (with 40% of the shares) took place with effect from 1 January 2008.

The Company carries out its activity on all 38 Municipalities that constitute ATO 1 and 2.

PROGRESS OF THE TARIFF APPROVAL PROCESS

Company	Status
Acea Ato2	On 27 July 2016, the EGA approved the tariff including the premium pursuant to Art. 32.1 letter a) Resolution 664/2015/R/idr. Approval approved by ARERA with Resolution 674/2016/R/idr with some changes with respect to the EGA's proposal; confirmed quality award
Acea Ato5	A tariff request was presented by the Operator on 30 May 2016 with an application for recognition of the $Opex_{QC}$. ARERA formally notified the EGA on 16 November 2016 and the EGA approved the tariff proposal on 13 December 2016, dismissing, among other, the request for recognition of the $Opex_{QC}$. We are awaiting approval by ARERA
GORI	On 1 September 2016, the Extraordinary Commissioner of the EGA approved the tariff with $Opex_{QC}$ with effect from 2017. We are awaiting approval by ARERA
Acque	On 5 October 2017, the AIT approved the tariff with recognition of the $Opex_{QC}$. We are awaiting approval by ARERA
Publiacqua	On 05 October 2016, the AIT approved the tariff acknowledging the premium pursuant to Art. 32.1 letter a) Resolution 664/2015/R/idr. On October 12, 2017, with resolution 687/2017/R/idr, ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT
Acquedotto del Fiora	On 05 October 2016, the AIT approved the tariff with recognition of the $Opex_{QC}$. On October 12, 2017, with resolution 687/2017/R/idr, ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT
Geal	On 22 July 2016, the AIT approved the tariff with recognition of the $Opex_{QC}$. On 26 October 2017, with resolution 726/2017/R/idr, ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT as well as the recognition of the recovery of prior year items
Crea Gestioni	Following Resolution 664/2015/R/idr, as neither the Municipalities where the service is performed nor the Reference Area Agencies, have any tariff proposals for the 2016-2019 regulatory period. The Company forwarded its tariff proposals. Currently, we are awaiting approval by ARERA
Gesesa	On 29 March 2017, the AATO1 with resolution no. 8 of the Extraordinary Commissioner approved the drawing up of tariffs for the years 2016/2019. Currently, we are awaiting approval by ARERA
Umbra Acque	On 30 June 2016, the EGA approved the tariff with recognition of the $Opex_{QC}$. Approval approved by ARERA with resolution 764/2016/R/idr

For more information on the subject, please refer to the section on “*Information on services under concession*”.

REVENUES FROM THE INTEGRATED WATER SERVICE

The table below indicates, for each Company of the Water Area, the amount of revenue for 2017 valued on the basis of the tariff

calculations assumed by the respective EGA or ARERA. The figures include the adjustments for pass-through items, the Fo.NI component, the $Opex_{QC}$ or Art. 32.1 letter a) Resolution 664/2015/R/idr.

Company	Revenue from SII (pro-rata values in € million)	Details (pro-rata values in € million)
Acea Ato 2	575.9	FNI = 26.5 AMM _{FoNI} = 5.3 Premio = 30.6
Acea Ato 5	68.8	FNI = 3.5 AMM _{FoNI} = 0.9
GORI	60.8	AMM _{FoNI} = 1.0
Acque	67.9	AMM _{FoNI} = 3.8
Publiacqua	94.3	AMM _{FoNI} = 12.2
Acquedotto del Fiora	38.3	AMM _{FoNI} = 2.1 $Opex_{QC}$ = 0.5
Umbra Acque	27.2	AMM _{FoNI} = 1.2

ATAC

As explained in the paragraph relating to the comment on the Group's financial and equity results, as a consequence of the opening of ATAC's agreement among creditors, Acea Ato2 assessed the partial recoverability of the receivables due from Roma Capitale (€ 6.1 million) recording a write-down of € 4.5 million.

Purchases

During the first quarter of 2017 the following companies were purchased:

- 100% of TWS (Technologies for Water Services SpA) which in turn holds 63% of Umbriadue Servizi Idrici, 40% of Visano Scarl and 80% of Iseco SpA It is specified that only Umbriadue is part of the Water Area.
- 19.2% of GEAL SpA which carries out the Integrated Water Service in the area of Lucca and its province. With this acquisition, Acea Group holds a 48% stake.

ENERGY INFRASTRUCTURES OPERATING SEGMENT

OPERATING DATA AND ECONOMIC AND FINANCIAL RESULTS FOR THE YEAR

Operating data	U.M.	31/12/2017	31/12/2016 Pro-Forma	Change	Change %
Energy generated (hydro + thermo)	GWh	414	394	20	5.0%
Energy generated (photovoltaic)	GWh	12	11	1	6.5%
Distributed electricity	GWh	10,040	10,009	31	0.3%
TEE sold / canceled	No.	145,754	120,961	24,793	20.5%
No. of customers	N/000	1,626	1,629	(4)	0.2%
Network kms.	km	30,344	30,171	173	0.6%

Operating results and financial position

€ million	2017	2016 Pro-Forma	Change	Change %
Revenue	657.6	744.3	(86.7)	11.6%
Costs	325.0	356.0	(31.0)	8.7%
EBITDA (gross operating margin)	332.6	388.3	(55.7)	14.3%
Operating profit (EBIT)	168.0	261.1	(93.1)	35.7%
Average no. of employees	1,366	1,380	(14)	1.0%
Investments	209.4	225.8	(16.4)	7.3%
Net financial debt	1,032.9	814.9	218.0	26.8%

Adj EBITDA (gross operating margin)

€ million	2017	2016 Pro-Forma	Change	Change %
Adjusted* RETI Area gross operating margin	332.6	276.8	55.8	20.2%
Adjusted* GROUP gross operating margin	840.0	784.8	55.2	7.0%
Percentage weight	39.6%	35.3%	(4.3 p.p.)	

* The Group's 2016 EBITDA is shown net of the effects deriving from eliminating the so-called regulatory lag.

EBITDA at 31 December, 2017 amounted to € 332.6 million, recording a decrease of € 55.7 million compared to 31 December, 2016.

The change in EBITDA is a direct result of the recognition in 2016 of the effects resulting from the publication of ARERA's Resolution 654/2015/R/eel which changed for the fifth regulatory period, with effect from 1 January 2016, the mechanism through which the invested capital of electricity distribution companies is remunerated by eliminating the so-called regulatory lag and providing an alternative remuneration method to the 1% increase in the WACC envisaged for the fourth regulatory period valid for the 2012-2015 four-year period.

Net of the recognition of the above income, adjusted EBITDA at 31 December, 2016 amounted to € 276.8 million, lower than that of the reference period of € 55.8 million.

With regard to EBITDA, there was also a reduction in the energy margin (lower quantities and lower revenues for the transport service) only partially offset by the equalisation effects relating to previous years. The performance for the period is also characterised by the € 8.7 million increase in capitalised personnel costs due to the different forms of organising the work produced by Acea 2.0 and the acquisition of the management of public lighting.

With reference to the energy balance, as of 31 December, 2017 areti introduced 10,040 GWh into the grid in line with that introduced in 2016.

EBITDA for the public lighting sector is positive for € 4.4 million, and went up by € 1.4 million compared to 31 December, 2016. The change is determined by the margins deriving from the LED Plan launched at the end of June 2016 on the basis of an agreement with Roma Capitale; in 2017 approximately 88,403 luminaires were replaced for a total amount of revenues of € 22.7 million. It must also be noted that in the course of 2017, a total of 962 lighting fixtures were installed on request both from Roma Capitale (318 lighting points) and from third-party customers (644 lighting points).

Acea Produzione and Ecogena contributed to the increase in EBITDA for a total of € 8.8 million following the increase in the energy margin (+ € 3.9 million) in the hydroelectric generation sector, which recorded an increase in production of approximately 12%

Personnel costs decreased by € 9.3 million compared to December 31, 2016 due to the increase in investment hours and as a result of a reduction in outstanding amounts; in fact, the average number at 31 December, 2017 is equal to 1,366 units, less than 14 units compared to 31 December, 2016.

EBIT was affected by an increase in depreciation (+ € 24.8 million) due to increased investments also with reference to the Acea2.0 project, increased write-downs of loans (+ € 17.1 million) mainly to private parties of the "protected" market, permanent electricity users and other traders of the free market. It must be noted that write-downs of receivables include the effects deriving from exposure to GALA. The above write-down amounted to € 15.7 million.

Net financial debt stood at € 1,032.9 million at 31 December, 2017,

showing an increase of € 218.0 million compared to 31 December 2016. The effects are mainly due to the increasing volume of investments, the increase in pay-out and the dynamics of operating cash flow, also influenced by the increased exposure to GALA.

Investments amounted to € 209.4 million and referred to the interventions on the HV, LV and MV network, as well as a series of interventions to expand the MV networks and extraordinary maintenance on overhead lines. Investments made by Acea Produzione mainly refer to the plant revamping works of the Castel Madama hydroelectric plant, the modernisation project of the Tor di Valle plant and the extension of the district heating network in the Mezzocammino area in the southern part of Rome.

SIGNIFICANT EVENTS IN 2017

GALA

As at 31 December, 2017 areti has receivables (for invoices overdue, expiring and to be issued) for € 67 million including the so-called system charges due to GSE and CSEA.

At the beginning of 2017, the wholesaler GALA stopped the payments due to areti and other distributors including ENEL, A2A and Iren.

At the beginning of April, GALA entered into an arrangement with creditors on a going concern basis aimed at debt restructuring, subject to the submission of a plan by 11 September.

On 7 April 2017 areti proceeded with the enforcement of guarantees for the amount of overdue receivables of approximately € 7 million and at the same time requested GALA to integrate the guarantees; the company refused to integrate the aforementioned guarantees, through the instrumental use of recent rulings by the Regional Administrative Court and the Council of State regarding the payment of system charges, and appealed to the Court of Rome against the enforcement of guarantees. On April 12, the Court of Rome issued a precautionary decree without prior hearing of the other side that forbids areti from exercising the right to enforce the guarantees by setting the hearing for April 26.

Following the revocation of the precautionary decree, which took place by order of the Court of Rome on 30 May, areti notified the termination of the contract on 1 June due to the failure to reinstate the guarantees and at the same time withdrew the residual guarantees.

As GALA's claim against the order of 30 May was rejected and, consequently, the precautionary decree issued in favour of GALA against the termination of the contract was revoked, the transport contract was terminated on 26 July.

In relation to system charges, recent rulings by the Regional Administrative Court and the Council of State have essentially established that:

- guarantees issued by sellers to distributors must not include general system charges;
- the latter must be paid to distributors on the basis of what was actually collected, unlike the current system for payment on turnover.

Pending the appeal presented by ARERA against the rulings of the

TAR, resolution 109/2017/R/eel was issued, with which a procedure was initiated to identify a mechanism (equalisation) that protects the requirement for sellers and distributors not to bear the risk of non-payment of general system charges by end customers. However, the resolution, challenged by GALA, was suspended by the Council of State on 29 May and referred to the TAR for a decision. Given the gravity of the situation surrounding it, in addition to the main distributors, also the Public Administrations that, through CONSIP, purchased energy from GALA and that, on the basis of the current regulatory framework, will be poured into market safeguards, it is now undesirable to identify a system solution that allows to socialise / equalise at least system charges.

In this context areti notified to GSE and CSEA that it would pay the respective portions according to the amount accrued and not collected on the turnover related to Gala. In addition, areti sent ARERA an application to activate urgent measures to cover the costs associated with arrears, immediately, against Gala and, possibly, other sellers who may find themselves in the same situations. Regarding the position taken with respect to GSE and CSEA, areti had to deal with the payment notices received from the aforementioned entities.

The failure to pay the system charges determined in particular the blocking of the payment by CSEA of the amounts accrued in favour of areti for advance payments of equalisation, which is why areti decided to proceed with the payment of the share in question (€ 4.2 million), in order to obtain immediate payment of the amounts by CSEA, specifying in the accompanying letter how the payment was made “without it entailing acknowledgement of the debt”, referring to the judicial offices the assessment on whether the debt is due by areti in respect of CSEA of the sums not actually collected by GALA.

Following the appeal filed by the GSE on 2 October of this year, an injunction has been issued against areti with reference to the amounts covered by the first formal notice, with respect to which on 30 November, of this year, the notice of opposition to the injunction order by areti was served, whose line of defence is guided by the principle of the classification of the general system charges as “parafiscal” charges which consequently leads the distributor to be considered as a mere pass-through of the burden to be paid.

On 1 December 2017, areti filed the memorandum of appearance against the insurance company Euroins (guarantor of Gala), as well as the injunction to pay the sums not paid by the aforementioned insurance company, which in court is supporting the absence of its obligation to comply by enforcing the surety policy on behalf of areti. In the memorandum of appearance areti confirms the same defensive arguments already presented in the proceedings against the GSE, also requesting that the two proceedings be brought together into a single consolidated proceedings.

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 invoices that are overdue for at least 12 months.

This regulation provides that only distributors who have paid to CSEA and the GSE the amount of charges for which they are to be reinstated can access the mechanism. In addition, some restrictions have been introduced such as not to allow full recognition of the portion relating to general charges.

At the time of the situation, also taking into account the changes in the regulatory framework deriving from the approval of the mechanism for reinstating general expenses, the reduction in the value of the areti receivable towards GALA was prudentially determined

with reference to the transportation and work share accrued as at 31 December, 2017, as well as the share of general charges that would not be recognised (€ 15.7 million)

Tor di Valle power plant

During the month of November, in compliance with the contractually agreed deadlines, the performance of the modernisation project of the Tor di Valle power plant was completed, which envisages the installation of two high efficiency internal combustion engines of 9.5 MW each with a high efficiency cogeneration structure.

In March 2017, a variant appraisal was approved to provide the project with a series of improvements aimed at increasing the overall yield and allowing the creation of an efficient user system with the nearby Roma Sud treatment plant: this configuration allows Acea Produzione to directly supply electrical utilities of the contiguous sewage plant through a direct interconnection.

In this context, an anticipation of the entry into service of the first non-cogeneration engine was also negotiated by 31 July, 2017.

This made it possible to start feeding into the SEU (Efficient System of Utilities) of the Rome South Wastewater Plant, albeit in partial structure, with effect from 3 August 2017.

ARERA penalty measures

With regard to ARERA's Resolution **62/2014/S/eel**, results of the preliminary investigation are still pending, while regarding ARERA's Resolution **512/2013/S/eel** which follows the VIS 60/11, after the filing of the appeal before the Lombardy Regional Administrative Court by areti, ARERA decided to appeal to the Council of State through Resolution 14/2016/C/eel.

Technological innovation projects

“New Digital Counter Plan” pilot project

In order to initiate the analysis and project activities aimed at identifying the best technology to be used in view of the end of the life cycle of the current digital meters (2019-2020), areti continued the technical in-depth analysis related to the development and consolidation of the new standard currently being standardised at European level, also taking into account ARERA's resolution 87/2016/R/eel of 8 March 2016, concerning “Functional specifications enabling second-generation smart meters”.

Smart Grid Project

With resolution ARG\elt 12/11, published on 8 February 2011, the Authority accepted areti's Smart Grid pilot project as part of the incentive treatment. The above is one of the eight smart grid projects admitted to the incentive treatment by the Authority at a national level; the incentive treatment consists in the increase of 2 percentage points of the rate of return on the capital invested for the duration of 12 years.

The project was completed in 2015 and on 31 March, 2016 the relevant final report was submitted, as required by Resolution 183/2015/R/eel. We are currently awaiting ARERA's decision to define the project's financial recognition.

Superfast Internet

The activity concerning the Memorandum of Understanding signed in March 2013 between Acea, Fastweb and Telecom continued, and was renewed in April 2015 with Fastweb, Telecom and Vodafone, with the aim of extending the ultra-broadband network in the Rome area. which allows users to enjoy an Internet connection with a transmission band equal to or greater than 100 Megabits per second. The agreement, which involves the construction of approximately 7,000 (4,600 + 2,400) new electricity supply points, as well as ensuring the coordination of the activities of the four companies, limits to the maximum the inconvenience to citizenship deriving from the launch of road works. areti, considering

the extension of the agreement's scope, will invest up to the end of the project (31 December 2017) about € 11 million for the construction of the electricity supply network for latest generation electronic devices.

At 31 December, 2017 areti activated approximately 12,487 new electricity supply points, avoiding overlapping interventions on the municipal area, for a total excavation length of about 205 km.

Resilience enhancement of a Metropolitan Area (RoMA) project

The RoMA project, funded by the Ministry of Education, University and Research through the "Smart Cities and Communities and Social Innovation" Tender (Directorial Decree prot. no. 391/Ric of 5 July 2012) began in November 2013 and its duration is of 36 months; it was extended in 2016 for a further 12 months, the end-of-project date has been changed to the end of October 2017.

The aim is to create tools aimed at increasing the Resilience of the Rome metropolitan area. The idea behind Resilience is to allow a specific system to effectively overcome disturbances (of any nature) that reduce its functionality, allowing for a quick and effective restoration of all its functions. Resilience is built, therefore, not only by trying to mitigate the consequences of disturbances once they have taken place but it is expressed, almost with a greater force, in the forecast and prevention of events. The critical infrastructures mainly considered in the project consist of the electricity distribution network, the water network and the Telecom telecommunications network in the region of the City of Rome. The project provides for a total economic commitment of approximately € 11 million over three years, of which approximately € 1.5 million pertain to areti.

DRONI project

In 2016 the experimentation phases of the DRONI project concluded, which saw the development of a remote controlled aircraft mainly aimed at inspections of electric power lines, but also open to possible further applications.

During the first half of 2017, as part of the pilots' training process, the pilots' authorization was obtained for non-critical areas for three operators, and the extended training was launched to obtain the authorisation for "critical areas"; this is a training phase that requires to have carried out at least 32 missions in a non-critical area recorded in the flight book.

Furthermore, as part of the project, on 6 June 2017 the patent relating to the "Ultrasound audio system" was filed (Patent Application in Italy No. 102017000061758).

DIADEME project

At the end of 2016, Acea (Illuminazione Pubblica) was involved in the DIADEME project (Distribuite metering for light regulation Derived from street and ambient Evaluation).

This project, funded by the European Community in the context of technological innovation initiatives, was created in response to a specific call for bids (LIFE15 CCM/IT/000110); the technological solution identified is based on an innovative adaptive lighting system, which can guarantee significant energy savings by reducing luminance levels as required by the UNI 11248 standard. Using a network of distributed sensors, it will be possible, in fact, to monitor traffic, luminance levels, noise and air pollution of entire cities.

The LIFE-DIADME system will be able to regulate, in an intelligent and real-time way, the luminous flux that illuminates the road according to the measurements obtained by the sensors.

The project will cover the 2017/2019 period.

In addition to field tests carried out on the proposed solution, it is involved in the project from an infrastructure angle (installation of sensors on approximately 1,000 lighting points) as well as in the management of the central system.

In July 2017 the first two field sensors were installed; these sensors

are currently undergoing a consolidation phase from a mechanical point of view.

During the first few months of 2018, sensors will be installed on the first 100 poles (1st phase of the project).

Public Lighting

During the course of 2017, a total of 962 lighting fixtures were installed on request from both the City of Rome (318 lighting points) and third-party customers (644 lighting points). With reference to recovery activities following cable theft, it must be noted that new cables have been tested using a new type of copper-plated electric cable which, by combining a smaller quantity of copper with aluminium, entails a first and main advantage the fact that it is difficult to separate the two metals unless industrial means and processes are used.

Electricity generation

Currently, Acea Produzione's generation system consists of a set of power generation plants, with a total installed capacity of 251.8 MW, consisting of five hydroelectric power plants (three of which are located in Lazio, one in Umbria and one in Abruzzo), two so-called "Mini hydro" power plants, Cecchina and Madonna del Rosario, two thermoelectric power stations, Montemartini and Tor di Valle, underwent an important repowering completed at the end of 2017. The latter, instead of the combined cycle, is equipped with two high efficiency cogeneration engines each with an electrical capacity of 9.5 MW, for a total of 19 MW, plus three integration boilers and 6 storage tanks to supply electricity in SEU to the total utilities of the Roma Sud treatment plant and the thermal energy necessary for the supply of the district heating service to the districts of Torrino Sud, Mostacciano and -Mezzocammino in the Municipality of Rome). With the completion of the construction of the Tor di Valle plant, the old cogeneration module made up by an open-cycle 19 MW electric gas turbine, in operation since the early 1980s, will be disposed of, in line with the provisions of the Integrated Environmental Authorisation issued.

The photovoltaic power plants remaining in Acea Produzione following the aforementioned total demerger of Acea Networks and Energy Services for an installed capacity of 8.6 MWp must be added the above equipment.

In the 2017 financial year, the Company generated a volume of 424.5 GWh through the power plants directly owned. During the period, the Company's electricity generation is subdivided into the portion related to the production of hydroelectric power plants of 372.2 GWh, the amount related to generation from the so-called mini hydro power plants of 2.6 GWh, to the share of thermoelectric power generation of 38.1 GWh and the share of photovoltaic generation of 11.6 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 72.6 GWh, for a total of 2,852 utilities served (251 condominiums and 2,601 real estate units).

Cogeneration

The operational management of Ecogena focuses mainly on two areas: the technical-economic monitoring of the plants in operation and new projects under construction.

In 2017, following the signing of the Energy Service supply contract with ENI, the design of the expansion of the Europarco power plant was carried out and the tender for the awarding of the works commenced.

The initiatives envisaged by the reorganisation plan for relaunching the company continued:

- **Reduction of maintenance costs.** The termination of the management and maintenance contract with BEIT (Bosch

group), even though it was particularly expensive, allowed to reduce maintenance costs;

- **Recovery of receivables - Signing of take-overs for PDR condominiums:** in order to reduce the company's excessive exposure, some important takeovers in Energy Service contracts were formalised with many condominiums of the Porte di Roma complex and at the same time plans for recovering receivables were signed;
- **Internal review of some active contracts** in order to reduce disputes and claims against end customers - Signing of the addendum with Sigma Tau: an addendum has been signed

to the Sigma Tau contract which provides for an increase in the discount for customers and against waiving the right of early termination;

- **Terminations of some contracts that generate losses** such as Villa Flaminia. To this regard, contacts are also being made with the condominiums served by the Torino Nord power plant to assess the possible sale of the plant.
- **Construction of Europarco:** in parallel to the commercial negotiations with Fondo UpSide and ENI, the preliminary design phase was launched for carrying out the works necessary for extending the Service to stage 2 buildings.

ENGINEERING AND SERVICES OPERATING SEGMENT

OPERATING DATA AND ECONOMIC AND FINANCIAL RESULTS FOR THE YEAR

Operating data	U.M.	31/12/2017	31/12/2016	Change	Change %
Technical-professional verification	Number of companies	74	124	(50)	40.3%
Inspections on site	Number of inspections	8,884	5,513	3,371	61.1%
Coordination of safety measures	CSE number	112	44	68	154.5%

Operating results and financial position

€ million	2017	2016	Change	Change %
Revenue	84.4	42.7	41.7	97.9%
Costs	69.8	28.1	41.8	149.0%
EBITDA (gross operating margin)	14.5	14.6	(0.1)	0.4%
Operating profit (EBIT)	11.5	11.5	(0.1)	0.4%
Average no. of employees	319	181	138	76.2%
Investments	0.8	1.8	(0.9)	53.0%
Net financial debt	12.3	(1.8)	14.1	n.s.

Adj EBITDA (gross operating margin)

€ million	2017	2016	Change	Change %
Gross operating margin Engineering and Services Area	14.5	14.6	(0.1)	0.4%
Adjusted* GROUP gross operating margin	840.0	784.8	55.2	7.0%
Percentage weight	1.7%	1.9%	(0.1 p.p.)	

* The Group's 2016 EBITDA is shown net of the effects deriving from eliminating the so-called regulatory lag.

The Area, set up as a result of the organisational changes in May 2017, closes the 2017 financial year with an EBITDA of € 14.5 million in line with the previous year.

The contribution to EBITDA of the TWS, consolidated for the first time since the first quarter of 2017, is equal to € 0.6 million: this company contributes to the growth in revenues of the area for € 17.2 million.

Also included in the Area are Ingegneri Toscane which recorded an EBITDA of € 1.8 million substantially in line with the previous year. The average workforce at 31 December, 2017 stood at 319 employees and had increased compared to 31 December, 2016 (there were 181 employees) due to the effects deriving from the Facility Management branch transferred by Acea at the end of last year.

Investments amounted to € 0.8 million and mainly refer to IT developments relating to the Acea2.0 project.

Net financial debt at 31 December, 2017 is of € 12.3 million and

shows a decrease compared to the end of 2016 of € 14.1 million due partly (€ 7.5 million) to the consolidation of TWS as well as the increase in the needs generated by changes in the working capital with particular reference to intra-group relationships.

SIGNIFICANT EVENTS IN 2017

Acea Elabori, in the field of research and innovation in water, environmental and energy sectors, carries out applied research projects aimed at technological innovation.

In 2017, activities were carried out for Group companies in the characteristic sectors. In particular, since the start of the second half of the year, many resources and skills have focused on extraordinary activities related to the water emergency of the city of Rome. The above activities were targeted at recovering resources through:

1. efficiency of water networks and
2. recovery from supply sources.

The first were as follows:

- leak detection activities using acoustic methods for approximately 5,400 km of the city's water supply network. In total, 10,000 km of distribution network were monitored, identifying approximately 2,000 hidden leaks;
- activities to improve the efficiency of the city of Rome's network, giving priority to some areas characterised by high input into the network;
- definition of interventions or reconfigurations of network structures (verification of water district boundaries and optimisation of pressures), which can also contribute to decreasing the input with the aim of recovering resources.

With regard to recovery activities from supply sources, a series of activities to support the manager for overcoming the 2017 water emergency were carried out, which led to the issue of specific reports and to the recovery of previously untapped / used flow rates.

Operating performance

Acea Elabiori provides engineering, laboratory, research and innovation services in the sectors of the water, waste and energy cycle, as well as asset management and facility management services, across all Acea Group's areas of interest.

The activities carried out concern the various fields of technical-managerial interest which include: analytical checks on the integrated water and waste cycle; the protection and optimisation of the use of water resources; the design and construction of works for the integrated water service and for treatment - disposal - energy recovery from waste and for the production of hydroelectric and thermoelectric energy.

The main data for the various business sectors of the company is provided below:

Laboratory activities

The laboratory offers analytical services on the various environmental matrices connected with the prescriptions dictated by relevant regulations.

In 2017, as part of the analytical activities carried out on water intended for human consumption, analytical services were performed on 12,455 samples and 420,011 analyses were carried out against the 443,493 analyses for 2016. With reference to the checks carried out for wastewater (sewage and treatment systems managed by Group Acea), 8,595 samples were analysed for a total of 215,377 analyses (6,466 samples and 149,584 analyses in 2016).

Engineering activity

The Company provides engineering services to Water companies, in particular to Acea Ato2 and Acea Ato5.

Over the last few years, the Company has consolidated the development of engineering activities in the Group's other areas with the design and management of works for the development of waste and for the production of hydroelectric and thermoelectric energy and "Specialist and support" related activities.

The **design**, as required by current regulations (Italian Legislative Decree no. 18/04/16 no. 50 and subsequent amendments and integrations), for further levels of study: Technical-economic feasibility study (Preliminary) - Definitive - Executive.

In 2017, in terms of volumes, a design activity was developed for a total of 112 projects equivalent to the various definition levels (45 technical-economic feasibility studies (preliminary), 43 definitive and 24 executive / integrated contracts for a equivalent design amount of approximately € 126.3 million. Design activities concerned both interventions in the field of treatment and sewerage, in particular aimed at eliminating discharges that do not comply with regulations, and interventions related to drinking-water, aimed at improving the service and eliminating non-standard supply sources in terms of water quality.

The **works management activity** carried out during the year concerned 59 contracts, on behalf of Acea Ato2, 5 contracts on behalf of Acea Ato5 and 14 contracts on behalf of the Environmental, Commercial and Trading Areas. The works carried out on behalf of Acea Ato2 involved the construction of works related to the water distribution system, such as supplying, power supply, water networks and compensation tanks, and works relating to the environmental sector, such as collectors and sewers, strengthening / upgrading or new construction of treatment plants and technological revamping. The works management activity also involved the execution of archaeological excavations and reclamation of war devices as necessary for obtaining preventive authorisations during the design and construction of the works.

Research and innovation activities

The Company conducts research and innovation in the water, environmental and energy sectors and carries out applied research projects aimed at technological innovation.

Water activities are wide-ranging and concern the various aspects of the entire water cycle: from the protection of water resources to the optimisation of their use; from the treatment of waste water to the treatment of water intended for human consumption, from environmental monitoring to the definition and implementation of monitoring networks, from the rationalisation of the management of water networks to the development of drainage models for sewage systems. Activities for the Environment and Energy Infrastructures Areas are oriented to environmental impact assessments and industrial treatment processes.

CORPORATE

OPERATING RESULTS AND FINANCIAL POSITION FOR THE PERIOD

Operating results and financial position

€ million	2017	2016	Change	Change %
Revenue	120.5	112.2	8.2	7.3%
Costs	134.2	114.4	19.8	17.3%
EBITDA (gross operating margin)	(13.7)	(2.1)	(11.6)	n.s.
Operating profit (EBIT)	(61.6)	(22.1)	(39.5)	178.9%
Average no. of employees	589	622	(33)	5.3%
Investments	10.7	13.2	(2.5)	19.1%
Net financial debt	257.3	332.1	(74.8)	22.5%

Adj EBITDA (gross operating margin)

€ million	2017	2016	Change	Change %
Corporate Area gross operating margin	(13.7)	(2.1)	(11.6)	n.s.
Adjusted* GROUP gross operating margin	840.0	784.8	55.2	7.0%
Percentage weight	1.6%	0.3%	(1.4 p.p.)	

* The Group's 2016 EBITDA is shown net of the effects deriving from eliminating the so-called regulatory lag.

Acea closed 2017 with a negative EBITDA of € 13.7 million (- € 11.6 million compared to 31 December, 2016), essentially due to the elimination of the margin deriving from the management of the Facility Management service provided, at the end of 2016, to Acea Elabori and revenues for the use of the headquarters space for the portion sold to the subsidiaries areti and Acea Ato2.

The average workforce at 31 December, 2017 stood at 589 and was down compared to the previous year (622 employees). This decrease is mainly influenced by the sale of the Facility Management division (the decrease concerns 55 employees transferred from Acea to Acea Elabori).

Investments amounted to € 10.7 million and, compared to 2016, decreased by € 2.5 million. Investments mainly refer to IT developments related to the Acea2.0 project.

Net financial debt at 31 December, 2017 is € 257.3 million and shows an improvement compared to the end of 2016 of € 74.8 million. The above change derives from the increase in receivables from subsidiaries for cash pooling transactions, offset in part by the increase in financial debt increased to meet the Group and Acea needs generated by changes in working capital, including the payment of payables to suppliers and for investments made during the year.

It must be noted that the loss in value of fixed assets of € 9.5 mil-

lion contributed to the reduction in EBIT; this write-down refers to the adjustment of the value of the Autopark following the ruling by the Court of Rome (ruling No. 11436/2017).

In 2017 there was an increase in provisions for risks and charges totalling € 14.5 million, of which € 6.5 million referred to retirement and mobility and € 5 million to risks on investee companies.

SIGNIFICANT EVENTS IN 2017

It must be noted that at the beginning of June the Court of Rome, with ruling no. 11436/2017, declared the nullity of the contract for the sale of the Autoparco real estate complex located in Piazzale dei Partigiani, thus accepting Acea's request to dissolve the contractual relationship with Trifoglio and to recover the ownership of the area. The above ruling includes the repayment to Trifoglio of the advance payment received (amounting to € 4 million) and the re-enrollment of the property complex in the assets of Acea which involves adjusting the value of the Autopark to the book value at the time of sale. Finally, it must be noted that the Court rejected the claim for compensation for damages formulated by Trifoglio and excluded any liability on the part of Acea with regard to the veracity of the contractual guarantees offered to Trifoglio. For further information please see the section of the Note "Update on the main legal disputes".

SIGNIFICANT FACTS OCCURRING DURING THE REPORTING PERIOD

The lists for the appointment of the Board of Directors have been published

On 4 April 2017, Acea announced the lists of candidates to the Board of Directors, accompanied by the relevant documentation required by current regulations, filed by shareholders under the terms of the Shareholders' Meeting called for 27 April and 4 May 2017, on first and second call respectively; these lists are available to the public at the registered office, in the appropriate section of the company's website (www.acea.it, section 2017 Shareholders' Meeting) and on the Info authorised storage mechanism, which can be accessed at the address www.1info.it.

Acea SpA The Shareholders' Meeting approves the 2016 Financial Statements and the distribution of a dividend of € 0.62 per share, appoints the Board of Directors, appoints Luca Alfredo Lanzalone as Chairman of the Board of Directors and confers on PwC the appointment for nine financial years (2017 - 2025)

On April 27, 2017, the Shareholders' Meeting of Acea SpA approved the financial statements and presented the consolidated financial statements for the year ended on 31 December, 2016. The Shareholders' Meeting also resolved on the allocation of the statutory profit of Acea SpA as well as the distribution of a total dividend of € 131,779,702.35, equal to € 0.62 per share, which was paid with effect from 21 June, 2017 with coupon detachment on 19 June and record date on 20 June.

The Shareholders' Meeting appointed the new Board of Directors defining the relevant fees. The Board of Directors will remain in office for three years and specifically until the approval of the 2019 Financial Statements. The election of the members of the administrative body took place by means of a voting list, in accordance with the procedures established in Article 15 of the Articles of Association. Luca Alfredo Lanzalone has been appointed Chairman of the Board of Directors.

Finally, the Shareholders' Meeting resolved, pursuant to Italian Legislative Decree no. 27/1/2010, to confer on the company PricewaterhouseCoopers SpA the task of auditing the accounts of Acea SpA for the financial years 2017-2025, approving the relevant remuneration.

Acea SpA The Board of Directors of Acea appointed Stefano Antonio Donnarumma as Chief Executive Officer

On 3 May 2017, the Board of Directors of Acea SpA appointed Stefano Antonio Donnarumma as the Company's Chief Executive Officer.

The Board also approved the power structure, acknowledging the tasks of the Chairman, Luca Alfredo Lanzalone, as representing the Company, convening and chairing the work of the Board. The relevant structures will functionally report to the Chairman with reference to activities relating:

1. to Institutional Affairs;
2. External Relations and Communications not related to operating / industrial / commercial activities;
3. to the Audit;
4. to the Secretariat of the Board of Directors.

All powers for the ordinary management of the Company and the Group were conferred to the Chief Executive Officer, in line with the previous structure. The Board will re-establish the various Committees internally at a forthcoming meeting. The Board also

confirmed Demetrio Mauro as the Manager in charge of drafting the Company's accounting documents.

Acea SpA Expiry of the conditions precedent of the preliminary contract for the acquisition of 100% of Idrolatina

On 30 May, 2017 the deadline for the fulfillment of the Conditions Precedent of the preliminary contract expired and, therefore, starting from 31 May 2017, this contract resolves automatically and ceases to be effective.

Acea SpA Consensual termination of the employment relationship with Alberto Irace

On 28 June, 2017 The Board of Directors of Acea SpA chaired by solicitor Luca Alfredo Lanzalone, following the evaluation of the Committees for Appointments and Remuneration and for Transactions with Related Parties, made up of Independent Directors only, with reference to the termination of the subordinated employment relationship with Alberto Irace, on 1 March 2007, approved the payment to the latter of the sum of € 1,680,000 as a leaving incentive (to be paid within 30 days) in addition to termination benefits (which will be paid under normal contractual terms) and to variable remuneration, in relation to the period of service, which will be settled according to current company time-frames.

The above attribution was calculated in accordance with applicable legal and contractual provisions, as well as in compliance with and consistent with the remuneration policy adopted by Acea SpA with the involvement of the Appointments and Remuneration Committee, as explained in the Remuneration Report prepared pursuant to Art. 123-ter of the TUF, approved by the Board of Directors on 13 March 2017 and submitted, with a favourable outcome, to the advisory vote of the Shareholders' Meeting held on 27 April 2017. In addition to the aforementioned indemnity, Acea SpA will pay to Irace the amount of € 20,000, against specific waivers made by the employee as part of the termination of the relationship, and will also allow the latter to continue to use for a few months his accommodation and the company car. There are no non-competition agreements.

Water crisis: Ordinances of the Lazio Region

On 5 July, the Lazio Region issued presidential decree no. T00116 which declared the state of natural disaster for the entire region due to the severe water crisis caused by the absence of meteorological precipitations and as a consequence of the generalised difficulties experienced by Municipalities in terms of the water supply. With the aforementioned decree the Lazio Region has, among other, requested the Presidency of the Council of Ministers, Department of Civil Protection, considering the intensity of the phenomenon and the significant damage caused, to declare a state of emergency with the consequent financial support and the adoption of urgent and extraordinary State measures, aimed at adequately addressing the serious emergency situation.

By order dated 21 July 2017, the Lazio Region decided to suspend the withdrawal of water from Lake Bracciano from 28 July till the end of the year; the suspension aims to restore the natural level of the lake's waters and their quality. The same order provides for the obligation of Acea Ato2 to transmit to the Region daily data on the hydrometric level of the basin.

Pending the approval of the decree on the state of natural disaster by the Council of Ministers, the Lazio Region has decided to ex-

tend the suspension to 1 September by introducing the possibility of a minimum collection of 400 l / s up to 10 August and 200 l / s from 11 August til the end of the month.

Acea SpA The Board of Directors appoints Giuseppe Gola as Director of Finance, Administration and Control

On 3 August 2017, the Board appointed Giuseppe Gola as Director of Finance, Administration and Control of Acea S.p.A as well as Manager in charge of drafting Acea SpA's accounting documents as from 1 September 2017.

Acea SpA and Open Fiber to build the network of the future in Rome

On 3 August 2017, Acea and Open Fiber signed a Memorandum of Understanding ("MoU") defining the terms and conditions for the launch of a strategic industrial partnership for the construction of an ultra-broadband electronic communications network on the region of the Municipality of Rome. The Memorandum with duration until 31 December, 2017 establishes the role of Acea as an infrastructure provider. In particular, Acea is expected to grant the use of the infrastructure owned (or in any case in its availability) to Open Fiber, providing the cartographic data and the support necessary to identify the infrastructures for the construction of the network. Acea may also contribute to the physical implementation of the network. Open Fiber will have the task of

1. identifying the network architecture and, if Acea expresses interest in carrying out this activity, providing the latter with the technical specifications for the design and construction of the works,
2. providing network services and sales to Acea in wholesale mode (such as the lease of portions of the network, connections and active services), and

3. ensure the passage of technical and technological know-how in favour of Acea functional to the development of its services (remote control of Smart City systems and/or services).

If Acea requests it, the parties may set up a company, with a majority stake held by Acea, for the development of projects in the "Smart City" area.

Finally, a mutual commitment by the parties is envisaged not to initiate discussions with third parties, concerning the creation of an electronic communications network on the territory of the Municipality of Rome or even on part of it, for the entire duration of the MOU.

Acea SpA The Board of Directors approves the 2018-2022 Business Plan focused on investments in infrastructural resilience and innovation

On 28 November, 2017, the Board of Directors of Acea approved the Group's Business Plan for the period 2018 - 2022 focused on investments in infrastructural resilience and innovation.

The new Business Plan will be based on four strategic pillars that are identified in strong industrial growth, focused on infrastructural development and on a customer-oriented approach. Constant attention to the region based on a sustainable development oriented towards decarbonisation through greater electrification of consumption and the recovery of materials in the waste treatment cycle, with a view to a circular economy. The third pillar focuses on technological innovation which, with over 400 million Euro of investments, will allow greater automation of industrial processes, better resilience of infrastructures, with a view to "Smart Grid" and "Smart City". The fourth pillar focuses on operational efficiency and performance improvement through rigorous management of costs and investments, resulting in savings of around € 300 million over the Plan period.

SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

Acea SpA 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 Managing Director of Acea SpA Stefano Donnarumma and Elisabetta Ripa, CEO of Open Fiber, following the Memorandum of Understanding signed on 3 August, 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. The project involves the construction of a state-of-the-art optic fibre infrastructure designed to offer ultra-fast connectivity to the inhabitants of the capital over the next five years. The network will enable a series of services in the fields of culture, health, social and business development and public administration, including through the creation of new applications for TLC and remote control of electricity and water networks. To this end, Acea will make its fiber optic installation facilities available at Open Fiber, thus minimising the impact of work in the city.

Acea SpA The Board of Directors approves the issue of one or more bonds

On 23 January 2018 the Board of Directors of Acea SpA authorised the issuance of one or more non-subordinated bonds for its total nominal value up to a maximum of € 1 billion from its EMTN (Euro Medium Term Notes) Programme, to be placed with institu-

tional investors and listed at the Luxembourg Stock Exchange, to be carried out by 15 July 2018.

Acea SpA Placement of bond issues for € 1 billion

On 1 February 2018, Acea SpA completed the placement of bond issues for an amount of € 300 million, respectively, with a 5-year maturity at floating rates (the "2023 bonds") and € 700 million with a fixed and maturity of 9 years and a half (the "2027 bonds"), based on the € 3 billion Euro Medium Term Notes (EMTN) programme, as last amended on 17 July 2017 and subsequently supplemented on 23 January 2018. The bond is intended exclusively for institutional investors of the Euromarket. The issue was successful, receiving requests equal to more than 2.5 times the amount of the Bonds offered, by investors of primary rank and representative of many geographical areas. The bonds, which have a minimum denomination of € 100,000, pay an annual gross coupon of 3-month Euribor plus 0.37% for the 2023 bonds and a fixed rate of 1.5% for the 2027 bonds. The variable rate 2023 bonds were placed at a 100% issue price, while the fixed rate 2027 bonds were placed at an issue price of 98.138%. The bonds are governed by English law. The settlement date was set at 8 February 2018. From that date the bonds will be listed on the regulated market of the Luxembourg Stock Exchange, where the prospectus was filed. Fitch Ratings and Moody's are expected to attribute a rating of BBB + and Baa2 respectively to the issue.

MAIN RISKS AND UNCERTAINTIES

Due to the nature of its business, the Group is exposed to various types of risks, and in particular regulatory and 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.

It is necessary to underline that, at the date of preparation of the current management report, no particular risks and uncertainties are expected, beyond those mentioned in this document, that could have a significant impact on the economic, equity and financial situation of the Acea Group.

REGULATORY RISKS AND REGULATIONS

It is known that the Acea Group operates mainly on regulated markets and the change in the operating rules of these markets as well as the requirements and obligations that characterise them can significantly influence the results and performance of operations. Therefore, the Group has a structure that can intensify relations with local and national government and regulatory bodies.

This structure ensures the monitoring of regulatory developments, both in the phase of support for the preparation of comments and observations to the Consultation Documents, in line with the interests of Group companies, and in the consistent application of the regulatory provisions within the company processes, electricity, gas and water business.

The nature of the business also exposes 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 commercial practices or misleading advertising (through activities such as: omission of relevant information, dissemination of false information / forms of undue influence, unfair terms in commercial relations with consumers, as well as the risks of non-compliance with the regulations for the protection of competition, i.e. the risk connected mainly to the prohibition, for companies, to establish restrictive agreements and to abuse their dominant position on the market (through activities such as: market, manipulation of tenders, restrictive agreements and other types of anti-competitive agreements, exchange of sensitive information under the commercial/competitive profile potentially able to constitute a cartel activity).

The rules of territorial planning and governance of the integrated water service continue to be the subject of specific regulatory measures; in particular with reference to the provisions related to the reorganization of the discipline of local public services with economic relevance (MADIA Reform) and in environmental matters with the so-called Environmental link (Green Economy) Further developments are expected from the aforementioned former Daga bill (S 2343), when it has completed its complex approval process.

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, some newly introduced crimes went to expand the

catalogue of predicate offences capable of activating the liability of bodies pursuant to Italian Legislative Decree no. 231/2001, requiring an update of organisational models.

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

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 inserting it in the catalogue of the predicate offences of Italian Legislative Decree no. 231/2001 to Art. 25-ter, paragraph 1, letter s-bis).

Law no. 179 of 30 November, 2017, in force since December 29, 2017, introduced, under Italian Legislative Decree no. 231/2001 to paragraphs 2-bis, 2-ter and 2-quater of Art. 6, the protection of the employee or collaborator that signals illicit acts or breaches related to the organisation and management model of the body of which he/she may have become aware of during the performance of his/her duties (the so-called. "Whistleblowing").

Further presumed crimes introduced during 2017, included namely:

- Italian Law no. 161 of 17 October 2017, in force since 19 November, 2017, which under Art. 30, par. 4, inserted paragraphs 1-bis, 1-ter and 1-quater in Art. 25-duodecies "Employment of illegally staying third-country nationals" of Italian Legislative Decree no. 231/01;
- the so-called 2017 European Law, finally approved on 8 November 2017 and which entered into force on 12 December 2017, which under Art. 5, paragraph 2, introduces into Italian Legislative Decree no. 231/01 Art. 25-terdecies "Racism and xenophobia", punishing the institution in the event of committing crimes pursuant to Art. 3, paragraph 3-bis, of Law no. 654 of 13 October, 1975.

Although these were taken into consideration, they were assessed as difficult to achieve in the context of company activities.

Among the additional regulatory risks that may potentially be of particular importance for the Acea Group, we highlight those deriving from the new Privacy Regulation (EU) 2016/679 GDPR; Acea has already commenced 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 legislation.

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, the aforementioned Law 68/2015 introduces, in the Italian Criminal Code, the new Title VI-bis - "On crimes against the environment" and modifies Art. 257 and 260 of Italian Legislative Decree. 152/2006.

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

It must be noted that certain consolidated companies are involved in investigations or proceedings relating to material situations pursuant to Italian Legislative Decree no. 231/2001. It is specified that any liability that may be ascertained upon the definitive outcome of the aforementioned proceedings would be attributable exclusively to the companies to which they are intended, without any repercussions on the Parent Company or on the other companies of the group not involved.

OPERATIONAL AND ENVIRONMENTAL RISKS

Acea Ato2 - critical issues related to the existence of discharges that do not comply with the law

The signing of the Management Agreement has officially ratified the obligation to transfer the integrated water services of the Municipalities belonging to ATO2 (with the exception of protected services and, subsequently, pursuant to Article 148 paragraph 5 of Italian Legislative Decree no. No. 152 of 3 April 2006, also of the municipalities up to 1,000 inhabitants who have the right not to adhere to the S.I.I.). In reality, the timing and implementation procedures for this transfer have been disregarded by the events, due to both the lack of availability by some municipal administrations to the effective transfer of the Service, and the impossibility for the Operator, particularly since 2007, to obtain the management of water, sewerage and purification plants that do not comply with the laws in force due to not undergoing and / or subjecting their operators to consequent criminal action by the judiciary.

In fact, the most critical issues derive from the presence of still untreated waste and / or existing treatment plants whose use is to be reallocated and / or adapted to new emission limits determined by the Control Authority following a different assessment of the hydrological regime of the training courses. water receptors or, even, of the nature of the receptor (soil instead of water course) for having considered the discharge of some purifiers on the ground in the case of dry waterways found dry at the controls.

The situation of a real environmental emergency also required interventions of an institutional nature. In fact, in 2008 the Region signed a "Memorandum of Understanding for the implementation of the extraordinary plan for the rehabilitation of river, lake and marine resources aimed at overcoming the emergency discharge in ATO2 - Central Lazio - Rome" with which it intended to make special financing available for the implementation of some of the interventions aimed at overcoming the emergency.

To date, as a result of the considerable technical and economic efforts, 181 discharges have been collected for treatment. There are still 65 active discharges of which 37 included in action plans that Acea Ato2 is taking care of and 28 are to be eliminated by the Municipalities or the Region with public funding.

During the first few months of 2016, in the light of Resolution 644/15, the update of the 2016-2019 Intervention Programme has been drafted with indications until the end of the concession (2032). This Programme is part of the documentation at the base of the tariff request, which according to Art. 7.5 of Resolution 664/15 was forwarded to ARERA for its approval. The above programme of Interventions was approved by the Auditors' Conference on 27 July 2016 and, subsequently, by ARERA with Resolution 674 of 17 November 2016 as part of the approval of the specific regulatory scheme, setting out the tariff arrangements for the 2016-2019 period, proposed by the Conference of Auditors of ATO2 Central Lazio Rome.

On 27 December, 2017, ARERA's resolution 918/2017/R/idr was also issued for the biennial update of the SII tariff plans (years 2018 and 2019), also incorporating Resolution 917/2017/R/idr governing the technical quality of the SII, which provides for the updating of the programme of interventions, of the economic and financial plan and of the management agreement, and requires the submission to the Authority by 30 April 2018.

During the first years of management, from 2003 onwards, investments were made by not taking into account the lack of knowledge of the plants gradually acquired by the Municipalities and the need to develop a design aimed at solving the most critical problems, especially concerning 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, investments made allowed the recovery, in fact, of the gap of previous years, carrying out more investments than those planned in the previous 2014-2017 Programme.

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 level of investments for the construction of new large works. However, the difficulties linked to the authorisation phase of projects remain highly critical, especially with regard to the declaration of public utility by the municipalities and in particular of Roma Capitale and the consequent proceedings over property aimed at acquiring the areas necessary for the works.

In this regard, it must be noted that an Extraordinary Commissioner was appointed, by decree of the President of the Council of Ministers on 9 November, 2015, in order to remove the critical issues due to the failure by Roma Capitale to disclose the public utility of some strategic projects for overcoming the environmental emergency in the Municipality with particular reference to the important remediation works of untreated sewers such as: the completion of the collector of Ponte Ladrone, the Collector of Crescenza III, the collector of Magliana-Maglianella VI trunk, the Collector of Acqua Traversa, the Collector of Rebibbia, the Collector of Via Veientana.

Acea Ato2 - criticality of the drinking water system

Following the acquisition of the management of the SII, two critical issues emerged:

- quality of the water released;
- water shortage mainly in the area south of Rome.

With regard to the first, the qualitative and quantitative crisis generated by the presence on the region of sources with water quality that does not comply with chemical parameters such as arsenic and fluorine naturally present in underground sources of supply in areas of volcanic origin, with consequent criticalities in terms of quantity and quality of the water distributed (Municipalities of the Castelli Romani area and more generally falling within the volcanic areas of the ATO with over 170,000 inhabitants and fourteen municipalities), saw the Company engaged in the development and implementation of adequate return plans, necessary for complying with the parameters dictated by Italian Legislative Decree no.31 / 2001 and acknowledged in the subsequent planning of investments of the Area Plan.

To this end, interventions were planned and implemented:

- replacement of qualitatively critical local supply sources with sources characterised by better quality characteristics;
- mixing of sources with water without unwanted elements;
- construction of water treatment plants by means of filtration or reverse osmosis technology.

As for the second critical issue, namely the water shortage found mainly in the Colli Albani area, whose supply depends on the Simbrivio aqueduct, the Doganella aqueduct and over 140 local wells, over the years various interventions were carried out. to mitigate this criticality, such as the derivation of the Pertuso source, the activation of new plants, the Arcinazzo reservoir and the Ceraso "booster" plant. Moreover, among the interventions aimed at better coping with the water emergency situations that occur, particularly in some municipalities south of Rome, coinciding with the summer months and in conjunction with the increase in consumption, special attention was paid to the management of the water resource.

In order to guarantee the utmost transparency, as well as the timely disclosure of information regarding the "water emergency" issue, on 23 May, all the municipal administrations involved were con-

vened to give ample information regarding the criticality and the consequent action plan in progress.

Furthermore, the Municipalities were asked to issue specific Ordinances to limit the use of drinking water from the public aqueduct to potable and hygienic-sanitary uses only.

In this context there is the question concerning Lake of Bracciano; the Region has issued two successive ordinances with which it has ordered, according to Acea Ato2, the interruption, based on certain times, of diversion of water from the lake itself; subsequently, on 14 August 2017, the Superior Court of Public Waters, upon appeal by Roma Capitale, established the partial suspension of the effectiveness of the Lazio Region order of 28 July 2017 and the authorisation in favour of Acea Ato2 to withdraw from Lake Bracciano 400 l/s with effect from 29 July 2017. However, the Company, always sensitive to the importance of the lake as an environmental asset and resource to be protected, despite the availability to derive a flow rate up to 400 l/s, has nevertheless suspended the withdrawals from the Lake from 12 to 28 August and, finally, from 14 September 2017 or as soon as the need for supply from this source ceased.

The seriousness of the situation was witnessed by the Council of Ministers who, in order to cope with the described prolonged drought and the consequent situation of severe water emergency, with resolution of 7 August 2017, declared “the state of emergency in relation to the crisis of water supply for hydropotable use in the Lazio Region”; with subsequent Civil Protection Ordinance no. 474 of 14 August 2017, the President of the Lazio Region was appointed Deputy Commissioner for the pursuit and implementation of interventions aimed at countering the water supply crisis for drinking water in the Lazio Region.

In relation to these measures, in August 2017, Acea Ato2 forwarded to the President of the Lazio Region, as Deputy Commissioner for the crisis, the list of interventions already implemented, under construction and to be implemented in the short and medium term, to cope with the state of emergency and prevent the recurrence of this situation in the future.

COMMERCIAL AND TRADING AREA

With reference to the Commercial and Trading Area, the main operational risks associated with Acea Energia’s activity may be related to property damage (inadequacy of suppliers, negligence), damage to persons and damage deriving from systems and external events. In order to deal with any operational risk, the Company, since the start of its activities, has taken out insurance policies with primary insurance companies for Property Damage (material damage to property), Third Part Liability (third-party liability) and employee injury policies. The Company pays particular attention to the training update of its employees and at the same time to defining internal organisational procedures and the drafting of specific job descriptions.

ENERGY INFRASTRUCTURES AREA

With reference to the Energy Infrastructures Area, the main risks falling within this industrial area (which includes in addition to areas also Acea Produzione) can be classified as follows:

- risks inherent in the effectiveness of replacement / modernization **investments** of the electricity grids, with reference to the expected effects on the improvement of the service continuity indicators;
- risks related to the **quality**, reliability and duration of the works carried out;
- risks relating to **compliance with the time required** to obtain

the required authorisations, both regarding the construction and commissioning of the plants (pursuant to Regional Law 42/90 and related regulations) and the execution of the works (authorisations of the municipalities and other similar), in relation to the needs of development and upgrading of the plants;

- risks related to a lack of production.

With regard to the risk related to the effectiveness of investments this arises primarily from the increasingly stringent ARERA rules in terms of service continuity. The response put in place by areti to counter this risk is to strengthen the tools for analysing the functioning of networks in order to always better target investments (e.g. ORBT Project), and in the application of new technologies (e.g. MV network automation, smart grid, etc.).

Regarding the risk related to the **quality** of the works, areti has implemented operational, technical / quality control systems, among which the establishment of the Construction Site Inspection Unit (included in the Quality and Safety Unit) stands out. The results of the inspections, managed and statistically analysed, provide merit rankings (reputational indices) with a “vendor rating” system developed in collaboration with the University of Tor Vergata (Rome). This system produces an assessment of effectiveness based on the reputation of contractors in reference to compliance with the parameters of quality and safety of construction works.

During the year, the good level of the general reputational index of the companies that operated on behalf of areti remains confirmed. With regard to the risk related to **compliance with the deadlines**, it arises from the number of parties who must be consulted in authorization procedures and from the considerable uncertainty regarding the response times of the latter; the risk is inherent in the possibility of denials and / or in the technical conditions that the aforementioned parties may pose (for example, construction of underground systems rather than “above ground”, with consequent higher installation and operating costs). The higher operating cost deriving from the considerable duration of the proceedings is also noted, which forces operating structures to take on a demanding role (drawing up and presentation of project details, environmental assessments, etc.), as well as participation in service conferences and technical meetings, at the competent Offices. The substantial risk remains, however, linked to the failure to obtain authorisations, with the consequent impossibility of adapting the plants and consequent greater risk linked to the technical performance of the service (at present, the process for the modernisation of the TA network in the Litorale area and the procedure with Terna for the construction of the new Castel di Leva primary cabin). It is noted that an element of particular criticality consists in the long response times of some administrations consulted.

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 AREA

The waste-to-energy plants, as well as waste treatment plants, 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 through the implementation of specific programs and maintenance and management protocols in the context of environmental management systems certified UNI EN ISO 14001: 2015 and environmental registration EMAS, also drawn

up on the basis of experience in plant engineering management. From another point of view, the plants and their activities are based on specific characteristics of the entry waste. Any discrepancy of these materials with respect to the specifications may give rise to specific management difficulties, such as to compromise the operational continuity of the plants and represent risks of legal repercussions.

For this reason, specific procedures for checking and inspecting entry materials have been initiated through spot withdrawals and analytical campaigns in accordance with current legislation.

MARKET RISK

The Group is exposed to various market risks, with particular reference to the risk of fluctuations in the prices / volumes of the commodities being traded, to the interest rate risk and, only minimally, to the exchange rate risk. To contain the exposure within defined limits, the Group is part of derivative contracts using the types offered by the market.

Commodities Risk means the risk related to unexpected effects on the value of assets in the portfolio due to changes in 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 commodity prices deriving from the non-coincidence of the price indices for the purchase and sale of Electricity, Natural Gas and EUA Environmental Securities;
- **Volume Risk:** this is the risk related to the change in volumes actually consumed by end customers with respect to the volumes envisaged by sales contracts (sales profiles) or, in general, to the balancing of positions in portfolios.

Commodity price risk

Acea SpA, through the activities of the Risk Management Unit (now Risk Commodities) within the Risk & Compliance function, ensures the analysis and measurement of exposure to market risks, interacting with Acea Energia SpA, verifying compliance with the limits and general criteria of Risk Management of the Commercial and Trading Industrial Area adopted by the latter and by the Administration, Finance and Control Department, in line with the "Guidelines for the Internal Control and Risk Management System" of Acea SpA.

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 Risk Management Unit and by risk owners.

In particular:

- **annually**, the measures of the risk indicators, i.e. the limits in force, must be reviewed and must be complied with in the management of risks;
- **on a daily basis**, the Risk Management Unit is responsible for controlling the exposure to market risks of the companies in the Commercial and Trading Industrial Area and for verifying compliance with defined limits.

Reporting relative to the Top Management has daily and monthly frequency. When required by the Internal Audit System, Risk Management prepares to send to Acea S.p.A.'s Internal Audit Unit the information requested and available on the system, in the format appropriate to the procedures in force.

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 First Margin against unforeseen and unfavourable short-term shocks on the market that have an impact on revenues or costs;
- to identify, measure, manage and represent risk exposure;
- to reduce risks through the preparation and application of adequate internal controls, procedures, information systems and skills.

Forward contracts (for physical transactions for the purchase and sale of commodities) are signed to meet expected requirements deriving from the contracts in the portfolio.

With reference to the residual part, the risk hedging strategy adopted by the Commercial and Trading Industrial Area also aims to minimise the risk associated with the volatility of the Profit and Loss Account 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.

With regard to the commitments made by Acea Group in order to stabilise the cash flow of electricity purchase and sale transactions for the next financial year, it must be noted that all the hedging transactions in place are booked in under *cash flow hedge* mode insofar as the effectiveness of the hedging can be proven. The financial instruments used are included in the type of swaps and contracts for difference (CFD).

The assessment of exposure to risk involves the following activities:

- registration of all transactions relating to physical quantities made in special books (called *Commodity Book*) differentiated by commodity (e.g. Electricity, Gas, CO₂), purpose of the activity (Trading or buying and selling on wholesale markets, Portfolio Management, Sale to internal and external end users of Acea Group) and nature of operations (physical, financial);
- timely analysis of the time profiles of purchases and sales containing the open positions, i.e. the exposure of the physical positions of purchase and sale of the individual commodities, within pre-established volumetric limits;
- creation of reference scenarios (prices, indices);
- calculation of risk indicators / metrics (Volumetric exposure, VAR, PAR of portfolio, price range);
- verification of compliance with current risk limits.

The activity performed by the Risk Management 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. It must be noted that the Group does not carry out trading operations in compliance with internal procedures.

Interest rate risk

Acea Group's approach to managing interest rate risk, taking into account the asset structure and the stability of the cash flows of Acea Group, has so far been essentially aimed at preserving funding costs and stabilising financial flows, in such a way as to guarantee the margins and the certainty of the aforementioned cash flows deriving from ordinary operations.

Therefore, Acea Group's approach to the management of interest rate risk is prudent and its management method tends to be static.

In particular, for static management (to be opposed to the dynamic one) we mean a type of management of interest rate risk that does not provide for daily operations on the markets but an analysis and control of the position carried out periodically on the basis of specific needs. This type of management therefore envisages operations on the markets not for trading purposes but rather oriented towards medium / long-term management with the objective of hedging the exposure identified.

Acea SpA has so far chosen to optimise the risk of fluctuating

interest rates by choosing a range of debt mix between fixed and variable rates.

As a matter of fact, the fixed rate indebtedness allows an operator to be immune to the cash flow risk since it stabilises the financial charges in the profit and loss account while it is very exposed to the fair value risk in terms of changes in the market value of the debt stock.

Exchange rate risk

The Group is not particularly exposed to this type of risk which is concentrated on the conversion of the financial statements of foreign subsidiaries.

With regard to the Private Placement of 20 billion yen, the exchange risk is hedged by a cross currency described with respect to the interest rate risk.

Liquidity risk

As part of the Group's policy, the objective of managing liquidity risk, for Acea and its subsidiaries, is to have a financial structure that, in line with the business objectives and with the limits defined by the Board of Directors, ensures a level of liquidity appropriate to the financial needs, maintaining a correct balance between duration and composition of the debt.

The liquidity risk management process, which uses financial planning tools for outflows and receipts suitable to manage treasury hedges and to monitor the trend of consolidated financial debt, is carried out both through cash pooling management both through the support and assistance provided to the subsidiaries and associated companies with which there is no centralised finance contract.

Credit risk

Acea has long issued the guidelines of the credit policy, currently under review to make it consistent with the ongoing organisational changes and the Credit Risk Profiling project, with which different credit management strategies have been identified. The Collection Strategy provides that the credit is managed taking into account both the type of customers (public and private) and the behaviour of individual customers (performance 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, is being 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. The overall review of the credit management process was also carried out both in terms of application map and 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, last year 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 individual companies responsible for credit management functionally report to the Acea unit which guarantees end-to-end supervision of the entire process.

As in previous years, this year the Group has set up non-recourse, revolving and spot transactions, of receivables from private customers and public administrations. These transactions therefore gave rise to the complete elimination from the financial statements of the corresponding assets sold, since all the risks and benefits associated with them were transferred.

Risks related to the rating

The possibility of access to the capital market and other forms of financing as well as related costs depend, among other things, on the credit rating assigned to the Group.

Any reduction in the credit rating by the rating agencies could constitute a limitation to the possibility of access to the capital market and increase the cost of funding with consequent negative effects on the Group economic, financial and equity situation.

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

Company	M/L Term	Short term	Outlook	Date
Fitch	BBB+	F2	Stable	03/08/2016
Moody's	Baa2	Na	Stable	13/12/2016

FORESEEABLE PERFORMANCE TREND

The results achieved by Acea Group at 31 December, 2017 are in line with forecasts, net of the main extraordinary items.

It is the Group's intention to make major investments in infrastructure which, without affecting the solidity of the Group's financial structure, have an immediate positive impact on performance, EBITDA and invoicing and collection processes. The commitment to carry out all the actions aimed at the continuous and constant improvement of the billing and sales process continues in order to continue reducing the working capital and limiting the Group's debt. The financial structure of Acea Group is solid for the future years. The debt at 31 December, 2017 is settled at a fixed rate of 71.0% to guarantee protection against any increase in interest rates as well as any financial or credit volatility. The average duration of

medium / long-term debt stands at 5.3 years at 31 December, 2017. It must be noted that the reduction in the average cost of the latter goes from 2.94% at 31 December, 2016 to 2.57% at 31 December, 2017, thanks also to the liability management operation concluded at the end of last year.

For the year 2018, with the same scope of activity, Acea expects:

- an increase in EBITDA of between 3% and 5%, based on the 2017 result (€ 840 million);
- investments are up compared to those of 2017, in line with the Business Plan;
- a net financial debt at the end of the year between € 2.6 and € 2.7 billion.

RESOLUTION ON THE OPERATING RESULTS FOR THE YEAR AND THE DISTRIBUTION TO SHAREHOLDERS

Dear shareholders,
in inviting you to approve the financial statements that you submit to it, we propose to allocate the profit for the year ended on 31 December 2017, equal to € 226,579,312.00, as follows:

- € 11,328,965.60, equal to 5% of profit, to the legal reserve,
- € 133,905,181.40 to shareholders, corresponding to a unit dividend of € 0.63,
- € 81,345,165.00 for new earnings.

The total dividend (coupon No. 19) of € 133,905,181.40, equal to € 0.63 per share, will be paid starting from 20 June, 2018 with coupon detachment on 18 June and record date 19 June.

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

Acea SpA
The Board of Directors





ACEA FINANCIAL
STATEMENTS

FORM AND STRUCTURE

GENERAL INFORMATION

The financial statements of Acea SpA for the year ended on 31 December, 2017, were approved by resolution of the Board of Directors on 14 March, 2018. Acea is a public limited company, with a registered office in Italy, Rome, piazzale Ostiense 2, whose shares are traded on the Milan stock exchange.

COMPLIANCE WITH IAS / IFRS

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

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

BASES OF PRESENTATION

The Financial Statements for the year ended on 31 December, 2017 consist of the Statement of Financial Position, the Profit and Loss Account, the Statement of Comprehensive Income, the Statement of Cash Flows and the Statement of Changes in Equity - all drafted according to the provisions of IAS 1 - as well as the Explanatory and Supplementary Notes, drafted in accordance with applicable IAS / IFRS provisions.

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

The financial statements for the year ended on 31 December, 2017 have been drafted in Euro and all amounts are rounded to thousands of Euro unless otherwise indicated.

ALTERNATIVE PERFORMANCE INDICATORS

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

SOB's Notice no. 0092543 of 3/12/2015. Below are the contents and meaning of non-GAAP result measures and other alternative performance indicators used in these financial statements:

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

USE OF ESTIMATES AND ASSUMPTIONS

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

The estimates also took into account assumptions based on the parameters and market and regulatory information available at the time the financial statements were drafted. The current facts and circumstances that influence assumptions about future developments and events, however, may change due to, for example, changes in market developments or applicable regulations that are beyond the Company's control. These changes in assumptions are also reflected in the financial statements when they occur.

It must also be noted that some valuation processes, in particular the most complex ones such as the determination of any impairment of non-current assets, are generally carried out in full only during the drafting of the annual financial statements, except where there are indicators of impairment requiring an immediate assessment of any loss in value.

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

EVALUATION CRITERIA AND ACCOUNTING PRINCIPLES

The most significant principles and criteria are explained below.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (and discontinued operations groups) classified as held for sale are valued at the lower of their previous carrying amount and market value less costs to sell.

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

EXCHANGE RATE DIFFERENCES

The functional and presentation currency adopted by Acea SpA and by subsidiaries in Europe is the Euro (€). Transactions in foreign currencies are initially recognised at the exchange rate in force on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are reconverted into the functional currency at the exchange rate at the balance sheet date. All exchange differences are recorded in the profit and loss account of the financial statements, with the exception of differences deriving from loans in foreign currency that have been entered into to hedge a net investment in a foreign company. These differences are recognised directly in equity until the net investment is disposed of and at that time any subsequent exchange rate difference is recognised in the profit and loss account. The tax effect and receivables attributable to the exchange differences deriving from this type of loan are also attributed directly to equity. Non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate in force on the date of initial recognition of the transaction. Non-monetary items recorded at fair value are converted using the exchange rate on the date of calculation of this value.

The currency used by Latin American subsidiaries is the official currency of their country. On the balance sheet date, the assets and liabilities of these companies are converted into the presentation currency adopted by Acea SpA using the exchange rate in effect on the balance sheet date, and their profit and loss account is converted using the average exchange rate for the year or the exchange rates prevailing on the date of execution of the relevant transactions. Differences in translation emerging from the different exchange rates used for the income statement with respect to the balance sheet are recorded directly in equity and are shown separately in one of its specific reserves. At the time of disposal of a foreign economic entity, the accumulated foreign exchange differences recorded in the shareholders' equity in a specific reserve will be recognised in the profit and loss account.

REVENUE RECOGNITION

Revenues are recognised to the extent that it is possible to reliably

determine their value and it is probable that the relevant economic benefits will be achieved by Acea SpA and are valued at the fair value of the consideration received or receivable depending on the type of transaction. Revenues are recognised on the basis of specific criteria set out below:

Sale of goods

Revenues are recognised when the significant risks and rewards of ownership of the assets are transferred to the purchaser.

Services provided

Revenues are recorded with reference to the stage of completion of the activities on the basis of the same criteria as those for contract work in progress. In the event that the value of revenues cannot be reliably determined, the latter are recognised up to the amount of the costs incurred which are deemed to be recovered.

FINANCIAL INCOME

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

DIVIDENDS

These are recognised when the unconditional right of shareholders is established to receive payment. These are classified in the profit and loss account under the item financial income.

CONTRIBUTIONS

Contributions obtained for investments in plants, both by public bodies and by private third parties, are recognised at fair value when there is a reasonable certainty that they will be received and that expected conditions will be met. Contributions received for specific plants whose value is recorded under fixed assets are recorded among other non-current liabilities and progressively released to the profit and loss account in constant instalments over a period equal to the useful life of the reference asset.

Operating grants (granted for the purpose of providing immediate financial assistance to the company or as compensation for expenses and losses incurred in a previous year) are recognised in full in the profit and loss account when the conditions for recognition are met.

CONSTRUCTION CONTRACTS IN PROGRESS

Construction contracts in progress are assessed on the basis of the contractual fees accrued with reasonable certainty, according to the percentage of completion criterion (the so-called cost to cost), so as to attribute the revenues and the economic result of

the contract to the individual financial years in proportion to the progress of the works. The positive or negative difference between the value of the contracts and the advances received is recorded respectively in the assets or liabilities of the balance sheet.

Contract revenues, in addition to contractual fees, include variants, price revisions and recognition of incentives to the extent that they are likely to represent actual revenues and if these can be determined reliably. Ascertained losses are recognised regardless of the progress of orders.

COSTS RELATED TO BORROWING

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

EMPLOYEE BENEFITS

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

TAXES

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

Current taxes are based on the taxable results for the year. Taxable income differs from the results reported in the profit and loss ac-

count because it excludes positive and negative components that will be taxable or deductible in other financial years and also excludes items that will never be taxable or deductible. The liability for current taxes is calculated using the rates in force or in fact in force at the balance sheet date as well as taxation instruments allowed by tax legislation (national tax consolidation, taxation for transparency).

Deferred taxes are the taxes that are expected to be paid or recovered on temporary differences between the book value of assets and liabilities in the financial statements and the corresponding tax value used in the calculation of the taxable income, recorded according to the balance sheet liability method. **Deferred tax** liabilities are generally recognised for all taxable temporary differences, while deferred tax assets are recognised to the extent where it is probable that there will be future taxable results that allow the use of deductible temporary differences.

The carrying amount of deferred tax assets is revised at each balance sheet date and reduced to the extent that, based on the plans approved by the Board of Directors, the existence of sufficient taxable income is not considered likely to allow all or partly the recovery of these assets.

Deferred taxes are calculated based on the tax rate that is expected to be in effect at the time the asset is realised or the liability is relieved. Deferred taxes are charged directly to the profit and loss account, with the exception of those relating to items recognised directly in equity, in which case the relevant deferred taxes are also recognised in equity.

TANGIBLE ASSETS

Tangible assets are recognised at cost, including ancillary costs directly attributable and necessary for putting the asset into service for the use for which it was purchased, net of the relevant accumulated depreciation and any accumulated impairment losses.

The cost includes the costs of the dismantling and removal of the assets and the costs of reclamation of the site on which the tangible assets stand, if they comply with the provisions of IAS 37. Assets composed of components of a significant amount with a different useful life.

Costs for improvements, tangible assets are recognized as assets when it is probable that they will increase the expected future economic benefits of the asset.

Land, whether free of construction or annexed to civil and industrial buildings, is not depreciated as it has an unlimited useful life.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset by applying the following percentage rates:

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

Systems and equipment under construction for production purposes are recorded at cost, net of write-downs for losses in value. The cost includes any professional fees and, for some assets, financial charges capitalised in accordance with the Company's accounting policies. The depreciation of these assets, as for all other assets, begins when the assets are ready for use. For some types of complex goods for which long-lasting functional tests are required, the suitability for use is attested by the positive passing of these tests.

Tangible assets are subjected annually to a recoverability analysis in order to detect any loss in value: this analysis is carried out at the level of individual tangible assets or, possibly, at the level of the cash-generating unit.

Assets held as financial leases are depreciated in relation to their estimated useful life as for assets held as property or, if lower, based on the expiry dates of leases.

Profits and losses deriving from the sale or disposal of assets are determined as the difference between the sale revenue and the net book value of the asset and are recorded in the profit and loss account for the year.

REAL ESTATE INVESTMENTS

Real estate investments, represented by properties held for rental and / or capital appreciation, are recorded at purchase cost including negotiation costs net of the relevant accumulated depreciation and any impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The percentages applied are between a minimum of 1.67% and a maximum of 11.11%.

Real estate investments are eliminated from the financial statements when they are sold or when the investment property is permanently unusable and no future economic benefits are expected from its possible sale.

The sale of real estate which results in the leaseback of the assets is recorded on the basis of the substantial nature of the transaction considered as a whole. In this regard, reference is made to what has been explained regarding Leasing.

Any profit or loss deriving from the elimination of an investment property is recorded in the profit and loss account in the year in which the elimination takes place.

INTANGIBLE ASSETS

Purchases separated or deriving from business combinations

Intangible assets acquired separately are capitalised at cost, while those acquired through business combinations are capitalised at the fair value defined on the purchase date. After the first entry into the category of intangible assets, the cost criterion applies. The useful life of intangible assets can be qualified as definite or indefinite.

Intangible assets with an indefinite useful life are subjected annually to a recoverability analysis in order to detect any loss in value: this analysis is carried out at the level of the individual intangible asset or, possibly, at the level of the cash-generating unit.

The useful life is reviewed annually and any changes, where possible, are made by means of analytical tables.

Gains or losses deriving from the disposal of an intangible asset are determined as the difference between the disposal value and the carrying amount of the asset and are recorded in the profit and loss account at the time of disposal.

Costs of research and development

Research costs are charged to the profit and loss account when

they are incurred. Development costs incurred in relation to a given project are capitalised when their future recovery is deemed reasonably certain. Following initial recognition of development costs, these are valued using the cost criterion that can be decreased by any accumulated depreciation or loss.

Any capitalised development costs are depreciated for the entire period in which expected future revenues will be shown in respect of the project itself. The carrying value of development costs is reviewed annually for the performance of an adequacy analysis for the purpose of detecting any impairment losses when the asset is not yet in use, or more closely when an indicator during the period exercise may raise doubts about the recoverability of the carrying amount.

Trademarks and patents

These are initially recognised at purchase cost and depreciated on a straight-line basis based on their useful life.

With regard to depreciation rates, please note that:

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

IMPAIRMENT

At every balance sheet date, Acea SpA revises the carrying amount of its tangible, intangible and equity investments to determine whether there are indications that these assets have suffered impairment. If any indication exists, the Group estimates the recoverable amount of the asset in order to determine the impairment charge.

When it is not possible to estimate the recoverable amount of the individual asset, Acea SpA estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives, including goodwill, are tested for impairment annually and each time there is any indication that an asset may be impaired, in order to determine the impairment charge.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In determining the value in use, estimated future cash flows are discounted to their current value using a pre-tax rate that reflects current market assessments of the value of money and the specific risks of the asset.

If the recoverable amount of an asset (or of a cash-generating unit) is estimated to be lower than the relative book value, it is reduced to the lower recoverable value. An impairment loss is immediately recognised in the profit and loss account, unless the asset is represented by land or buildings other than real estate investments recorded at revalued values, in which case the loss is recognised in the respective revaluation reserve.

When an impairment no longer exists, the carrying amount of the asset (or cash-generating unit), with the exception of goodwill, is increased to its new estimated recoverable amount. The reversal must not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment charge been recognised for the asset in prior periods. The reversal of an impairment charge is recognised immediately as income in the profit and loss account, unless the asset is carried at a revalued amount, in which case the reversal is recognised in the revaluation reserve.

Where an impairment charge is recognised in the income statement, it is included among amortisation, depreciation and impairment charges.

INVESTMENTS

Investments in subsidiaries and associates are recorded in the balance sheet at the adjusted cost of any impairment losses on the individual equity investments. The cost of acquisition or subscription, for those relating to contributions, corresponds to the value determined by the experts in the estimate pursuant to Article 2343 of the Italian Civil Code.

The excess of the acquisition cost compared to the share of the investee's shareholders' equity expressed at current values is recognized as goodwill. Goodwill is included in the carrying amount of the investment and is subject to impairment tests and possibly written down. Losses in value are not subsequently restored if the reasons for such devaluation cease to exist.

Losses on equity investments relating to the amount exceeding the amount of shareholders' equity are classified in the provision for risks and charges even if there is a credit exposure and until the eventual formal waiver of the receivable. Charges for settlement of equity investments are recognised through the valuation of the investments themselves regardless of the allocation of charges in the financial statements of investee companies.

Investments in other companies, constituting non-current financial assets and not destined for trading activities, are measured at fair value if they can be determined: in this case, gains and losses deriving from the fair value measurement are booked directly to equity until the moment of the sale when all the accumulated profits and losses are charged to the profit and loss account for the period.

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

TREASURY SHARES

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

FINANCIAL INSTRUMENTS

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

Trade receivables and other activities

Trade receivables, whose expiry falls within normal commercial terms, are recorded at their nominal value reduced by an appropriate write-down to reflect the estimate of the loss on receivables. The estimate of amounts deemed uncollectable is made when it is considered probable that the company will not be able to recover the entire amount of the loan.

Receivables from customers refer to the amount invoiced which, as at the date of this document, is still to be collected as well as the portion of receivables for revenues for the period relating to invoices to be issued subsequently.

Financial assets related to agreements for services under concession

With reference to the application of IFRIC 12 to the public lighting service concession, Acea has adopted the Financial Asset Model,

recognising a financial asset to the extent that it has an unconditional contractual right to receive cash flows.

Financial assets

Financial assets are recognised and reversed from the financial statements on the basis of the trading date and are initially valued at cost including charges directly connected with the acquisition.

At the subsequent balance sheet dates, the financial assets that the Group intends and has the ability to hold until maturity (**financial assets held to maturity**) are recorded at depreciated cost using the effective interest rate method, net of write-downs, made to reflect losses in value.

Financial assets other than those held to maturity are classified as held for trading or available for sale, and are valued at fair value at the end of each period.

When financial assets are **held for trading**, gains and losses deriving from changes in fair value are recognized in the profit and loss account for the period. For **available-for-sale** financial assets, the gains and losses deriving from changes in fair value are recognised directly in a separate item of equity until they are sold or impaired; at that time, the total gains or losses previously recognised in equity are charged to the profit and loss account for the period. The total loss amount must be equal to the difference between the acquisition cost and the current fair value.

In the case of securities widely traded on regulated markets (assets), the fair value is determined with reference to the stock market price listing bid price) at the end of trading on the closing date of the financial year. For investments for which a market price is not available, the fair value is determined based on the current market value of another substantially equal financial instrument or is calculated based on the expected future cash flows of the net assets underlying the investment.

Purchases and sales of financial assets, which involve delivery within a period of time generally defined by the regulations and conventions of the market in which the exchange takes place, are recorded on the trading date, i.e. on the date on which the Group has assumed the commitment to purchase / sell these assets.

The initial recognition of non-derivative financial assets, not listed on active markets and having fixed or determinable payment flows, is carried at fair value.

Subsequent to initial recognition they are valued at depreciated cost based on the effective interest rate method.

At each balance sheet date, the Group checks whether a financial asset or group of financial assets has suffered an impairment. A financial asset or group of financial assets is considered to be subject to impairment if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition and which have a impact on the estimated reliable future cash flows. The evidence of impairment derives from the presence of indicators such as financial difficulties, the inability to meet obligations, insolvency in the payment of important payments, the probability that the debtor fails or is subject to another form of reorganisation and the presence of objective data that indicates a measurable decrease in estimated future cash flows.

Cash and cash equivalents

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

Financial liabilities

Financial liabilities are measured using the depreciated cost criterion. In particular, the costs incurred for the acquisition of loans (transaction costs) and any issue premium and discount are

directly adjusted by the nominal value of the loan. Consequently, net financial charges are restated on the basis of the effective interest rate method.

Financial derivative instruments

Derivative instruments are initially recognised at cost and adjusted to the fair value on subsequent closing dates. They are designated as hedging instruments if a relationship between the derivative and the subject of the formally documented hedge exists and the effectiveness of the hedge, verified periodically, is high.

When hedging derivatives cover the risk of changes in fair value being hedged (fair value hedge), derivatives are measured at fair value and the relevant effects recorded in the profit and loss account; the adjustment to fair value of the assets or liabilities subject to hedge accounting is also consistently recorded in the profit and loss account.

When hedged is the risk of changes in the cash flows of hedged items (Cash Flow Hedge), the changes in fair value for the party qualified as effective are recognised in equity, while the ineffective portion is recognised directly in the profit and loss account.

Trade payables

Trade payables, whose expiry falls within normal commercial terms, are recognised at their nominal value.

Elimination of financial instruments

Financial assets are eliminated from the financial statements when Acea SpA loses all the risks and the right to the perception of the

cash flows connected to the financial activities.

A financial liability (or part of a financial liability) is eliminated from the balance sheet when, and only when, it is extinguished, or in other words, when the obligation specified in the contract is fulfilled or cancelled or has expired.

If a previously issued debt instrument is repurchased, the debt is extinguished, even if it is intended to resell it in the near future. The difference between the carrying amount and the payment paid is recorded in the profit and loss account.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are made when Acea has to meet a current obligation (legal or implicit) deriving from a past event, where it is probable that an outlay of resources will be required to satisfy the obligation and a reliable estimate can be made on the amount of the obligation.

The provisions are allocated based on the Management's best estimate for the costs required to fulfill the obligation at the balance sheet date, and if the effect is significant.

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

ACCOUNTING STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS APPLIED FROM 1 JANUARY 2017

From 1 January 2017, the following documents, previously issued by the IASB and endorsed by the European Union, which bring amendments to the international accounting standards, have entered into force:

IAS 7: CASH FLOW STATEMENT

Document issued by the IASB on 29 January, 2016. The amendments to IAS 7 Cash Flow Statement require entities to provide information on changes in their financial liabilities, in order to allow users to better assess the reasons underlying the changes in the entity's indebtedness including both changes related to cash flows, as well as non-monetary changes. At the time of the initial application of this modification, the entity must not submit the comparative information relating to previous periods. The application of changes will require the Group to provide additional information.

IAS 12: INCOME TAX

On 19 January 2016, the IASB published the aforementioned

Amendments which aims to provide clarifications on the methods for recognising deferred tax assets relating to debt instruments measured at fair value. These amendments clarify the requirements for the recognition of deferred tax assets with reference to unrealised losses, in order to eliminate differences in accounting practices.

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

On 8 December 2016, the IASB published the document "Annual Improvements to IFRSs: 2014-2016 Cycle".

The amendments concern a draft project issued on 19 November 2015 (see IFRB 2015/10).

The document introduces, among other things, amendments to **IFRS 12 Disclosure of Interests in Other Entities**: the amendment establishes that disclosure requirements required for investments in other entities are to be stated even if they are classified as held for sale.

Changes will be applied retrospectively, starting from the financial years beginning on or after 1 January, 2017.

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

IFRS 9 FINANCIAL INSTRUMENTS

On 25 July 2014, the IASB published IFRS 9 Financial Instruments including the part on the classification and measurement of financial instruments, the impairment model and hedge accounting. IFRS 9 rewrites the accounting rules of IAS 39 with reference to the recognition and measurement of financial instruments, including hedging transactions.

The principle provides for the following three categories for the classification of financial assets:

- financial assets measured at amortised cost (“amortised cost”);
- financial assets measured at fair value through profit or loss (“FVTPL” - “Fair value through profit and loss”);
- financial assets measured at fair value recorded in the other components of the comprehensive income statement (“FVOCI” - “fair value through other comprehensive income”).

With reference to this classification, the following additional provisions are noted:

- instruments representing capital held without trading purposes (“non-trading equity instruments”), which must be classified in the FVTPL category, may be classified on the basis of an irrevocable decision of the entity drafting the financial statements in the FVOCI category. In this case, changes in fair value (including exchange differences) will be recognised in the OCI and will never be reclassified to profit / (loss) for the year;
- if the financial assets classified under the “amortised cost” or “FVOCI” category create an “accounting mismatch”, the entity that drafts the financial statements may irrevocably decide to use the “fair value option” classifying these financial assets under the “FVTPL” category;
- with reference to debt securities (“debt instruments”) classified in the FVOCI category, it must be noted that interest income, expected credit losses (losses) and exchange differences must be recorded in the profit / (loss) year. In OCI, the other effects deriving from fair value measurement will be recorded, which will be reclassified to profit / (loss) for the year only in the event of “derecognition” of the financial asset.

With regard to financial liabilities, the standard proposes the classification already envisaged in IAS 39 but introduces an important change with regard to financial liabilities classified under the “FVTPL” category, since the portion of the change in fair value attributable to one’s own credit risk (“Own credit risk”) must be recorded in the ITU instead of the profit / (loss) for the year as currently envisaged by IAS 39. With IFRS 9, therefore, an entity that sees its credit risk worsen, even if it has to reduce the value of its liabilities measured at fair value, must not reflect the effect of this reduction in the profit / (loss) of the year but in the Other Comprehensive Income. IFRS 9 introduces a new impairment model based on expected losses. The entity must immediately recognise, regardless of the presence or absence of a “trigger event”, expected future losses on its financial assets, and must continuously adjust the estimate, also in consideration of changes in the counterparty’s credit risk, based

not only on past and present facts and data, but also giving the right relevance to future forecasts. The estimate of future losses must initially be made with reference to expected losses over the next 12 months, and subsequently, with reference to total losses in the life of the loan. Expected losses in the next 12 months are the portion of losses that would be incurred in the event of a counterparty default event within 12 months of reporting dates, and are given by the product between the maximum loss and the probability that a default event will occur.

The total losses during the life of the financial asset are the present value of the average future losses multiplied by the probability that a default event occurs in the life of the financial asset.

IFRS 9 introduces a model of hedge accounting aimed at reflecting in the balance sheet risk management activities carried out by the companies, focusing on the fact that if a risk element can be identified and measured, regardless of the type of risk and / or object, the instrument put in place to “hedge” such risks may be denominated in hedge accounting, with the simple limit that such risk may impact the profit and loss account or other components of the comprehensive income statement (OCI).

In addition, the standard makes it possible to use information produced internally within the company as a basis for hedge accounting, without having to demonstrate compliance with complex criteria and metrics created exclusively for accounting purposes. The main changes concern:

- effectiveness test: the 80-125% threshold is abolished and replaced by an objective test that verifies the economic relationship between the hedged instrument and the hedging instrument (for example, if there is a loss on the first there must be a profit on the second);
- hedged items: not just financial assets and liabilities but each element or group of elements provided the risk is separately identifiable and measurable;
- hedging cost: the time value of an option, the forward points, the spread on a currency can be excluded from hedge accounting and immediately recognised as the cost of the hedge and therefore all mark to market fluctuations can then be temporarily recorded in the other components of the comprehensive income statement (OCI);
- disclosure: more comprehensive descriptive information is provided on the risks covered and on the instruments used, and the current disclosure is based on the distinction between cash flow hedge and fair value hedge instruments, accounting terminologies that often confuse investors, which are clearly more interested in risks and how they are covered compared to the accounting categories of the same instruments.

The new standard will apply from 1 January 2018 and early application is permitted.

Acea has undertaken an analysis for an assessment of the impact deriving from the application of IFRS9. Based on the results of this work, Acea did not report significant expected impacts due to the adoption of the new standard.

IFRS 15 REVENUES FROM CONTRACTS WITH CUSTOMERS

On 29 May 2014, IASB and FASB jointly published - after a study and consultation activity lasting more than a decade - the new provisions for the accounting of revenues. The new standard will replace, in 2017, IAS 18 (Revenues) and IAS 11 (Contract work).

The steps considered fundamental for the accounting of revenues are:

- to identify the contract, defined as an agreement (written or verbal) having commercial substance between two or more parties that creates rights and obligations with the customer legally protected;
- to identify the (clearly identifiable) obligations contained in the contract;
- to determine the price of the transaction, as consideration that the company expects to receive from the transfer of goods or from the provision of services to the customer, consistently with the techniques envisaged by the Standard and according to the possible presence of financial components;
- to allocate the price to each “performance obligation”;
- to note the revenue when the obligation is settled, taking into consideration the fact that the services could be rendered not at a specific time, but also over a period of time.

The principle must not make particular differences in the accounting of the most common transactions considered. Greater differences in the timing of the survey and in the quantitative determination must be found in medium-long term service contracts and in agreements containing several bonds, on which the operators had highlighted the main critical issues of the current discipline. The disclosure on revenues must be improved by means of a broader qualitative and quantitative disclosure so as to allow stakeholders to obtain a clear understanding of the content and elements relevant for determining revenues.

The standard applies from 1 January 2018 but early application is permitted.

In April 2016, the IASB published some clarifications mainly consisting of:

- identifying a performance obligation (the promise to transfer a good or service to a customer) in a contract;
- in determining whether a company is the client (the supplier of a good or service) or an agent (responsible for the organisation of the good or service to be provided); and
- in determining whether the revenue deriving from the asset under concession must be recognised at any given moment or during the entire duration of the concession.

In addition to clarification, the changes include two additional findings to reduce costs and complexity for a company when it first applied the new standard.

Also for clarifications the first application will take place starting from 1 January 2018 but early application is permitted.

Acea has undertaken an analysis for an assessment of the impact deriving from the application of IFRS15. Based on the results of this work, Acea did not report significant expected impacts due to the adoption of the new standard.

IFRS 16 LEASES

Issued in January 2016, replaces the previous leasing standard, IAS 17 and related interpretations, identifies the criteria for the recognition, measurement and presentation as well as the information to be provided with reference to the leasing contracts for both parties, the lessor and the lessee. IFRS 16 marks the end of the distinction in terms of classification and accounting treatment, between operating leases (whose information is off-balance sheet)

and financial leasing (which is shown in the financial statements). The right of use of the leased asset (so-called “right of use”) and the commitment assumed will emerge in the financial data in the financial statements (IFRS 16 will apply to all transactions involving a right of use, regardless of the contractual form, i.e. leasing, rent or rental). The main novelty is represented by the introduction of the concept of control within the definition. In particular, in order to determine whether a contract represents a lease or not, IFRS 16 requires verification of whether the lessee has the right to control the use of a given asset for a certain period of time.

There will be no accounting metering with tenants: the accounting treatment will continue to be different depending on whether it is an operating lease or a finance lease contract (based on the existing guidelines) Based on this new model, the lessee must recognise:

- a) in the Balance Sheet, assets and liabilities for all lease contracts with a term of more than 12 months, unless the underlying asset is of modest value; and
- b) in the profit and loss account, the depreciation of assets relating to leases separately from interest relating to related liabilities.

On the lessor’s side, the new standard must have a minor impact on the financial statements (unless the so-called “sub-leases” are implemented) as the current accounting will not change, except for the financial disclosure that must be quantitatively and qualitatively higher than the previous one. The standard, which ended its endorsement process in October 2017, applies from 1 January 2019, however early application is permitted if IFRS 15 - Revenue from contracts with customers is also adopted.

“AMENDMENTS TO IFRS 2: CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS”

The document issued in June 2016:

- clarifies that the fair value of a payment transaction based on cash settled at the valuation date (i.e. on the grant date, at the end of each accounting period and on the adjustment date) must be calculated taking into consideration market conditions (for example: a target price of shares) and conditions other than maturation, ignoring the conditions for remaining in service and the conditions for achieving results other from those of the market;
- clarifies that share-based payments with the liquidation feature net of withholding tax must be classified entirely as transactions settled with shares (provided that they would have been classified as such even without the characteristic of payment net of withholding tax);
- provides forecasts on the accounting treatment of changes to the terms and conditions that determine the change in classification from payments based on cash-settled actions to payments based on shares governed by the issue of shares.

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

“IFRIC 22 - FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION”

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

paid (received). Amendments will be applicable, subject to approval, from the financial years beginning on or after 1 January, 2018.

“AMENDMENTS TO IAS 40 - TRANSFERS OF INVESTMENT PROPERTY”

The document, issued in December 2016, clarifies that transfers to or from real estate investments must be justified by a change in use supported by evidence; the simple change of intention is not sufficient to support this transfer. Changes have expanded the examples of change of use to include the activities under construction and development and not just the transfer of completed properties. Amendments will be applicable, subject to approval, from the financial years beginning on or after 1 January, 2018.

“IFRIC 23 – UNCERTAINTY OVER INCOME TAX TREATMENTS”

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

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

On 8 December 2016, the IASB published the document “*Annual Improvements to IFRSs: 2014-2016 Cycle*”.

The document introduces changes to the following principles:

- **IFRS 1 First – time Adoption of International Financial Reporting Standards:** the amendment eliminates the limited exemption envisaged for the transition of new users to IFRS 7, IAS 19 and IAS 10. These transition provisions were available for past reporting periods and therefore no longer apply.
- **IAS 28 Investments in Associates and Joint Ventures:** the change allows companies with share capital, mutual funds, trust units and similar entities to choose to enter their investments in associates or joint ventures, classifying them as fair value through profit or loss (FVTPL). The Board clarified

that such assessments must be made separately for each shareholder or joint venture at the time of initial enrollment. These changes must be applied retrospectively for annual periods beginning on or after 1 January 2018. Early application is allowed.

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

On 12 December 2017, the IASB published the document “*Annual Improvements to IFRSs: 2015-2017 Cycle*”.

The document introduces changes to the following principles:

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

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

INCOME STATEMENT

Ref. Note	PROFIT AND LOSS ACCOUNT	2017	Related Parties	2016	Related Parties	Change
1	Income from sales and services	164,402,779	164,163,693	172,761,892	168,903,126	(8,359,113)
2	Other income	16,534,450	6,762,904	11,724,726	8,110,638	4,809,724
	Net revenue	180,937,229	170,926,597	184,486,618	177,013,764	(3,549,389)
3	Work costs	49,676,289		47,232,084		2,444,205
4	External operating costs	149,275,568	82,773,463	143,850,505	87,038,435	5,425,063
	Operating costs	198,951,857	82,773,463	191,082,589	87,038,435	7,869,268
	EBITDA	(18,014,628)	88,153,133	(6,595,971)	89,975,330	(11,418,657)
5	Depreciation, provisions and write-downs	20,741,412	0	24,565,384	0	(3,823,973)
	Operating profit	(38,756,040)	88,153,133	(31,161,355)	89,975,330	(7,594,684)
6	Financial income	114,362,960	113,204,564	89,784,351	87,324,953	24,578,609
7	Financial expenses	64,810,466	218,385	102,829,838	182,810	(38,019,372)
8	Income from shares held	219,012,875	219,012,875	146,246,661	146,246,661	72,766,214
9	Expenses from shares held	0	0	408,097	408,097	(408,097)
	Earnings before taxes	229,809,330	420,152,187	101,631,722	322,956,036	128,177,608
10	Income tax	3,230,018	75,508,785	(6,978,398)	110,680,427	10,208,416
	Net result of negotiating activities	226,579,312	344,643,402	108,610,120	212,275,610	117,969,192
	Risultato Netto	226,579,312	344,643,402	108,610,120	212,275,610	117,969,192

Figures in Euro

STATEMENT OF COMPREHENSIVE INCOME

COMPREHENSIVE INCOME	2017	2016	Change
Net Result	226,579	108,610	117,969
Reclassifiable components in the income statement			
Provision for exchange rate difference	14,800	(10,051)	24,851
Tax on exchange rate difference	(3,552)	2,412	(5,964)
Gains/losses from exchange rate difference	11,248	(7,639)	18,887
Effective portion of the profit/(loss) on hedging instruments ("cash flow hedge")	(11,734)	9,916	(21,650)
Tax effect on the other profit/(loss) on hedging instruments ("cash flow hedge")	2,816	(2,380)	5,196
Actuarial profit/(loss) deriving from the effective part of the hedging instruments net of the tax effect	(8,918)	7,536	(16,454)
Non-reclassifiable components in the income statement			
Actuarial gains / (losses) on employee benefits recorded in equity	815	(1,466)	2,281
Tax effect on the other actuarial profit/(loss) on staff benefit plans	273	378	(105)
Actuarial profit/(loss) on defined benefit pension plans net of tax	1,088	(1,088)	2,176
Total of the comprehensive income components, net of tax	3,418	(1,191)	4,609
Total comprehensive income/(loss)	229,997	107,420	122,578

Amounts in €/thousand

STATEMENT OF FINANCIAL POSITION

Ref. Note	ASSETS	31 December, 2017	Related Parties	31/12/2016	Related Parties	Change
11	Property, plant and equipment	95,852,276	0	93,301,175	0	2,551,100
12	Investment property	2,547,404	0	2,605,762	0	(58,358)
13	Other intangible fixed assets	11,623,698	0	13,138,131	0	(1,514,433)
14	Investments in subsidiaries and affiliate companies	1,784,245,718	0	1,781,227,062	0	3,018,657
15	Other equity investments	2,352,061	0	2,350,061	0	2,000
16	Deferred tax assets	32,479,386	0	28,368,892	0	4,110,494
17	Net financial position	237,975,029	237,849,529	237,624,785	237,499,285	350,245
18	Other non-current assets	560	0	505,744	0	(505,184)
	NON-CURRENT FIXED ASSETS	2,167,076,133	237,849,529	2,159,121,611	237,499,285	7,954,522
19.a	Works in progress on request	0	0	270,461	0	(270,461)
19.b	Trade receivables	953,897	526,640	4,517,468	826,051	(3,563,571)
19.c	Intercompany trade receivables	98,771,878	98,771,878	57,496,399	57,496,399	41,275,479
19.d	Other Current Assets	14,317,846	1,942,792	25,377,834	2,344,743	(11,059,989)
19.e	Current financial assets	105,647,961	0	5,617,294	0	100,030,668
19 (f)	Infra-group current financial assets	1,918,406,576	1,918,406,576	1,499,970,797	1,499,970,797	418,435,779
19.g	Other non-current assets	45,777,097	4,288,048	77,372,271	36,052,908	(31,595,174)
19.h	Cash and cash equivalents	527,422,879	0	577,333,987	0	(49,911,108)
19	CURRENT ASSETS	2,711,298,133	2,023,935,935	2,247,956,510	1,596,690,898	463,341,623
	TOTAL ASSETS	4,878,374,266	2,261,785,464	4,407,078,122	1,834,190,182	471,296,144

Figures in Euro

Ref. Note	LIABILITIES	31 December, 2017	Related Parties	31/12/2016	Related Parties	Change
	Shareholders' equity					
20.a	Share capital	1,098,898,884	0	1,098,898,884	0	0
20.b	Legal reserve	100,618,656	0	95,188,150	0	5,430,506
20.c	Treasury shares reserve	0	0	0	0	0
20.d	Other reserves	72,756,998	0	69,100,401	0	3,656,597
	Profit (loss) of previous years	56,107,204	0	84,707,292	0	(28,600,088)
	Profit (loss) for the year	226,579,312	0	108,610,120	0	117,969,192
20	SHAREHOLDERS' EQUITY	1,554,961,053	0	1,456,504,846	0	98,456,206
21	Severance pay benefits and other defined benefit plans	24,463,827	0	26,443,781	0	(1,979,954)
22	Provisions for risks and charges	14,984,287	0	37,002,454	0	(22,018,167)
23	Financial debts and liabilities	2,482,564,141	0	2,516,727,243	0	(34,163,102)
24	Other payables	0	0	0	0	0
25	Provision for deferred taxes	8,856,367	0	4,796,132	0	4,060,234
	NON-CURRENT LIABILITIES	2,530,868,622	0	2,584,969,611	0	(54,100,989)
26.a	Financial payables	542,975,181	28,428,777	105,192,198	81,507,899	437,782,983
26.b	Trade payables	191,783,800	99,017,161	206,553,391	97,497,909	(14,769,591)
26.c	Tax payables	35,447,666	24,621,448	36,543,734	9,129,171	(1,096,068)
26.d	Other current liabilities	22,337,944	23,902	17,314,341	0	5,023,603
26	CURRENT LIABILITIES	792,544,591	152,091,287	365,603,664	188,134,979	426,940,927
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,878,374,266	152,091,287	4,407,078,122	188,134,979	471,296,144

Figures in Euro

STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2016

	Share capital	Legal reserve	Demerged capital gains reserve	Reserve for exchange differences	Valuation reserve for financial instruments	Reserve for actuarial gains and losses	Other Miscellaneous reserves	Profits (losses) accumulated	Profit (loss) or the year	Total net assets
€ thousand										
Balance as at 1 January 2016	1,098,899	87,908	102,567	9,548	(32,903)	(9,781)	2,791	52,656	145,606	1,457,291
Allocation of 2015 profits:										
Distribution of balance, dividends									(106,274)	(106,274)
Legal reserve		7,280							(7,280)	0
Profits carried forward / to cover losses								32,051	(32,051)	0
Other changes							(1,932)			(1,932)
Net income / (loss) recorded during the year:										
Profits and losses recognised directly in equity				(7,639)	7,536	(1,088)				(1,191)
Distribution of advances on dividends										0
Profits of the year									108,610	108,610
Total at 31 December 2016	1,098,899	95,188	102,567	1,909	(25,367)	(10,868)	860	84,707	108,610	1,456,505

Amounts in thousands of Euro

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2017

€ thousand	Share capital	Legal reserve	Demerged capital gains reserve	Reserve for exchange differences	Valuation reserve for financial instruments	Reserve for actuarial gains and losses	Other Miscellaneous reserves	Profits (losses) accumulated	Profit (loss) for the year	Total net assets
Balance as at 1 January 2017	1,098,899	95,188	102,567	1,909	(25,367)	(10,868)	860	84,707	108,610	1,456,505
Allocation of 2016 profits:										
Distribution of balance, dividends								(28,694)	(103,086)	(131,780)
Legal reserve		5,431							(5,431)	0
Profits carried forward / to cover losses								93,879	(93,879)	0
Other changes							239			239
Net income / (loss) recorded during the year:										
Profits and losses recognised directly in equity				11,248	(8,918)	1,088				3,418
Distribution of advances on dividends										0
Profits of the year									226,579	226,579
Balance as at 31 December 2017	1,098,899	100,619	102,567	13,157	(34,285)	(9,780)	1,098	56,107	226,579	1,554,961

Amounts in thousands of Euro

STATEMENT OF CASH FLOW

Ref. Note	31/12/2017	Related Parties	31/12/2016	Related Parties	Change
Cash flow for operating activities					
	229,809		101,632		128,178
5	24,142		16,163		7,979
5	(213,484)		(141,868)		(71,616)
22	(22,018)		(5,784)		(16,234)
21	(1,226)		(5,049)		3,823
8	268		0		268
6-7	(49,552)		13,045		(62,598)
	0		0		0
	(32,061)	0	(21,861)	0	(10,200)
Financial flows generated by operating activities before changes					
19.b-19.c	(43,241)	(40,976)	37,012	41,523	(80,253)
26.b	(14,770)	1,519	50,867	46,780	(65,636)
19.a	270		0		270
	(57,740)	(39,457)	87,879	88,303	(145,619)
	43,808	31,789	(42,482)	(11,444)	86,290
	(45,994)	(7,668)	23,536	76,859	(69,530)
Cash flow from investing activities					
11-13	(25,120)		42,299		(67,419)
14-15	(2,782)		(13,848)		11,066
26.a	(427,874)	(418,786)	(308,532)	(419,912)	(119,342)
	231,810	231,810	128,310	128,310	103,501
	25,145	(103,892)	11,985	(93,233)	13,160
	(198,820)	(290,868)	(139,787)	(384,835)	(59,034)
Cash flow from financing activities					
23	391,948		590,257		(198,310)
26.a	(450,000)		(500,000)		50,000
26.a	437,726	(53,079)	27,561	27,693	410,165
	(52,991)	(3,037)	(91,472)	(4,787)	38,481
	(131,780)	(131,780)	(106,274)	(106,274)	(25,506)
	194,903	(187,896)	(79,927)	(83,368)	274,830
	0	0	0	0	0
	(49,911)	(486,432)	(196,178)	(391,343)	146,266
	577,334	0	773,512	0	(196,178)
	527,423	(486,432)	577,334	(391,343)	(49,911)

Amounts in thousands of Euro

NOTES TO THE INCOME STATEMENT

REVENUE

1. Revenues from sales and services - €164,403k

Revenues from sales and services are as follows:

€ thousand	2017	2016	Change
Revenue from services to customers	60,126	72,367	(12,240)
of which Roma Capitale public lighting service	59,887	68,508	(8,620)
of which public lighting service of the Municipality of Naples	48	3,637	(3,590)
of which other revenues	192	221	(30)
Revenues from intra-group services	104,276	100,395	3,881
of which service contracts	102,978	94,759	8,219
of which other services	1,298	5,636	(4,338)
Revenues from sales and services	164,403	172,762	(8,359)

The decrease in revenues from services to customers of €12,240k, is attributable to the decrease in the fee related to the public lighting service performed in the Municipality of Rome and the elimination of fees for work carried out as part of the management of the public lighting service carried out in the Municipality of Naples.

On 17 June 2016, the agreement modifying the service contract for the management of the public lighting service was signed with Roma Capitale, within which the plan for the massive replacement of the lighting bodies with LEDs financed by Roma Capitale was launched, which is attributable to the increase in revenues, more than offset by the reduction in other fees provided for in the contract (partly due to the progressive progress of the installations).

On October 31, 2016, the contract for the management of the public lighting service in the Municipality of Naples was completed, extended from July 2015.

Revenues from infragroup services recorded a total increase of €3,881k. This change derives from (i) the increase in fees for service activities rendered in the interest of Group companies, mainly

of an administrative, financial, legal and technical nature (ii) by the overall decrease in revenues deriving from other services provided to subsidiaries (- €4,388k) mainly due to the elimination of revenues from services not included in the service contract relating to the facility management division of Acea sold in 2016 by the subsidiary Acea Elabori.

With reference to service activities, the increase is attributable to the IT services generated by the management of the "Template Acea2.0", partly offset by the absence of the service contract quota for the activities from the last two months of 2016, of facility management subject to sale.

2. Other income - €16,534k

This item increased by €4,810k compared to 31 December 2016, mainly due to the effect of greater non-existent liabilities offset by minor recoveries for personnel seconded to Group companies. Below is the composition.

€ thousand	2017	2016	Change
Contingent assets and other revenues	10,033	3,945	6,088
Seconded staff	2,951	4,146	(1,195)
Reimbursement of charges for corporate offices	2,750	2,839	(89)
Real estate income	734	756	(22)
Refunds for damages, penalties, collateral	66	39	27
Other income	16,534	11,725	4,810

COSTS

3. Cost of labour - €49,676k

€ thousand	2017	2016	Change
Labour cost gross of capitalised costs	54,160	53,759	401
Staff employed in projects	(3,929)	(5,142)	1,213
Capitalised costs	(554)	(1,385)	831
TOTAL	49,676	47,232	2,444

The increase in the cost of labour, including capitalised costs of €401k, derives from the decrease in the partial release of the amounts set aside for the third cycle of the Medium / Long-term Incentive Plan. Exuberant results offset in part by the reduction in outstanding amounts average, as also highlighted in the table below. The cost of personnel is netted, as well as capitalised costs, also

€3,929k (+ €1,213k compared to 31 December 2016) representing the total amount of personnel costs used in the Acea 2.0 project for all group companies participating in the “communion” of the IT platform.

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

Level	Average consistency of the period			Final consistency of the period		
	2017	2016	Change	2017	2016	Change
Managers	51	54	(3)	52	52	0
Executives	149	143	6	153	143	10
Employees	372	404	(32)	374	363	11
Workers	15	22	(7)	15	15	0
TOTAL	587	624	(37)	594	573	21

4. External costs - €149,276k

Compared to 31 December 2016, total external costs increased by

€5,425k (+ 3.77%); The following is the composition and changes in external costs by nature.

€ thousand	2017	2016	Change
Cost of equipment	552	1,107	(555)
Costs for services and work	132,819	126,512	6,307
Costs for use of third party goods	7,087	10,747	(3,659)
Taxes and duties	1,801	2,862	(1,061)
Overhead costs	7,016	2,623	4,393
TOTAL	149,276	143,851	5,425

€ thousand	2017	2016	Change
Cost of equipment	552	1,107	(555)
Costs for services and work	132,819	126,512	6,307
Infragroup services	47,413	48,348	(935)
- of which Public Lighting, Roma Capitale	43,790	44,044	(254)
- of which Public Lighting, Municipality of Naples	0	4,056	(4,056)
Electric and Water Consumption	22,659	31,099	(8,440)
- of which Electricity Consumption Roma Capitale Public Lighting Service	20,298	28,291	(7,993)
Consulting and professional services	24,700	10,478	14,222
Works	1,380	4,158	(2,779)
Maintenance fees	9,074	8,504	571
Staff services	4,698	3,186	1,512
Surveillance services	2,965	3,316	(351)
Advertising and Sponsorships	3,652	2,877	775

€ thousand	2017	2016	Change
Cleaning, transport and portorage costs	262	2,657	(2,396)
Seconded staff	7,708	4,748	2,960
Postal charges	1,115	1,736	(621)
Bank charges	1,287	1,657	(370)
Governing Bodies	626	664	(38)
Telephone expenses	1,322	1,205	116
Insurance expenses	409	399	10
Travel costs and subsistence	418	426	(8)
Coordinated and continuous collaborations	185	304	(119)
Technical and administrative services	760	462	298
Typographical expenses	21	54	(33)
Other	2,165	232	1,933
Costs for use of third party goods	7,087	10,747	(3,659)
Rent charges	4,564	7,089	(2,525)
Other Rentals and Fees	2,524	3,658	(1,134)
Taxes and duties	1,801	2,862	(1,061)
Overhead costs	7,016	2,623	4,393
Total External Costs	149,276	143,851	5,425

The increase in external costs of € 5,425k goes through phenomena of the opposite sign including:

- the increase in external costs for professional services, of which IT (+ € 11,195k) are due to the management costs of the “Template Acea2.0”;
- the sustaining of costs for debt recovery + €1,241k;
- the decrease in the total cost of the public lighting management service in the Municipality of Rome is essentially due to electricity consumption related to the service (- € 5,868k) generated by the efficiencies generated by the installation of LEDs instead of traditional lighting fixtures. On the other hand, the other costs remained substantially unchanged as a consequence of the combined effect of the increase in the cost for the massive replacement of the lighting bodies with LEDs financed by Roma Capitale and the decrease of the other fees provided for in the contract;

- the loss of the costs of the management of the public lighting service carried out in the Municipality of Naples (- € 4,056k);
- savings on the warehouse rent fees of - € 2,332k;
- the elimination of external costs relating to the management of the facility management service subject to the sale in 2016 by the subsidiary Acea Elabori, partly offset by the costs of the service contract for the management of facility management for the portion relating to Acea (€ 2,558k);
- the increase in ordinary contingent liabilities equal to + € 3,689k.

Please note that other rentals and charges refer mainly to hardware and software for the company data centre.

Please note that, pursuant to Article 149-duodecies of the CONSOB Issuer Regulations, the fees accrued by the PwC Auditing Company are shown in the table below.

€ thousand	Audit Related Service	Audit Services	Non Audit Services post	Non Audit Services ante	Total
Acea SpA	66,813	272,430	417,552	573,479	1,330,243

Please note that the above fees refer to assignments for the year 2017 entrusted up to 31 December 2017. It is also specified that pursuant to Art. 10 of Regulation (EU) 537/2014 non-audit services provided to the Parent Company or its subsidiaries during the 2017 financial year refer to:

1. assistance in carrying out the 262/05 tests identified by Acea;
2. benchmark analysis of some services provided between related parties and,
3. assistance in the implementation and maintenance of non-economic-financial systems (SAP HCM and SAP JAM).

5. Depreciation, provisions and write-downs - € 20,741k

€ thousand	2017	2016	Change
Depreciation of tangible and intangible assets	14,603	16,163	(1,560)
Impairment losses	9,539	0	9,539
Bad Debts	5,529	4,787	742
Provision for risks	(8,930)	3,615	(12,545)
TOTAL	20,741	24,565	(3,824)

Depreciation totalled € 14,603k and refers to € 8,555k for intangible assets and € 6,048k for property, plant and equipment. The decrease in depreciation is essentially due to the portion of the investment of the registered office sold to the subsidiaries areti and Acea Ato2.

Impairment losses on fixed assets of € 9,539k refer to the adjustment of the value of the Autoparco which, following the ruling by the Court of Rome with ruling no. 11436/2017, published on 6 June, 2017, essentially declares the nullity of the purchase agreement entered into with the company Trifoglio Srl on October 22, 2010; therefore Acea summarises, now by then, the ownership of

the building complex at the net accounting value to which the asset was registered at the time of its sale. For more details, refer to the paragraph "Update of legal disputes".

The write-downs of receivables amount to a total of € 5,529k and mainly refer to risks associated with the recoverability of receivables for interests registered with Roma Capitale.

The change compared to the previous year is due to allocations to other companies of the group, in particular Sienergia SpA in liquidation.

The provisions for risks were equal to - € 8,930k. The following are their composition by nature and their effects:

€ thousand	2017	2016	Change
Investees	48	137	(90)
Release investees	(22,127)	(460)	(21,667)
Redundancy and mobility	12,000	5,502	6,498
Legal	619	522	97
Legal release	(809)	0	(809)
Staff disputes	0	24	(24)
Contributive and in respect of Public Bodies	25	(2,418)	2,444
Release of contributory risks	(30)	20	(50)
Procurement and supplies	1,371	0	1,371
Tax dispute risk	0	288	(288)
Release of tax litigation	(12)	0	(12)
Release of insurance deductibles	(15)	0	(15)
TOTAL PROVISIONS	(8,930)	3,615	(12,545)

Compared to the previous year, there was an increase in the level of provisions related to the charges necessary to deal with voluntary and outgoing mobility procedures (+ € 6,498K) as well as greater releases for exuberant funds for € 20,115 thousand. The release of the in-

vestee fund of € 22,127k relates to the subsidiary Gori.

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

6. Financial income - € 114,363k

€ thousand	2017	2016	Change
Income from intragroup relations	108,368	83,137	25,231
Interest and income from relationships with banks	190	360	(170)
Default interest towards subsidiaries	0	0	0
Interest due to third parties	0	938	(938)
Recovery of discounting costs	753	863	(110)
Revenue from Fair Value Hedge	0	298	(298)
Financial income from public lighting contracts	276	274	2
Interest due to Roma Capitale	4,560	3,914	646
Other financial income	215	0	215
Total financial income	114,363	89,784	24,579

The increase in financial income for € 24,579k is attributable for € 25,231k to income from intra-group transactions. This change is mainly due to:

- the increase in interest income on the revolving credit line for € 22,095k,
- the increase in interest income on long-term loans with re-

spect to some subsidiaries for € 3,108k.

On the contrary, the financial income deriving from the fair value hedge valuation of the derivative signed on the Bond of € 600 million placed on the market in September 2013, which changed sign by shifting among the charges, is no longer valid.

7. Financial charges - € 64,810k

€ thousand	2017	2016	Change
Interest on bonds	59,194	65,869	(6,675)
Charges for repurchase obligations	0	32,065	(32,065)
Charges on Interest Rate Swaps	1,266	1,342	(76)
Interest on short-term indebtedness	1	19	(18)
Interest on medium-long term indebtedness	1,630	2,350	(720)
Charges from intragroup relations	0	0	0
Financial Charges from Public Lighting Contract	172	171	1
Other Financial Charges	450	849	(399)
Losses / (Profit) on Foreign Exchange	1,784	148	1,635
Interest expense on Equitalia and INPS installments	12	17	(5)
Valuation Charges at Fair Value Hedge	302	0	302
Total financial charges	64,810	102,830	(38,020)

The reduction in financial charges for € 38,020k, derives from the presence on the charges for 2016 of the share premium buyback paid to withdraw from the market two tranches of bonds (€ 31,382k plus € 683 thousand in expenses and fees) and lower interest on bonds (€ 6,675k). This change includes the effect of the early repayment of two tranches of bonds for a total of € 346,836 million in bonds issued on 24 October 2016, offset in part by the interest on the new loan issued at the same time (- € 6,675k). The

charges net of the income on interest rate swaps on bonds, remain substantially unchanged. The financial charges deriving from the fair value hedge valuation of the derivative signed on the Bond of € 330 million (originally equal to € 600 million) placed on the market in September 2013 and which changed sign are added.

With reference to the average cost of Acea's debt, there was a decrease compared to the previous year, having risen from 2.67% in 2016 to 2.25% in 2017.

8. Income from investments - € 219,013k

This item recorded an increase of € 72,766k (€146,247k) and is summarised in the following table.

€ thousand	2017	2016	Change
Dividends	218,745	146,247	72,498
Acea Ato2	59,150	63,735	(4,585)
ANNEX	3,582	0	3,582
areti	126,408	44,057	82,352
Acea Elabori	8,629	7,229	1,401
Environment Area	11,622	13,446	(1,824)
Acque Blu Fiorentina	0	5,092	(5,092)
ACIP	4,035	6,804	(2,769)
Aquaser	3,433	2,431	1,002
Acea800	215	394	(179)
Consorzio Agua Azul	1,205	1,539	(334)
Acea Dominicana	0	335	(335)
Intesa Aretina	315	412	(97)
GEAL	121	0	121
Umbria Distribuzione Gas	0	22	(22)
Acque Blu Arno Basso	0	718	(718)
Ingegnerie Toscane	30	35	(5)
Gains on the sale of shares in Acea Gori Servizi	268	0	268
Total	219,013	146,247	72,766

9. Expense from investments - € 0k

The zero entry as at 31 December 2017, in 2016, included the write-downs of the investment held in Acea Servizi Acque in liquidation for € 408k.

10. Taxes - € 3,230k

Taxes totaled € 3,230k. In particular, the tax calculation is affected by the tax law applicable to the tax treatment of the collected dividends, the provisions for the provision for risks, as well as the deductibility of the interest expense of Acea for the Group tax consolidation. Income taxes for the year have an impact on the pre-tax result of 1.4%.

The balance consists of the algebraic sum of the following items.

CURRENT TAXES

Current taxes amounted to € 71,318 thousand (€ 97,007k at 31 December 2016) and refer to consolidated Ires calculated on the sum of taxable income and tax losses of the companies consolidated on a tax basis and Irap.

It should be noted that this effect is cancelled by the recognition of income deriving from the attribution of the taxable income of the companies participating in the tax consolidation. This effect is summarised in the table below and shows the reconciliation between the theoretical and actual rates.

DEFERRED TAXES

Net deferred tax assets decreased by € 1,061 thousand and consisted of the algebraic sum of provisions (€ 9,880k) mainly on the provision for risks, the allowance for doubtful accounts and provisions for defined benefit plans and utilisations (€ 8,819k). Deferred tax liabilities increase taxes for € 548k and consist of the algebraic sum of uses (€ 585k) relating to the taxable portion of dividends collected and provisions for the year which amount to € 1,133k.

CHARGES AND INCOME FROM TAX CONSOLIDATION

These amount to € 67,575k and represent the positive balance between the tax charges that the Parent Company has towards tax consolidation companies against the transfer of tax losses (€ 4,038k) and the tax income recorded as a counterpart of the taxable income transferred to the consolidated company (€ 71.614k). The compensation for the loss, as per the general consolidation regulation, is determined by applying the current IRES rate to the amount of the tax loss transferred.

The table below shows the reconciliation between the theoretical and actual tax rates.

	2017	%	2016	%
Pre-tax result of operating activities	229,809		101,632	
Theoretical taxes calculated on pre-tax profit	55,154	24.0%	27,949	27.5%
Permanent differences*	(51,981)	22.6%	(34,625)	34.1%
IRES payable for the year**	3,173	1.4%	(6,676)	6.6%
IRAP payable for the year**	57	0.0%	(302)	0.3%
Taxes on the operating income of operating assets	3,230	1.4%	(6,978)	6.9%

* They mainly include the taxed portion of dividends

** Including deferred tax

NOTES TO THE BALANCE SHEET - ASSETS

11. Property, plant and equipment - €95,852k

€ thousand	31/12/2017	31/12/2016	Change
Land and buildings	81,362	77,554	3,808
Systems and equipment	6,814	6,139	676
Industrial and commercial tools	753	831	(78)
Other assets	6,892	8,746	(1,855)
Current fixed assets in course of acquisition and advance payments	31	31	n.s.
Total property, plant and equipment	95,852	93,301	2,551

There is an increase of €2,551k compared to the value of 31 December, 2016.

The change mainly refers to the net effect between investments, totalling €3,925k, other changes amounting to €14,250k, the impairment of fixed assets equal to €9,539k and depreciation rates which amounted to €5,990k.

Investments during the period include the Telecontrol devices of the public lighting network in the Municipality of Rome, created by Acea at the request of Roma Capitale in fulfilment of the service contract. Other investments during the period mainly relate to extraordinary maintenance work on the plants and premises held under lease and to the investments related to the hardware required

for technological development projects under Acea2.0 as well as to the improvement and evolution of the IT network.

Other changes represent the recovery of the sales value of Autoparco amounting to €14,250k among assets. This recovery was made following the ruling by the Court of Rome with ruling no. 11436/2017, published on 6 June, 2017, which stated the nullity of the purchase agreement entered into with the company Trifoglio Srl on 22 October, 2010. The impairment of fixed assets, equal to €9,539k, refers to the adjustment of the value of Autoparco to the net book value at which the asset was recorded at the time of the transfer.

The table below summarises the changes occurred in the period.

€ thousand	31/12/2016			CHANGES						31/12/2017		
	Historical cost	Accumulated depreciation	Net value	Increases	Reclassifications / Other changes	Write-ups / write-downs	Divestments / Disposals	Depreciation	Cost	Accumulated depreciation	Net value	
Land and buildings	94,161	(16,607)	77,554	370	13,875	(8,330)	(32)	(2,074)	101,201	(19,839)	81,362	
Systems and equipment	17,191	(11,053)	6,139	2,367	(17)	(839)	(56)	(779)	19,053	(12,239)	6,814	
Industrial and commercial tools	13,210	(12,379)	831	0	392	(370)	0	(101)	13,386	(12,633)	753	
Other assets	51,049	(42,302)	8,747	1,188	0	0	(7)	(3,036)	52,255	(45,363)	6,892	
Current fixed assets in course of acquisition and advance payments	31	0	31	0	0	0	0	0	31	0	31	
Total property, plant and equipment (non-recurrent tangible assets)	175,643	(82,341)	93,301	3,925	14,250	(9,539)	(95)	(5,990)	185,926	(90,074)	95,852	

12. Real estate investments - €2,547k

These amount to €2,547k, a reduction of €58k due to the depreciation of the year and consist mainly of land and buildings not used

for production and held for rental purposes.

13. Intangible assets - €11,624

€ thousand	31/12/2017	31/12/2016	Change
industrial patents and intellectual property rights	11,132	13,138	(2,006)
Concessions and rademarks	100	0	100
Current fixed assets in course of acquisition and advance payments	392	0	392
Total Intangible Fixed Assets	11,624	13,138	(1,514)

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

€ thousand	31/12/2016		Changes in the year				31/12/2017
	Net value	Increases	Reclassifications / Other changes	Write-ups / write-downs	Divestments / Disposals	Depreciation	Net value
Industrial patents and intellectual property rights	13,138	6,851	0	0	(339)	(8,518)	11,132
Concessions and trademarks	0	136	0	0	0	(36)	100
Fixed assets in progress	0	392	0	0	0	0	392
Total property, plant and equipment (non-recurrent tangible assets)	13,138	7,379	0	0	(339)	(8,555)	11,624

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

costs incurred for the new brand of Acea group.

14. Investments in subsidiaries and associates - €1,784,246k

These recorded an increase of €3,019k and is as follows:

€ thousand	31/12/2017	31/12/2016	Change
Shares held in subsidiaries	1,757,919	1,769,085	(11,166)
Shares held in affiliate companies	26,327	12,142	14,185
Total shares held	1,784,246	1,781,227	3,019

Shares held in subsidiaries

Changes for 2017 are summarised below.

Shares held in subsidiaries	Historical cost	Reclassifications and other changes	Write-ups / write-downs	Disposals	Net value
Values at 31 December, 2016	3,146,010	(363,946)	(62,885)	(950,094)	1,769,085
Changes in 2017:					
- changes in share capital	0	80	0	(10,385)	(10,305)
- acquisitions / formations	12,993	0	0	0	12,993
- disposals / distributions	0	0	0	0	0
- reclassifications and other changes	0	(12,641)	0	0	(12,641)
- write-downs / write-ups	0	0	(1,212)	0	(1,212)
Total changes in 2017	12,993	11,644	(1,728)	(10,385)	14,524
Values at 31 December, 2017	3,159,003	(376,507)	(64,097)	(960,479)	1,757,919

The changes occurred mainly concern:

- €12,993k are related:
 1. to the increase (€8,909k) of the share capital of Acea International following the sale of 100% of the equity in investments held by Acea in Aguas de San Pedro and Acea Dominicana;
 2. to the purchase from Ambiente Srl of the 1.30% stake and from Severn Trent Water & Services Limited the 0.90% stake in Umbriadue Servizi Idrici Scarl (€2,869k);
 3. to the purchase of 51% of Acque Industriali Srl from Acque SpA (€1,203k);
 4. to the purchase of 100% of the share capital of Severn Trent Italia SpA from Severn Trent Luxembourg Overseas Holdings, at the same time changing its company name to Technologies for Water Services SpA (€11k);
- €12,993k for the reclassification of some investments, including Umbra Acque and Consorcio Agua Azul, among the investments in associate companies.

We also report the write-down for adjustment to the exchange rate of foreign equity investments (€1,212k).

For purposes of verifying the recoverable value of investments, the

impairment test was carried out substantially on all its direct and indirect subsidiaries.

The impairment procedure of investments compares the accounting value of the investment with its economic value.

The verification of the maintenance of the value of an equity investment can be conducted by determining the difference between the recoverable value, identified as the highest value between the value in use and the fair value, net of selling costs, and the carrying amount.

The value in use represents the present value of expected cash flows that are expected to derive from the continuous use of all assets relating to the investment. The fair value, net of sales costs, represents the amount obtainable from the sale in a free transaction between knowledgeable and willing parties.

The 2017 impairment process provides the estimate of an interval relative to the recoverable value of individual investments in terms of value in use in methodological continuity with respect to the previous year, or through the financial method that recognises the ability to generate cash flows the essential element for assessing the reference entity. For the purpose of discounting operating cash flows, the weighted average cost of post-tax capital is used.

The estimate of the recoverable value of investments - expressed in terms of value in use - was estimated by the combined use of the financial method and sensitivity analyses.

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

For purposes of determining operating flows and the Terminal Value, the estimates and projections of the 2018-2022 Business Plan approved by the Board of Directors were used. The recoverable value of the investments was determined as the sum of the present value of cash flows of the Plan and of the current value of the Terminal Value.

The following table shows the operating segments to which the investments recorded in the financial statements of the Parent Company refer. For each operating segment, the type of recoverable value considered, the discount rates used and the time scale of cash flows are specified.

Industrial Area	Recoverable value	WACC	Terminal value	Cash flow period
Energy Infrastructures Area				
areti	value in use	5.6%	Residual value	up to 2022
Acea Produzione	value in use	5.5%	two-stages	up to 2022
Ecogena	value in use	5.5%	two-stages	up to 2022
Water Area				
	value in use	5.4%	Residual value	up to 2022
Commercial and Trading Area:				
Acea Energia	value in use	6.9%	Perpetuity without growth	up to 2022
Environment Area				
	value in use	6.6%	two-stage	up to 2022

The Terminal Value was determined:

- for Acea Produzione: two-stage. The first stage concerns a normalised flow for the 2023-2032 period while the second stage includes the residual value corresponding to the net invested capital of 2032;
- for the Environment Area: two-stage. The first stage concerns the 2023-2032 period while the second stage includes the residual value corresponding to the net invested capital of 2032;
- for areti: the current value of the RAB at the expiry of the concession calculated according to the regulations for the fifth regulatory period;
- for the Water Area: the current value of the Residual Value in the event of a takeover at the end of the concession.

We also inform you that the WACC has been subjected to a sensitivity analysis. It must be noted that:

- the 0.5% increase in the discount rate leads to a deficit in the Acea Ato2 SpA and Acea Ato5 SpA investment. With regard to Acea Ato2, the slightness of the surplus is motivated by

having identified only the value of regulatory assets as a Terminal Value (the so-called RAB) without considering the realisable value of working capital. With regard to Acea Ato5, the Company's investment plan is being revised with positive effects on future cash flows,

- the increase of 1.0% in the discounting rate leads to a deficit in the investment of areti SpA.

The result of the impairment test confirms the recoverability of the value of investments recorded.

Shares held in affiliate companies

These amount to €26,327k and increase due to the reclassification of some investments, including Umbria Acque, from investments in subsidiaries to associates. In 2017, 19.20% of the shares in GEAL were acquired from the shareholder Veolia Eaux (€2,000k). We also report the write-down for adjustment to the exchange rate of foreign equity investments (€515k).

The changes occurred during the year are shown below.

Shares held in associate companies	Historical cost	Reclassifications	Write-ups / write-downs	Disposals	Net value
Values at 31 December, 2016	92,570	899	(79,861)	(1,467)	12,142
Changes in 2017:					
- changes in share capital	0	59	0	0	59
- acquisitions / formations	2,000	0	0	0	2,000
- disposals / distributions	0	0	0	0	0
- reclassifications and other changes	0	12,641	0	0	12,641
- write-downs / write-ups	0	0	(515)	0	(515)
Total changes in 2017	2,000	12,700	(515)	0	14,185
Values at 31 December, 2017	94,570	13,600	(80,376)	(1,467)	26,327

15. Other investments - €2,352k

"Other equity investments" refer to investments in equity securities that do not constitute control, association or joint control. In 2017 an investment was acquired in Green Capital Alliance Società Benefit S.r.l for the value of €2k.

16. Deferred tax assets - €32,479k

This item increased by €4,110k compared to 31 December, 2016. The following table shows the changes and the balance as at 31 December, 2017 with reference to both the assets for prepaid taxes and the provision for deferred taxes.

With regard to the recoverability of deferred tax assets, it must be noted that the valuation of deferred tax assets was carried out on

the basis of Acea's business plans and, with regard to the time scale, considering a reasonable estimate of the reversal period.

€ thousand	31/12/2016	IRES / IRAP uses	Changes in Equity	IRES / IRAP advances	31/12/2017
Pre-paid taxes					
Remuneration of members of the BoD	0	0	0	5	5
Provision for risks and charges	4,390	(8,182)	0	6,698	2,906
Bad Debts	6,517	0	0	1,559	8,077
Purchase of tangible and intangible assets	1,180	0	0	439	1,619
Defined benefit plans / defined contribution	6,392	(444)	234	1,595	7,778
Other	9,889	(193)	2,816	(416)	12,096
Total	28,369	(8,819)	3,050	9,880	32,479
Deferred taxes					
Deferred taxes on dividends	325	(197)	0	39	167
Depreciation of tangible and intangible assets	(12)	0	0	0	(12)
Defined benefit plans / defined contribution	176	74	(40)	0	210
Other	4,308	(463)	3,552	1,094	8,492
Total	4,796	(585)	3,512	1,133	8,856
Net total	23,573	(8,234)	(462)	8,746	23,623

17. Non-current financial assets - €237,975k

This item increased by €350k compared to 31 December 2016, as

it amounted to €237,625k and is broken down as follows:

€ thousand	31/12/2017	31/12/2016	Change
Receivables due to Roma Capitale	22,168	25,638	(3,471)
Receivables due to subsidiaries	187,958	179,623	8,335
Receivables due from others	27,849	32,364	(4,514)
TOTAL	237,975	237,625	350

The item **Financial receivables due from Roma Capitale** shows a decrease of €3,471k and refers to investments in the public lighting service, such as plant redevelopment, energy saving, regulatory compliance and technological innovation, which will be paid to Acea, equal to the tax depreciation, beyond the year 2017, in accordance with what was agreed in the Supplementary Agreement to the service contract signed on 15 March, 2011.

Financial receivables from subsidiaries increased by €8,335k compared to 31 December, 2016 due to the disbursement of two

new tranches of the medium- and long-term interest bearing loan to the subsidiary Acea Ato5 (for a total of €13,866k), offset in part from the reclassification to short-term financial receivables of the portion falling due in 2018 of the non-interest bearing credit in respect of the latter based on the repayment plan that will be completed in 2028 (€1,096k).

In 2017, receivables from the subsidiaries Acea Ambiente and Ombrone SpA were repaid.

These receivables are considered entirely recoverable.

€ thousand	31/12/2017	31/12/2016	Change
Receivables from financing			
Acea Ato5	180,845	168,075	12,770
Acea Ambiente Srl (formerly ARIA)	0	3,604	(3,604)
Crea Gestioni Srl	3,870	3,870	0
Ecomed Srl	33	33	0
Ombrone SpA	0	831	(831)
Total	184,748	176,413	8,335
Other Financial Receivables			
Acea Ambiente Srl (formerly ARIA)	3,210	3,210	0
Total non-current financial receivables from subsidiaries	187,958	179,623	8,335

The item Receivables from others, amounting to €27,849k, is composed of €27,724k from the application of the financial asset model envisaged by IFRIC 12 regarding services under concession. This receivable represents all the investments made up to 31 December, 2010 related to the service itself.

18. Other non-current assets - €0k

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

19. Current assets - €2,711,298k

These recorded an increase of €463,342k (€2,247,957k as at 31 December, 2016) and are broken down as follows.

19.a - Contract work in progress - €0k

The construction works of the public lighting systems, carried out as part of the service contract with Roma Capitale, were launched at the end of the year. The balance as at 31 December, 2017 is of zero.

19.b - Trade receivables - €954k

Trade receivables decreased by €3,564k compared to €4,517k at 31 December, 2016.

Receivables from customers

These amounted to €915k net of the allowance for doubtful ac-

counts amounting to €5,763k and decreased by €3,564k.

Receivables included under this item refer to positions accrued in respect of private and public entities for services rendered, with particular reference to public lighting services for the Municipality of Naples. It must be noted that during the first months of 2017, Acea collected €1,659k in receivables from the Municipality of Naples. In March 2017, €1,029k of receivables were collected from ATER following the sentence handed down by the Court of Cassation in 2016 concerning our injunctions of 1992 and 1994, with which Acea had ordered IACP to make the payment of what was due.

Provision for doubtful debts

This stands at €5,763k and increased by €281k compared to the previous year.

The allowance for doubtful accounts is calculated on the basis of specific analytical assessments, supplemented by valuations deriving from historical analyses that concerned losses on amounts owed by customers, in relation to the age of the receivable, average collection times, and type of shares. of recovery undertaken and the status of the receivable (ordinary, in dispute, etc.).

19.c - Intragroup Trade Receivables - €98,772k

This item recorded an increase of €41,023k compared to 31 December, 2016 (€57,748k) and is composed as follows:

€ thousand	31/12/2017	31/12/2016	Change
Receivables due to the parent company - Roma Capitale	93	624	(530)
Receivables from subsidiaries	97,224	54,814	42,409
Receivables from affiliate companies	1,455	2,310	(855)
Total intragroup trade receivables	98,772	57,748	41,023

Receivables due to the parent company - Roma Capitale

These decreased by €530k, compared to 31 December, 2016. The following table shows together the amounts resulting from the

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

€ thousand	31/12/2017	31/12/2016	Change
Receivables for services invoiced	93	119	(26)
Receivables for services to be invoiced	0	0	0
Total Trade Receivables	93	119	(26)
Financial receivables for invoices issued	118,228	106,317	11,912
Financial receivables for invoices to be issued	17,314	15,328	1,986
Total Financial Receivables due to Public Lighting	135,542	121,644	13,898
Total receivables due within the next financial year (A)	135,635	121,764	13,872

€ thousand	31/12/2017	31/12/2016	Changes
Trade payables	0	0	0
Total receivables due within the next financial year (A)	0	0	0

Total (A) - (B)	135,635	121,764	13,872
Other receivables / (payables) of a financial nature	3,330	9,088	(5,758)
Other Receivables / (Payables) of a commercial nature	(24)	444	(468)
Total other receivables / (payables) (C)	3,306	9,532	(6,226)
Net Balance	138,942	131,296	7,646

The change in receivables and payables is determined by the accrual of the period and by the effects resulting from the compensation and / or collections.

The stock of receivables as at 31 December 2017 recorded an increase of €13,872k compared to the previous year, to be entirely attributed to financial receivables from public lighting. The increase refers to the accrual of the annual fee, to the modernisation of the safety net, to the extra ordinary maintenance and finally to receivables deriving from the agreement relating to the LED Plan regarding the replacement of old generation road lamps.

In 2017 a total of €57,211k were collected. The types of receivables collected are listed below:

- €31,326k for credits accrued in relation to the items of the new LED Plan agreement, of which €15,081k recorded as at 31 December, 2016;
- €24,911k for receivables relating to the public lighting contract, of which €16,102k were already recorded as at 31 December, 2016 (fees from September 2016 to March 2017, adjustment pursuant to regulations and 2015 pro-rata);

- €974k from credit reimbursements for public lighting works and nursery service.

On the payables side, there was a total decrease of €2,237k, mainly due to the decrease in the debt relating to the advances from Roma Capitale for the LED Plan. This down payment concerning the entire plan to replace the luminaires with LED luminaires is progressively reduced with the progress of installations and the corresponding payment accrual.

Please note that in June the coupon relating to dividends accrued for 2016 was paid for €67,339k (payables recorded following the shareholders' meeting resolution of 27 April 2017).

Receivables from subsidiaries

These totalled €97,224k and decreased by €42,409k compared to the previous year. They mainly refer to the services rendered as part of service contracts. The change compared to the previous year is affected by the recognition of receivables deriving from the allocation of the costs incurred for the Acea2.0 Programme. Below is their composition:

€ thousand	31/12/2017	31/12/2016	Change
Acea Ato2	21,286	11,387	9,899
Acea Ato5	13,468	4,457	9,011
Areti	14,940	8,205	6,735
Acea Energia	10,267	5,082	5,185
Publiacqua	6,259	2,772	3,487
Umbra Acque	5,298	3,665	1,633
Gesesa	4,783	3,693	1,089
GORI	4,790	1,834	2,957
Acque	5,004	3,954	1,050
Acquedotto del Fiora	2,910	2,004	906
Crea Gestioni	2,959	2,208	751
Acea8cento	455	273	182
Acea Elabori	449	988	(539)
Sarnese Vesuviano	767	782	(14)
Acea Ambiente (ex ARIA)	725	1,499	(774)
Acea Dominicana	452	333	120
Ingegnerie Toscane	428	141	287
Aquaser	52	100	(48)
Coema	119	119	0
Acque Industriali	111	45	66
Ombrone	22	16	5
Agua de San Pedro	692	628	64
Umbriadue Servizi Idrici	328	0	328
Other	659	631	28
TOTAL	97,224	54,814	42,409

Receivables from affiliate companies

These total €1,455k and show a reduction of € (855) k compared to 31 December, 2016. The change refers to the write-

down of the receivable due from Sienergia in liquidation. Below is their composition:

€ thousand	31/12/2017	31/12/2016	Change
Marco Polo	1,236	1,236	0
Azga Nord	0	15	(15)
Sogea	46	150	(104)
Sienergia	0	639	(639)
Umbriadue	0	66	(66)
Geal	169	200	(31)
Le Soluzioni	4	4	0
TOTAL	1,455	2,310	(855)

The total of trade receivables, gross of the allowance for doubtful accounts, to customers and intragroup, including those to Roma Capitale, amounted to €107,989k; the age of these receivables is as follows:

- Trade receivables to expire: €75,461k;
- Outstanding trade receivables: €32,528k of which:

- Within 180 days: €8,653k,
- Between 180 and 360 days: €9,671k,
- Beyond the year: €14,204k.

19.d - Other current receivables and assets - €14,318k

These recorded a decrease of €11,060k and are made up as follows.

€ thousand	31/12/2017	31/12/2016	Change
Receivables due to the transferee Autoparco	500	10,250	(9,750)
Receivables due to the transferee Area Laurentina	6,000	6,000	0
Accrued income and prepayments	3,294	2,366	927
Other receivables	1,164	2,313	(1,149)
Receivables for the re-entry of the Marco Polo branch for payables to employees	1,931	2,116	(184)
Equitalia	802	773	29
Receivables from national insurance institutions	375	741	(366)
Receivables linked to the sale of the photovoltaic branch	146	397	(251)
Receivables due to severance pay for individual transfers	11	229	(218)
Advances to suppliers and deposits with third parties	94	192	(98)
TOTAL	14,318	25,378	(11,060)

Receivables linked to the sale of the photovoltaic division, recorded for the sale of the photovoltaic business to RTR Capital at the end of 2012, have changed compared to the previous year due to the exercise of the repurchase option of the ASI Latina plant carried out by Acea Produzione. It is recalled that this receivable refers to the establishment of an escrow account corresponding to the value of some plants that had to be subjected to formal controls by the transferor company.

The receivable from the transferee Autoparco which represented the balance of the sale was reversed in compliance with the ruling of the Court of Rome with ruling no. 11436/2017, published on 6

June, 2017, which stated the nullity of the purchase agreement entered into with the company Trifoglio Srl on 22 October, 2010. Instead, the receivable relating to the consideration for holding the property paid in 2011 was recorded and subsequently deducted from the amount of the deposit received to be returned.

Accrued **income and prepaid expenses** mainly include maintenance fees, insurance premiums and leases.

19.e - Current financial assets - €105,648k

These recorded an increase of €100,031k due to a new short-term deposit due on 3 April, 2018. Information on the balance at 31 December, 2017 is shown below.

€ thousand	31/12/2017	31/12/2016	Change
Receivables for managing the public lighting service	5,320	5,328	(8)
Receivables on short-term deposits	100,000	0	100,000
Accrued income on short-term deposits	4	0	4
Receivables from /SEIN from settlement of Acea ATO5 Servizi	274	274	0
Accrued income on bank account and post office	50	16	34
TOTAL	105,648	5,617	100,031

19.f - Intra-group current financial assets - €1,918,407k

This item recorded a growth of €418.688k. Please note that com-

parative values have been reclassified with respect to published data in order to better understand the changes. Information is provided in the table below.

€ thousand	31/12/2017	31/12/2016	Change
Receivables due to parent companies - Roma Capitale	117,472	108,134	9,337
Receivables from subsidiaries	1,800,613	1,388,467	412,146
Receivables from affiliate companies	322	3,117	(2,795)
TOTAL	1,918,407	1,499,719	418,688

Receivables from parent companies - Roma Capitale

These amount to a total of €117,472k and refer to receivables due from Roma Capitale relating to the public lighting service contract as anticipated in the section of this document "Trade receivables due from Roma Capitale".

Receivables from subsidiaries

These amount to €1,800,613k (€1,388,467k at 31 December, 2016) and are composed as follows:

€ thousand	31/12/2017	31/12/2016	Change
Receivables from cash pooling relationships	1,667,751	1,255,525	412,226
Accrued current financial assets on loans and cash pooling relationships	103,579	93,037	10,542
Receivables from subsidiaries for loans	14,711	5,250	9,461
Other receivables from subsidiaries	4,871	17,937	(13,066)
Receivables for commissions on guarantees given	9,701	16,718	(7,017)
TOTAL	1,800,613	1,388,467	412,146

The change with respect to the end of the previous year mainly derives from the increase in current account balances with the group companies that have joined a revolving loan line, to cover the needs for working capital and investments, which accrues interest at a fixed rate, defined on the basis of the rates applied on the capital market for the so-called issues. hybrid in the utilities sector updated on an annual basis, increased by a spread linked to the level of exposure and the reversal of the parent company's rating costs. Receivables for dividends from subsidiaries were mainly reduced due to the distribution of dividends relating to prior years not collected during the years of resolution (€16,066k).

Receivables from subsidiaries for loans increased; this increase is mainly due to Acea's takeover of TWS loans granted by Severn Trent PLC and existing at the time of acquisition of the investment (€9,000k).

Receivables from affiliate companies

At 31 December 2017, these amount to €322k and are in line with the values for 2016.

19.g - Current tax assets - €45,777k

These decreased by €31,595k compared to the end of the previous year and the composition is shown below:

€ thousand	31/12/2017	31/12/2016	Change
IRAP and IRES receivables for payments on account	18,853	2,157	16,696
VAT receivables	22,145	37,075	(14,930)
Other tax receivables	491	2,130	(1,639)
Total receivables from the tax authorities	41,489	41,362	127
Tax consolidation receivables due from subsidiaries	4,288	36,010	(31,722)
Total tax credits	45,777	77,372	(31,595)

VAT receivables derive from the Group VAT settlement procedure; the amount represents the receivable for the side paid at the end of December 2017.

The IRES receivable of €17,294k derives from excess payments made during the year compared to the tax calculated for the 2017 financial year.

19.h - Cash and cash equivalents - €527,423k

These recorded a reduction of €49,911k (€577,334k as at 31 December, 2016) and represent the balance of bank and postal current accounts opened at the various credit institutions as well as at Ente Poste.

NOTES TO THE BALANCE SHEET - LIABILITIES

20. Shareholders' equity - €1,554,961k

€ thousand	31/12/2017	31/12/2016	Change
Share capital	1,098,899	1,098,899	0
Legal reserve	100,619	95,188	5,431
Reserve for own shares in portfolio	0	0	0
Other reserves	72,757	69,100	3,657
Profits carried forward	56,107	84,707	(28,600)
Profit (loss) for the year	226,579	108,610	117,969
TOTAL	1,554,961	1,456,505	98,456

Shareholders' equity increased by €98,456k compared to 31 December, 2016. This change is mainly due to the profit reported in the year and to the effects generated by the allocation of the result achieved in 2016, as well as the changes in other reserves. The composition and changes per item are shown below:

20.a - Share capital - €1,098,899k

It amounts to €1,098,899k and is represented by 212,964,900 ordinary shares of €5.16 each as shown in the Register of Shareholders and is currently underwritten and paid in the following measures:

- Roma Capitale: 108,611,150 for a total nominal value of €560,434k,
- AMA: 1,000 for a total nominal value of €5k,
- Market: 103,935,757 for a total nominal value of €536.309k,
- Treasury Shares: 416,993 ordinary shares with a total nominal value of €2,151k.

20.b - Legal reserve €100,619k

It includes 5% of the profits of the previous financial years as required by Article 2430 of the Italian Civil Code.

At 31 December, 2017 there was an increase of €5,431k compared to the previous year, due to the allocation of profit achieved in 2016.

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

Pursuant to Art. 2428 of the Italian Civil Code, there are 416,993 treasury shares in the portfolio, with a nominal value of € 5.16 each (€2,151k in total) and correspond to 0.196% of the share capital.

The reserve for treasury shares amounted to €3,853k at 31 December, 2017; the amount of the reserve coincides with the value of shares in the portfolio accounted for as a reduction of the Shareholders' Equity in accordance with IAS 32.

20.d - Other reserves - €72,757k

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

€ thousand	31/12/2017	31/12/2016	Change
Extraordinary reserve	180	180	0
Demerged capital gains reserve	102,567	102,567	0
Reserve for exchange differences	13,157	1,909	11,248
Valuation reserve for financial instruments	(34,285)	(25,367)	(8,918)
Reserve for actuarial gains and losses	(9,780)	(10,868)	1,088
Other Miscellaneous reserves	918	679	239
TOTAL	72,757	69,100	3,657

The reserve for differences in exchange records an increase of €11,248k and represents the effect of the valuation at the exchange rate on 31 December, 2017 of the *private placement* in YEN signed in 2010.

The *cash flow hedge* reserve is negative and stands at €34,285k. This reserve includes €3,333k for the negative difference deriving from the delta of conversion rates between that provided for in the

hedging contract and that recorded on the adjustment date of the bond (3 March 2010).

Changes occurring during the year include the effect related to the transfer of equity investments of Agua de San Pedro and Acea Dominicana to Acea International (€239k).

The table below shows available and unavailable reserves.

Nature / Description	Amount	Possibility of use	Share available	Summary of uses made in the three preceding years	
				To cover losses	For other reasons
Capital reserves:					
Reserve deriving from the ARSE spin-off	6,569	A, B, C	6,569		
Profit reserves from the profit and loss account					
Legal reserve	100,619	A, B	100,619		
Extraordinary reserve	180	A, B, C	180		
Demerged capital gains reserve	102,567	A, B, C	102,567		
Profits carried forward	56,107	A, B, C	56,107		
Profit reserves from O.C.I.:					
Cash flow hedge reserve	(34,285)		(34,285)		
Reserve for exchange differences	13,157		13,157		
Reserve for actuarial gains and losses	(9,780)		(9,780)		
Other reserves					
Increased acquisition cost Umbra Acque	(3,173)		(3,173)		
Increased acquisition cost SAMACE	(785)		(785)		
Increased acquisition cost Kyklos	(1,932)		(1,932)		
Reservation reserve Acea International	239		239		
Reserve for available treasury shares	0	A, B, C	0		
Reserve for own shares in portfolio	3,853	Guarantee of treasury shares	3,853		
TOTAL	233,336		233,336		
Non-distributable share			67,912		
Remaining distributable share			165,425		

*Key:

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

21. Severance pay benefits and other defined benefit plans - €24,464k

It decreased by €1,980k and reflects severance indemnities and other benefits to be paid subsequently to the performance of the

work activity to employees. Within the obligations that make up this item, we need to highlight the defined contribution plans and defined benefit plans. The following table shows the composition:

€ thousand	31/12/2017	31/12/2016	Change
Benefits due at the time of termination of employment			
- Severance Payments	7,214	7,465	(251)
- Additional monthly payments	1,263	1,236	26
LTIP plans	1,219	780	440
Total	9,696	9,481	215
Benefits following the employment relationship			
- Tariff reductions	14,768	16,963	(2,195)
TOTAL	24,464	26,444	(1,980)

With regard to the calculation method, it must be noted that the benefits due at the time of termination of the employment relationship are determined according to actuarial criteria; with reference to post-employment benefits, the calculation is based on the

“projected unit credit method“ which is based on assessments that express corporate liability as the current average value of future benefits, pro rated based on the service provided by the employee at the time calculation with respect to that corresponding at the

time of payment of the service.

The change is affected by

1. the provisions for the period,
2. by expenditures that occurred during the period and
3. only marginally by the decrease in the rate used to measure liabilities.

In particular, with regard to the economic-financial scenario, the discounting rate used for the valuation was of 1.30% against a rate used last year of 1.31%.

As required by paragraph 78 of IAS 19, the interest rate used to

determine the current value of the obligation was determined with reference to the yield on the valuation date of securities of primary companies in the financial market to which Acea belongs and to the return on outstanding government bonds on the same date with a duration comparable to the residual duration of the collective of workers analysed; it must be noted that, due to internal consistency of assessment and alignment with the requirements of IAS 19, the same technical bases have been maintained for the various types of plans.

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

	December 2017	December 2016
Discount rate	1.30%	1.31%
Income growth rate (average)	1.59%	1.59%
Long-term inflation	1.50%	1.50%

With reference to the evaluation of the Group's Employee Benefits (TFR, additional monthly salaries, tariff subsidies for assets and pensioners), a sensitivity analysis was carried out to appreciate the

changes in liabilities resulting from both positive and negative flat rate changes in the interest rate curve. (+ 0.5% - -0.5% shift). The results of this analysis are summarised below.

Plan type	Discount rate	
€k	0.50%	-0.50%
TFR severance pay	-416	450
Tariff reductions	-1,176	20
Additional monthly payments	-80	64
LTIP	960	946

Furthermore, a sensitivity analysis was carried out in relation to the age of the collective, assuming a collective younger than one year compared to the effective one.

Plan type	-1 year of age
€k	
TFR severance pay	-60
Tariff reductions	-1,351
Additional monthly payments	55

No sensitivity analyses were carried out on others variables such as, for example, the rate of inflation.

22. Provision for risks and charges - €14,984k

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

€ thousand	31/12/2016	Uses of provisions	Reclassifications / Other changes	Release due to surplus funds	Provisions	31/12/2017
Investees	31,193	(85)	(3,870)	(22,127)	48	5,158
Legal	2,391	(649)	54	(809)	619	1,606
Risks contributing and relating to national insurance and welfare institutions	936	0	0	(30)	25	931
Procurement and supplies	1,473	(1,169)	50	0	1,371	1,725
Redundancy and mobility	551	(7,028)	0	0	12,000	5,523
Code	299	(288)	0	(12)	0	0
Other risks and charges	159	0	(104)	(15)	0	40
Total	37,002	(9,218)	(3,870)	(22,993)	14,063	14,984

The main changes concerned:

- the provision for risks associated with legal disputes was used for €649k for unfavourable rulings, while generating a redundancy issue of €809k and a provision for the year of €619k,
- the provision set aside for redundancy and mobility plans used for €7,028k as the relevant procedures have been completed. In addition, €12,000k have been set aside for the same plan,
- the use of the tax risk provision of €649k was used for payment of tax assessments,
- during the year, €1,169k were used for contracts and supplies, of which €600k for the restoration of the warehouse location

after the release of the building used in December 2017.

It must also be noted that the reserve for investee risks, equal to €5,158k, as at 31 December, 2016 was €31,193k and included €22,127k relating to the subsidiary Gori. This fund was fully released due to the absence of the reasons that generated it.

23. Non-current payables and financial liabilities - €2,482,564k

Please note that comparative values have been reclassified with respect to the published data in order to better understand the changes and are composed of:

€ thousand	31/12/2017	31/12/2016	Changes
Medium and long-term bonds	1,695,028	2,019,447	(324,418)
Medium and long-term loans	787,536	471,014	316,522
TOTAL	2,482,564	2,490,460	(7,896)

Medium and long-term bonds

Medium-long term bonds decreased by €324,418k. This change is essentially due to the reclassification between current financial liabilities of the residual bond issue issued by Acea at the beginning of September 2013, with a duration of 5 years expiring on 12 September 2018. The above payable, net of the positive fair value allocated to the financial management of the profit and loss account for €919k, amounts to €328,827k (including the residual portion of costs related to the signing). The bonds pay a gross annual coupon of 3.75% and have been placed at an issue price of 99.754. The effective gross yield on maturity is therefore equal to 3.805% corresponding to a yield of 230 basis points above the reference rate (mid - swap at 10 years). The bonds are governed by English law. The settlement date was 12 September 2013. The portion of interest accrued in the period is €12,390k.

They are broken down and allocated under this item as follows:

- **€594,949k** (including the long-term portion of the costs attached to the contract) relating to the 10-year bond issue issued by Acea issued by Acea, based on the Euro Medium Term Notes (EMTN) program of € 1.5 billion. The bonds, which have a minimum denomination of 100,000 Euro and expire on July 15, 2024, pay an annual gross coupon of 2.625% and were placed at an issue price of 99.195%. The effective gross yield at maturity is equal to 2.718%, corresponding to a yield of 128 basis points above the 10-year midswap rate. The bonds are governed by English law. The settlement date was 15 July, 2014. The portion of interest accrued in the period is €15,750k,
- **€491,754k** (including the long-term portion of the costs attached to the contract) relating to the bond issued by Acea in October 2016 for the EMTN programme for a total amount of €500,000k with a 10-year fixed-rate duration. The bonds, which have a minimum denomination of €100,000.00 and expire on 24 October, 2026, pay an annual gross coupon of 1% and were placed at an issue price of 98.377%. The bonds are governed by English law. The settlement date was 24 October 2016. The portion of interest accrued in the period is of €5,000k,
- **€422,251k** (including the long portion of costs associated with the contract) relating to the bond loan issued by Acea in March 2010, with a maturity of 10 years maturing on 16 March 2020. Bonds issued have a minimum denomination of €50k and pay an annual gross coupon of 4.5% and have been placed at an issue price of €99.779. The effective gross yield

on maturity is therefore equal to 4.528% corresponding to a yield of 120 basis points above the reference rate (10-year mid-swap). Bonds are governed by English law. The settlement date was 16 March, 2010. The portion of interest accrued in the period is €19,025k. This residual debt, after the purchase and cancellation of bonds for a nominal value of €77,225k on October 24, 2016,

- €148,939 thousand relating to Private Placement which, net of the fair value of the negative hedging instrument for €38,349k, amounts to **€186,075k**. This fair value is allocated to a specific equity reserve. The exchange difference, negative for €17,311k, of the hedged instrument calculated as of 31 December, 2017 is allocated to a special exchange reserve. The exchange rate at the end of 2017 stood at €135.28 against € 122.97 as at 31 December, 2016. The interest portion accrued in the period is of €3,871k This is a private bond (Private Placement) for an amount of 20 billion Japanese Yen) and with a maturity of 15 years (2025). The Private Placement was underwritten entirely by a single investor (AFLAC). Coupons are paid on a semi-annual basis every 3 March and 3 September applying a fixed rate in Yen of 2.5%. At the same time, a cross currency transaction was carried out to transform the Yen currency into Euro and the Yen rate applied in a fixed rate in Euro. The cross currency transaction requires the bank to pay Acea, with a deferred semi-annual maturity, 2.5% out of 20 billion Japanese Yen, while Acea must pay the bank the coupons on a quarterly basis postponed to a fixed rate of 5.025%. The loan agreement and the hedging contract contain an option, respectively, for the investor and the agent bank, connected to the trigger rating: the debt and its derivative can be recalled in their entirety in the event that Acea's rating falls below the level of investment grade or in the event that the debt instrument loses its rating. At the end of the year the conditions for the possible exercise of the option did not occur.

Medium / long-term loans

These amount to 787,536k and show a total change of €316,522k and represent the payable for the portion of the instalments not yet repaid at 31 December, 2017 and expiring beyond twelve months.

The main loans, whose values as at 31 December, 2017 are shown below, including short-term portions, amount to a total of €919,244k, and are described below:

- loan signed on 25 August 2008 for an amount of €200,000k

for the investment plan in the water sector (Acea Ato2) with a duration of 15 years. This loan at 31 December, 2017 amounted to €132,487k. The first tranche of €150,000k was disbursed in August 2008 and the interest rate is equal to the 6-month Euribor plus a spread of 7.8 basis points. During 2009, a second tranche was disbursed for an amount of €50,000k which provides for an interest rate equal to the 6-month Euribor plus a spread of 0.646%; the deadline is set at 15 June, 2019;

- loan agreement for an initial amount of €100,000k, entered on March 31, 2008 expiring on 21 December, 2021. The rate applied by the bank is a variable rate and the instalments are six-monthly and repayment will be made in half-yearly instalments; the first was paid on 30 June, 2010. The residual amount of the loan at 31 December, 2017 amounts to €36,760k. The risk of fluctuations in interest rates associated with the loan was hedged through the subscription of an Interest Rate Swap with the aim of transforming the cost of the underlying loan from variable to fixed. The swap follows the performance of the underlying depreciation plan. Based on IAS 39, the company has assessed the effectiveness of the hedging instrument according to the hedge accounting method based on the cash flow hedge model. The test result is 98.52% effective, which means that no portion is recorded in the profit and loss account that reflects the ineffectiveness of the instrument; in the appropriate equity reserve, the negative fair value of the

hedging instrument equal to €3,432k was recorded;

- loan contracted by EIB in 2009 for an amount of €100,000k aimed at supporting the needs of the multi-year investment plan in the field of upgrading and expanding the electricity distribution network in Roman territory for a four-year plan. The interest rate applied is equal to 6-month Euribor with a 0.665% spread and the deadline is set for June 2018;
- loan contracted by the EIB on 23 December 2014 for €200,000k, aimed at supporting the needs of the long-term investment plan in the water area. The interest rate applied is equal to 6-month Euribor with a 0.45% spread and the deadline is set for June 2030;
- loan contracted by the EIB on 2 May 2017 for €200,000k under the Efficiency Network III Project. The interest rate is variable. The loan repayment plan includes a pre-depreciation period up to 15 June, 2021 and depreciation in constant instalments of semi-annual capital until 31 December, 2030;
- €150,000k loan line from Intesa SanPaolo SpA disbursed on 22 December 2017 with final maturity on 21 June 2019. The interest rate is fixed and the repayment is in a single payment;
- a €100,000k loan line disbursed on 28 December 2017 by UBI Banca SpA with final maturity on 2 January 2019. The interest rate is fixed and the repayment is in a single payment.

The table below provides details of the loans by type of interest rate and by maturity. It must be noted that the table also shows the short-term portion by 31 December, 2017 of €131,708k.

€ thousand	Total residual debt	By 31/12/18	from 31/12/18 as of 31/12/22	Beyond 31/12/22
Fixed rate loans	250,000	0	250,000	0
variable rate	632,484	123,370	176,614	332,500
variable vs fixed rate	36,760	8,338	28,422	0
Total medium - long and short - term loans	919,244	131,708	455,036	332,500

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

24. Other non-current liabilities - €0k

These are zero at 31 December, 2017.

25. Deferred tax provision - €8,856k

These increased by €4,060k compared to 31 December, 2016. With regard to the composition of the balance, reference must be made to the table set out under the item "Deferred tax assets" of this document.

Current liabilities - €792,545k

The total increase of €426.941k. The increase is attributable to the reclassification of the short-term portion of the EIB loan of €100,000k maturing in June 2018 and of the bond issued by Acea at the beginning of September 2013, with maturity on September 12, 2018 of the total amount equal to to €328,827k (net of the positive fair value allocated in the financial management of the profit and loss account for €919k and including the residual portion associated with the contract).

The composition is shown below.

€ thousand	31/12/2017	31/12/2016	Change
Financial payables	542,975	131,459	411,516
Trade payables	191,784	206,553	(14,770)
Tax payables	35,448	36,544	(1,096)
Other current liabilities	22,338	17,314	5,024
TOTAL	792,545	391,871	400,674

26.a - Financial payables - €542,975k

These increased by €437,783k and are composed as follows:

€ thousand	31/12/2017	31/12/2016	Change
Payables from subsidiaries and associates	25,892	76,697	(50,805)
Short-term obligations	352,846	26,256	326,590
Payables due to banks for financing	131,708	23,405	108,303
Payables to Roma Capitale	767	3,040	(2,273)
Payables to banks for short-term credit lines	30,000	0	30,000
Payables due to others	1,761	2,060	(299)
TOTAL	542,975	131,459	411,516

Please note that comparative values have been reclassified with respect to published data in order to better understand the changes.

Changes concerned payables to subsidiaries and associates mainly due to

1. cash pooling transactions which decreased by €50,805k due to the lower financial exposure for the Group companies in the year and for

2. the payment of the debt generated by the assignment of receivables for IRES and IRAP requested for reimbursement relating to the requests submitted by Group companies during 2013.

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

€ thousand	31/12/2017	31/12/2016	Change
Payables for cash pooling relationships	25,892	64,180	(38,288)
Other financial payables	1	12,518	(12,517)
TOTAL	25,892	76,697	(50,805)

Payables to banks for mortgages and short-term bonds are reversed due to the repayment of the portions of mortgages maturing in 2017, mitigated by the recording of accruals accrued during the year. Financial payables to Roma Capitale decreased by €2,273k due to

the reduction from the down payment towards Roma Capitale for the Led Plan due to the progress of the installation plan.

26.b - Payables to suppliers - €191,784k

Results are as follows.

€ thousand	31/12/2017	31/12/2016	Change
Payables to third party suppliers	93,392	109,626	(16,234)
Payables from subsidiaries and associates	98,392	96,927	1,465
TOTAL	191,784	206,553	(14,770)

Payables to third party suppliers show a decrease of €16,234k and the balance is shown below:

€ thousand	31/12/2017	31/12/2016	Change
Payables due to invoices received	50,579	60,320	(9,741)
Payables due to invoices to be received	42,813	49,306	(6,493)
TOTAL	93,392	109,626	(16,234)

With regard to payables to suppliers for invoices received for €50,579k, it must be noted that the expired component amounts to €11,083k, the remaining amount is due within the next twelve months.

With regard to relations with **subsidiaries and associates**, there was an increase of €1,465k, which is analysed in the following table:

€ thousand	31/12/2017	31/12/2016	Changes
Acea Illuminazione Pubblica	5,754	5,754	0
Acea Ato2	1,380	537	843
Acea Energia	10,808	8,990	1,819
Acea Produzione	245	25	220
areti	69,374	76,625	(7,250)
Ingegnerie Toscane	2,300	0	2,300
Citelum Acea Napoli	1,798	2,644	(846)
Aquaser	179	0	178
Acea8cento	65	477	(412)

(follows)	31/12/2017	31/12/2016	Change
€ thousand			
Acea Elaboratori	5,490	604	4,885
Publiacqua	111	225	(113)
Abab	78	78	0
GORI	87	87	0
Other	723	882	(158)
TOTAL	98,392	96,927	1,465

26.c - Tax payables - €35,448k

These are reduced by €1,096k and are composed as shown in the following table.

€ thousand	31/12/2017	31/12/2016	Change
IRES and IRAP payables	620	16,956	(16,336)
Deferred VAT	8,532	8,537	(5)
Staff withholdings	1,668	1,767	(99)
Other tax payables	6	15	(9)
Total payables to tax authorities	10,826	27,276	(16,450)
Tax consolidation payables to subsidiaries	24,621	9,268	15,354
Total tax payables	35,448	36,544	(1,096)

26.d - Other current liabilities - €22,338k

These are composed as follows:

€ thousand	31/12/2017	31/12/2016	Change
Payables to pensions and nat. insurance institutions	3,159	2,873	286
Other payables from subsidiaries and associates	0	5	(5)
Other payables	19,179	14,437	4,742
<i>stock of receipts from customers to be redeemed / returned</i>	5,386	5,373	12
<i>Payables due to municipalities</i>	901	901	0
<i>Insurance payables</i>	563	579	(17)
<i>Payable in installments with Equitalia</i>	103	188	(85)
<i>Accruals and deferrals</i>	0	78	(78)
<i>Other payables</i>	4,374	252	4,122
TOTAL	22,338	17,314	5,024

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

The item other payables contains €4,067k for the advance on the sale of Autoparco to be returned to the company Trifoglio Srl fol-

lowing the ruling by the Court of Rome that with ruling no. 11436/2017, published on 6 June, 2017, stated the nullity of the purchase agreement entered into with the company Trifoglio Srl on 22 October, 2010. This amount includes interest accrued as at 31 December, 2017.

INFORMATION ON RELATED PARTIES

ACEA AND ROMA CAPITALE

The controlling entity holds an absolute majority with 51% of Acea's shares.

There are commercial relations between Acea and Roma Capitale, as the company provides services to the Municipality with regard to maintenance and upgrading of public lighting systems.

With regard to the public lighting service, we inform you that it is provided exclusively in the Rome area. As part of the thirty-year free grant issued by the Municipality of Rome in 1998, the economic terms of the services subject to the concession are currently governed by a service contract between the parties in force since May 2005 and until the concession expires (31 December, 2027), pursuant to the supplementary agreement signed between Acea and Roma Capitale on 15 March, 2011 modified in June 2016 with a private deed aimed at regulating commitments and obligations deriving from the implementation of the Led Plan.

The integrations of the supplementary agreement of 2011 concern the following aspects:

- alignment of the duration of the service contract at the end of the concession (2027), given the mere access function of the contract itself to the agreement;
- periodic updating of the fee components related to electricity consumption and maintenance;
- annual increase of the flat fee in relation to the new light points installed.

In addition, investments related to the service can be (i) requested and financed by the Municipality or (ii) funded by Acea: in the first case these interventions will be remunerated on the basis of a price list defined between the parties (and reviewed every two years) and will give rise to a percentage reduction of the ordinary fee; in the second case, the Municipality is not required to pay extra fees; however, Acea will be granted all or part of the expected savings in energy and economic terms according to predefined methods.

Among other things, it is expected that the quantitative and qualitative parameters be negotiated again during the course of 2018. On the due or early termination date Acea is entitled to an indemnity corresponding to the residual book value of the assets that will be paid by the Municipality or the incoming operator upon express provision of this obligation in the call for tenders for the selection of the new operator.

Finally, the contract establishes a list of events that represent the cause of early revocation of the concession and / or the termination of the contract by the will of the parties; among these events, the one related to the needs arising from the public interest appears to be relevant, expressly included is that provided for by article 23 bis of Italian Legislative Decree no. 112/2008 repealed as a result of the referendum of 12 and 13 June 2011, which determines in favour of Acea the right to an indemnity commensurate with the product, discounted, between a defined percentage of the annual contract amount and the number of years missing at the expiry of the concession.

The supplementary agreement, exceeding the materiality thresh-

olds defined by the Company in relation to Transactions with Related Parties, was submitted to the analysis of the Board of Directors and obtained approval at the meeting on 1 February, 2011, after obtaining the favourable opinion by the Committee for Transactions with Related Parties.

Reciprocal claims and liabilities - with reference to payment methods and terms - are governed by individual contracts:

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

The private agreement signed in June 2016 between Acea and Roma Capitale regulated commitments and obligations deriving from the implementation of the Led Plan modifying Art. 2.1 of the Supplementary Agreement signed in 2011.

In particular, this Plan provides for the installation of 186,879 reinforcements to be carried out at 10,000 per month with effect from thirty days after the signing of the agreement; the consideration is set at € 48 million for the entire Led Plan. The amount will be settled to the extent of 10% as down payment and the remaining part, on the basis of special bi-monthly SAL where Roma Capitale must pay 80% within thirty days after the closing of the SAL and the remaining 15% within fifteen days from verification of SAL. The contract also provides incentive / penalty mechanisms for superior/inferior installations than those programmed for each two months as well as the reduction of the amount recognised by Roma Capitale equal to 50% of the economic value of the Energy Efficiency Certificates due to Acea for the Led Project.

As a result of the implementation of the Led Plan, the parties partially modified the price list and the composition of the fee for the management of the service.

New constructions and investments contribute to the increase in the lump-sum payment due to the annual rate calculated according to the mechanism of tax depreciation envisaged for the plants underlying the specific intervention and to the percentage reduction of the ordinary rent due from Roma Capitale whose amount is defined in the technical-economic project document.

A variable interest rate is envisaged to remunerate the invested capital. With regards the extent of the relationship between Acea and Roma Capitale, reference must be made to what has been explained and commented on receivables and payables to the parent company in note no. 19.c of this document.

From the point of view of economic relations, instead, the costs and revenues at 31 December 2017 are summarised below with reference to the most significant transactions.

€ thousand	REVENUE		COSTS	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Service contract for public lighting	58,732	66,948	0	0
TOTAL	58,732	66,948	0	0

ACEA AND ROMA CAPITALE GROUP

Even with companies, special companies or institutions controlled

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

	LIABILITIES	COST	CREDIT	REVENUE
€ thousand	31/12/17	31/12/17	31/12/17	31/12/17
AMA SpA	13	629	28	64
ATAC SpA	20	57	178	64
ROMA METROPOLITANE Srl	0	0	56	0
FONDAZIONE CINEMA PER ROMA	100	100	0	0
RISORSE PER ROMA R.P.R. SpA	6	0	0	0
ROMA MULTISERVIZI SpA	6	0	0	0
BIOPARCO	1	0	0	0
Total	146	786	262	128

ACEA AND ITS SUBSIDIARIES

Financial reports

Acea SpA, in its function as an industrial holding company, defines the strategic objectives at the Group and subsidiary level and coordinates its activities.

As part of the centralised management of financial services, the parent company Acea has long since adopted a Group inter-company treasury system, including an inter-company finance relationship, making it available to many Group companies with which a special multi-year inter-company finance contract was signed.

On 1 April, 2016 a new inter-company finance contract was approved for three years, considering the previous one obsolete under the renewal adopted according to the Acea2.0 project.

Based on this contract, Acea provides a medium-term revolving loan the so-called "Intercompany Finance Line", up to reaching a pre-established Plafond for financing the financial needs for (i) working capital requirements and for (ii) carrying out investments. In addition, Acea makes credit lines available to its own companies for signature, for an amount equal to the Plafond for bank guarantees or through the direct issuing of corporate guarantees for an amount equal to the Plafond for Corporate Guarantees.

The operation of this contract provides that in a permanent and daily manner each company, holder of specific peripheral bank current accounts, daily credit or debit the Parent Bank's current account to zero the balance on its current accounts.

In the case of daily intercompany balance due by currency, companies recognise the interest expense calculated, for each year, on the basis of a market interest rate, defined as the weighted average of the rates applied on the capital market for the so-called issues. hybrid or similar in the utilities sector (revisable annually, possibly increased by an additional margin linked, substantially, to the level of exposure of the beneficiary company with respect to the total limits granted to companies with cash pooling). For 2017, the interest rate applied is between a minimum of 4.62% and a maximum of 5.78%.

In the case of a daily intercompany credit balance by currency, Acea recognises calculated interest rates for each quarter by applying the interest rate resulting from the arithmetic average of the "3 month EURIBOR" rates (source Bloomberg) in the previous quarter.

Contractual terms applied are, with the same credit standing and type of financial instrument, in line with those resulting from the reference market, also supported by the evidence of a benchmark developed by a leading consulting firm.

Reports of a commercial nature

Acea also provides subsidiaries and associated companies with administrative, financial, legal, logistics, management and technical services in order to optimise the resources available within the Company and to optimally use existing know-how in a logic of affordability. These services are governed by specific service contracts.

With regard to service contracts, starting from 1 January 2017 and with a three-year duration. These prices are aligned with market fees as resulting from the benchmarking activity carried out by a leading company in the sector specifically appointed. These contracts, such as those expired, are compliant for regulatory purposes and of the M.O.G.C and envisage SLAs (Service Level Agreements) with a view to improving the level of service offered, to relate to relevant KPIs (Key Performance Indicators).

As part of the Acea2.0 Acea project, companies in the area approved a contract that allows the implementation of the main technological development initiatives (cross-cutting and business) through the communion institute. The aforementioned contract contains rules of an economic - financial nature and of participation in the communion.

Acea also provides operating services, application management and maintenance related to accessing the Acea2.0 program regulated by a specific contract.

Contractual terms applied are, for the same type of service rendered, in line with those resulting from the market.

ACEA AND THE MAIN COMPANIES OF THE CALTAGIRONE GROUP

At the end of the 2017 financial year there were no financial transactions with companies of the Caltagirone Group and Acea SpA. The impact of relationships with related parties on the balance sheet, on the economic result and on the cash flow statement is shown below.

IMPACT ON THE BALANCE SHEET

Balance Sheet	31/12/2017	Of which related parties	% Incidences	31/12/2016	Of which related parties	% Incidences	Change
Financial assets	237,975	237,850	100.0%	237,625	237,499	100.0%	350
Trade receivables	954	527	55.2%	4,517	826	18.3%	(3,564)
Intragroup Trade Receivables	98,772	98,772	100.0%	57,496	57,496	100.0%	41,275
Other Current Assets	14,318	1,943	13.6%	25,378	2,345	9.2%	(11,060)
Infra-group current financial assets	1,918,407	1,918,407	100.0%	1,499,971	1,499,971	100.0%	418,436
Receivables for current taxes	45,777	4,288	9.4%	77,372	36,053	46.6%	(31,595)
Financial payables	542,975	28,429	5.2%	105,192	81,508	77.5%	437,783
Trade payables	191,784	99,017	51.6%	206,553	97,498	47.2%	(14,770)
Tax payables	35,448	24,621	69.5%	36,544	9,129	25.0%	(1,096)
Other current liabilities	22,338	24	0.1%	17,314	0	0.0%	5,024

IMPACT ON THE ECONOMIC RESULTS

Profit and Loss Account	31/12/2017	Of which related parties	% Incidences	31/12/2016	Of which related parties	% Incidences	Change
Income from sales and services	164,403	164,164	99.9%	172,762	168,903	97.8%	(8,359)
Other receipts and income	16,534	6,763	40.9%	11,725	8,111	69.2%	4,810
External operating costs	149,276	82,773	55.5%	143,851	87,038	60.5%	5,425
Financial income	114,363	113,205	99.0%	89,784	87,325	97.3%	24,579
Financial expenses	64,810	218	0.3%	102,830	183	0.2%	(38,019)
Income from shares held	219,013	219,013	100.0%	146,247	146,247	100.0%	72,766
Expenses from shares held	0	0		408	408	100.0%	(408)

IMPACT ON THE FINANCIAL STATEMENT

Financial Report	31/12/2017	Of which related parties	% Incidences	31/12/2016	Of which related parties	% Incidences	Change
Cash flow from operating activities	(46,508)	(7,668)	16.5%	23,536	76,859	326.6%	(70,044)
Cash flow of investment / disinvestment assets	(198,820)	(290,868)	146.3%	(139,787)	(384,835)	275.3%	(59,034)
Cash flow from financing activities	194,903	(187,896)	-96.4%	(79,927)	(83,368)	104.3%	274,830

LIST OF TRANSACTIONS WITH RELATED PARTIES

During 2017, there were no significant transactions with related parties.

UPDATE OF THE MAIN JUDICIAL DISPUTES

OTHER ISSUES

Acea SpA, Acea Ato2 SpA and AceaElectrabel Produzione SpA (now Acea Produzione SpA) – E.ON. Produzione SpA

E.ON. Produzione SpA, as Enel's successor, introduced some concessions for the diverting public waters of Peschiera sources to generate energy, in order to obtain the conviction of the joint defendants (Acea, Acea Ato2 and AceaElectrabel Produzione) to pay the undervoltage compensation (i.e. compensation for damages due to unlawful undervoltage), which remained frozen to that agreed in the 1980s, to the extent of € 48.8 million (in addition to the sums due for the years 2008 and subsequent years) or in the alternative to the payment of the sum of € 36.2 million.

On 3 May 2014, the Administrative Court of Public Waters, with ruling no. 14/14, rejected the application of E.ON in full, considering the agreements of 1985 still in force and considering the claim limited only to the "undervoltage price" viewing that relating to the measure of adjustments as strange.

E.ON was ordered to reimburse the costs of litigation in the amount of €32k plus legal ancillary and CTU fees.

On 23 June 2014 E.ON. appealed before the TSAP with the first hearing set for 1 October, 2014. Following subsequent postponement of the procedure, at the hearing of 14 January 2015, the ruling was deferred to the first hearing of 10 May 2015. With ruling no. 243/2016 the appeal was rejected, convicting E.ON. to pay all legal costs.

With an appeal lodged before the United Sections of the Court of Cassation on 20 December, 2016, the counterparty challenged the sentence of the TSAP; Acea's counterclaim was notified on 27 January 2017.

The hearing is currently awaiting to be scheduled.

Acea SpA – SASI

With ruling 6/10, the TRAP accepted the claim for damages from illegitimate withdrawal of water from the river Verde, filed by Acea in 2006 against Società Abruzzese per il Servizio Integrato SpA (SASI) recognizing in favour of Acea, as compensation for damages, the sum of €9,002,920 plus interest, effective from 14 June, 2001 and until July 30, 2013.

The ruling, which is not provisionally enforceable, has been challenged by the SASI before the TSAP and Acea has lodged an incidental appeal. With a non-definitive sentence no. 117/13 of 11 June 2013, the TSAP, accepting one of the grounds for appeal, put the case back on trial ordering that the expert witness quantify the damage suffered by Acea for the 2001/2010 period. The TSAP established the hearing of 23 October 2013, then postponed it until the hearing on 27 November 2013; at that time, the same first level expert witness was appointed. After a series of postponements, ruling no. 16 was filed on 1 February, 2017 with which the TSAP also recognised in favour of Acea, the sum of € 6,063,361, in addition to the legal compensatory interest on the sum annually per annum revalued from 2001 to 2010 and the default interest from the decision on the balance. The SASI, with appeal notified before the United Sections of the Supreme Court on 5 April 2017, appealed the ruling of the TSAP; Acea's counterclaim was notified on 12 May, 2017 and the hearing is currently awaited.

Following the notice by Acea of the injunction, for the amount of € 7,383,398.66, on 5 March, 2018 SASI notified an appeal pursuant to Art. 373 of the Italian Civil Code, aimed at obtaining the

suspension of the ruling's enforcement effectiveness; the first hearing for the discussion in chambers is scheduled for 11 April.

A.S.A. – Acea Servizi Acqua - SMECO

With a summons notified in autumn of 2011, Acea was summoned in court to answer for alleged damages in addition to the alleged non-compliance with unproven and non-existent obligations assumed under the shareholders' agreement relating to the subsidiary A.S.A. - Acea Servizi Acqua - by its minority shareholders and their respective shareholders. The petitum stands at over € 10 million.

The judge, accepting SMECO's request, deemed necessary to obtain accounting technical advice aimed at quantifying the costs incurred, the loss of earnings and any payment due through the sale option envisaged in the shareholders' agreements.

With ruling no. 17154/15 of 17 August 2015, the Court rejected the application in its entirety and sentenced the parties jointly and severally to the reimbursement in favour of Acea of expenses paid out at € 50,000.00 plus ancillary fees. On 1 October 2015, SMECO lodged an appeal to the 2nd Section of the Court of Appeals of Rome. At the hearing of February 3, 2016, the case was postponed awaiting clarification of conclusions to 11 April 2018.

Acea SpA - Milano '90

The issue concerns the non-payment of the sum of € 5 million from Milan '90, due to the balance of the purchase price of the area in the Municipality of Rome with access from Via Laurentina n. 555 completed on 28 February 2007 and with subsequent supplementary act dated 5 November 2008. With the supplementary deed, the parties have agreed to change the consideration from €18 million to € 23 million, at the same time eliminating the earn out, providing for the final payment date on 31 March, 2009.

Given the purchaser's inactivity, the procedure aimed at recovering sums due through the drafting of a formal notice and warning in Milan '90 was initiated and, therefore, through the filing of an appeal by injunction order, which, on 28 June 2012, was provisionally granted. The aforementioned injunction decree was notified on 3 September, 2012 and on 23 November, the Judicial Officer was granted foreclosure to third parties for forced recovery of the sums owed. The opposition of the injunction by Milan is still ending before section X of the Court of Rome. As part of the trial, a further procedure was established pursuant to Art. 649 of the Italian Code of Civil Procedure aimed at suspending the provisional execution of the opposing injunction, suspension that was accepted by the judge. The executive procedure initiated after the provisional execution of the suspended decree has also been suspended.

At the hearing of 13 March, 2014, the judge reserved the request for investigation means.

With a provision dated 7 April 2014, the same judge, deemed necessary a technical investigation to assess the urban situation of the property and to admit the testimonial evidence worded by Acea, referred to the hearing of 18 December 2014 for the hearing of texts and the conferment of the assignment to the CTU. At the hearing of 15 June, 2017 the case awaits a decision. With ruling no. 3258, published on 13 February, 2018, the Court of Rome rejected the opposition and fully confirmed the injunction, condemning Milan 90 to bear all costs of the proceedings.

Acea SpA - Trifoglio Srl

The complex litigation consists of lawsuit as a plaintiff and defend-

ant, brought together in 2015 before the Judge where the case as plaintiff was pending.

Plaintiff: the question concerns the failure of Trefoil to pay the balance of the consideration (equal to € 10.3 million), referred to the purchase and sales contract concerning the property known as Autoparco whose payment date was to be 22 December, 2011.

In consideration of the fulfilment of Trifoglio, we served a formal notice to sign a voluntary resolution of the purchase contract of 22 December, 2010, and then to lodge an appeal with the Court of Rome, pursuant to Art. 702 bis of the Italian Civil Code. Also ATAC Patrimonio filed an appeal for the resolution of the purchase and sales contract of 22 December, 2010 for the part under its jurisdiction.

Defendant: Trifoglio notified Acea and ATAC Patrimonio of a summons document aimed at ascertaining the invalidity of the deed of sale and the recognition of compensation for damages of about € 20 million.

The Court of Rome, with ruling no. 11436/2017 of 6 June 2017, declared the sales / purchase contract null and void, essentially accepting Acea's request to dissolve from the contractual relationship with Trifoglio and to recover the ownership of the area, arranging the repayment to Trifoglio of the advance payment received (€ 4 million); rejected the claim for compensation for damages filed by Trifoglio and excluded any liability on the part of Acea with regard to the veracity of the contractual guarantees offered to Trifoglio. On 8 August 2017, Trifoglio notified a summons to the appeal; the first hearing was scheduled for 8 February, 2018. The hearing was postponed for conclusions to 13 September, 2018.

With regard to the accounting effects resulting from the aforementioned ruling, reference must be made to the matters explained in note no. 13 commentary on Property, plant and equipment.

Acea SpA - Kuadra Srl

As part of the dispute initiated by Kuadra Srl against the investee Marco Polo Srl in liquidation for an alleged failure due to the participation in the ATI for the management of the CONSIP contract, Kuadra Srl also sued shareholders of Marco Polo (and therefore: Acea, AMA and EUR) as well as Roma Capitale.

This summons is based on the counterparty's assumption that Marco Polo would be subject to the direction and coordination of all the direct and indirect Shareholders.

Acea believes that, also considering the generality of arguments presented by Kuadra Srl on the basis of the liability of Marco Polo's shareholders, the risk of losing referring to this summons must be considered remote, while the indirect risk, as a shareholder of Marco Polo, has already been included in the valuation of the investee company.

The case was adjourned to the hearing of 19 January, 2016 for a decision on the means of investigation. The judge reserved to make a decision on this point. Once the aforesaid reserve was dissolved, the judge rejected the preliminary requests requested by the plaintiffs, postponing the case to 4 October 2016 for clarification of the conclusions. As a result of the establishment of negotiations for the goodwill of the dispute, the hearing was postponed several times.

In view of the agreement reached between the parties for the abandonment of the case pursuant to Art. 309 of the Italian Civil Code, on 15 December 2017 Kuadra Srl filed an application for placing the case back on trial.

By order issued on January 25, 2018, the Judge therefore dismissed the case from trial by setting the hearing on 27 February, 2018. At the hearing, therefore, further postponement was provided pursuant to Art. 309 of the Italian Civil Code to 26 March 26, 2018.

Acea SpA and Acea Ato2 SpA – Province of Rieti

The Province of Rieti has notified Acea and Acea Ato2 of a summons with which it makes claim for damages (for various reasons) that the latter would suffer as a result of the lack of approval of the agreement on the so-called interferences.

Also summoned together with Acea and Acea Ato2, are the Province of Rome, the ATO2 Lazio Central Authority, Roma Capitale and the Lazio Region.

The value of the dispute is currently about € 90 million (€ 25 million up to 31 December 2005 and € 8 million per year for the next period), but the construction of the defensive system is rather fragile, especially against Acea. First of all the identification of the competent judge appears to be censurable: the Ordinary Court in place of the Regional Court of Public Waters; secondly, the liability for the delay in the approval of the interference agreement is certainly not attributable to Acea as it is not required to be carried out by the latter.

The trial, postponed to the hearing of 14 July, 2015 for admission of the investigative means requested by the parties in the terms granted, was postponed again for the clarification of the conclusions to 2 February, 2017, as it is a case in law with relevant preliminary exceptions. At the hearing a new postponement was scheduled for 19 September 2017. At the hearing, the case was awaiting a decision and therefore awaiting the ruling.

Finally, it must be noted that, with Resolution no. 30 of 25 January 2018, the Regional Council of Lazio approved the updated scheme of the mandatory Convention for the management of hydraulic interferences, which acknowledges the recent agreements between the AATO2 and AATO3 entities and that the conferences of auditors of both local authorities approved the scheme and signed, on 2 February, 2018, the convention for the management of hydraulic interferences of the Peschiera - Le Capore aqueduct system. It is specified that this agreement provides, in Art. 16, the waiver of pending judgments, including this one.

Acea SpA – Andrea Peruzzy, Maurizio Leo and Antonella Illuminati

With appeals filed before the Employment Section Court, the former Acea Directors Peruzzy and Leo summoned Acea to request the conviction of the Company to pay in their favour unpaid remuneration - amounting to € 190k and € 185k respectively - following the early termination of the office held, as well as the compensation for pecuniary and non-pecuniary damages, for various reasons, to be settled even on an equitable basis. Acea has established itself in order to object, first of all, to the inapplicability of employment legislation and therefore to the necessary re-submission of the ruling in ordinary session, as well as the groundlessness of the request. At the hearing of 25 February, 2016, the Court, by order of the same date, upheld that the specialised section had no jurisdiction and referred to the President of the Court for assignment to another section. The cases were summarised before the Companies' Section of the Court of Rome. The matter was defined with the signing, in April 2017, of two settlement agreements; the proceedings were therefore declared to have expired.

In an appeal filed before the Employment Section Court, the former Director Antonella Illuminati summoned Acea to request the conviction of the Company to pay in its favour the remuneration not received - equal to approximately € 190k - following the early termination of the the position held, as well as the compensation for pecuniary and non-pecuniary damages, for various reasons, to be settled even on an equitable basis. As previously occurred for the former directors Peruzzy and Leo, the matter was defined with the signing, in February 2018, of a settlement agreement; the proceedings are therefore terminated.

Acea SpA – COS disputes

Currently the following rulings are connected to the COS dispute, concerning the ascertainment of the illegality of the contract between ALMAVIVA Contact (formerly COS) and Acea and the consequent right of the lenders to be recognised as a subordinate employment relationship with Acea SpA.

It is specified that the majority of the rulings are transacted and that seven are those still pending in the various grades in order of the claim (that is, the ascertainment of non-validity of the contract and the right to the establishment of the relationship).

On the basis of the rulings relating to an *debeatur* victorious workers were then introduced (in favour of which a subordinate employment relationship was acknowledged with Acea) of the rulings of quantification of the claim, with which the conviction of Acea was requested for payment of salaries due as a result of the relationship established. These are multiple rulings, which are introduced by six workers, but with reference to different periods of accrual of the alleged receivables, which led to discordant pronouncements, which await various degrees of jurisdiction. Specifically, two quantification rulings currently await a decision in the Supreme Court.

On the other hand, with the ruling of the Court of Cassation no. 27461 of 20 November 2017, the request for emoluments filed by three applicants regarding the remuneration for March 2007 was rejected and therefore this dispute is definitively closed.

A further ruling was defined at first instance with ruling 5538/15 of 3 June 2015 which rejected the demand - relating to a certain time segment - on the importance, mainly, of the fact that the six lenders who remained in arrears pending the company ALMAVIVA Contact (formerly COS) and as such income users.

The value of the applications amounted to € 660k net of accessories, but Acea has not been condemned and therefore has not paid anything. However, unsuccessful workers appealed and the discussion hearing, scheduled for 18 September 2017, was postponed to 25 June 2018, since the Court of Appeals considered it appropriate to await the outcome of the rulings that the Cassation is to hand down on an *debeatur* of the claim.

Acea SpA and areti SpA – MP 31 Srl (formerly ARMOSIA MP Srl)

This is an opinion of opposition brought against the injunction issued by the Court of Rome - RG. 58515/14 in respect of areti for the amount of € 226,621.34, requested by Armosia MP as rental fees for the months of April-May-June 2014 for the property located in Rome - Via Marco Polo, 31. The injunction order was declared provisionally by an order dated 8 July, 2015.

At the hearing of 17 February 2016, the Judge gathered this opinion with another pending and registered under No. RG 30056/2014 before the Court of Rome - established by Acea and areti (assignee of the lease) in order to hear declaring the termination of the lease contract.

In this last ruling, MP 31 also filed a counterclaim for compensation for the damage suffered in consideration of the state of deterioration of the property at the time of the release by areti. The exposure is approximately € 9 million. At this request, at the hearing of 17 February 2016 both Acea and areti, objected. The Judge ordered the appointment of the expert witness, referring this to 14 March 14, 2016 for the conferment to the latter. With the sentence no. 22248/2017 of 27 November 2017, the Court upheld the claim of MP 31 against areti, condemning it to the payment of the previous instalments in the amount of € 2,759,818.76 plus interest from the individual deadlines, as well as the payment of the fees up to contract expiry and therefore until 29 December, 2022. Acea filed an appeal, notified on 2 February 2018.

With the decree issued without prior hearing of the other side on 15 January, 2018 the provisional enforceability of the ruling of first degree was suspended; the collegiate hearing for the discussion of the application for suspension of the provisional execution of the appealed sentence was held on 8 February 2018 and as a result of the same, the Court of Appeals rejected the suspension motion. The hearing to discuss the appeal initially set for 15 March was postponed to 19 April, 2018.

Acea SpA and Acea Ato2 SpA - CO.LA.RI

With a writ of summons notified on 23 June, 2017, the Consorzio Co.La.Ri. and E. Giovi Srl - respectively the manager of the Malagrotta (RM) landfill and consortium executor - have summoned Acea and Acea Ato2 to obtain from the defendants the payment of the tariff quota for landfill access to be allocated to cover the costs of operating thirty years of the same - established with Italian Legislative Decree 36/2003 - allegedly due for the conferment of waste occurred during the period from the contractual validity of 1985 - 2009.

The main *petitum* stands at over € 36 million for the entire period of contract validity; in the alternative - in the event that the provision that sets the tariff is not considered by the court retroactively applicable - the plaintiffs request recognition of the credit right of about € 8 million, for the March 2003 - 2009 period, as well as the assessment, also through the expert witness, of the receivable relating to the previous 1985 - 2003 period.

The first appearance hearing, initially set for 23 February, 2018, was deferred to 8 October, 2018 for the integration of the dispute against the Optimal Territorial Area Authority 2 Central Lazio - Rome. At the moment, any evaluation on this matter appears premature.

The Directors believe that from the definition of the current litigation and of the other potential disputes, the Company should not derive any additional charges, compared to the allocations made (note No. 22 in the comment on the Provision for Risks and Charges).

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

SUPPLEMENTARY INFORMATION ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

CLASSES OF FINANCIAL INSTRUMENTS

The following is a breakdown of the financial assets and liabilities required by IFRS 7 divided into the categories defined by IAS 39.

€ thousand	Financial instruments at fair value available for trading	Loans and financing	Financial instruments available for sale	Balance sheet value	Explanatory notes
Non-current fixed assets	0	210,251	2,352	212,603	
Other investments	0		2,352	2,352	15
Financial assets to parent companies, subsidiaries and associates	0	210,126	0	210,126	17
Financial assets to third parties	0	126	0	126	17
Current assets	0	2,651,203	0	2,651,203	
Receivables (commercial loans to) customers	0	954	0	954	19
Trade receivables from related parties	0	98,772	0	98,772	19
Financial assets to parent companies, subsidiaries and associates	0	1,918,407	0	1,918,407	19
Financial assets to third parties	0	105,648	0	105,648	19
Cash available	0	527,423	0	527,423	19
TOTAL FINANCIAL ASSETS	0	2,861,454	2,352	2,863,806	

€ thousand	Financial instruments held for trading	Liabilities at Fair Value	Liabilities at depreciated cost	Balance sheet value	Explanatory notes
Non-current liabilities	0	3,432	2,479,132	2,482,564	
Bonds	0	0	1,656,682	1,656,682	23
Bonds valued at the FVH	0	0	0	0	
Bonds valued at CFH	0		38,347	38,347	
Payables to banks (non-current portion)	0	0	784,104	784,104	23
Due to banks (non-current portion) valued at CFH	0	3,432		3,432	
Current liabilities	0	(919)	735,702	734,783	
Amounts due to banks	0	0	30,000	30,000	26
Bonds (current portion)	0	(919)	353,765	352,846	26
Payables to banks (current portion)	0	0	131,708	131,708	26
Financial payables to parent company, subsidiaries and associates	0	0	28,429	28,429	26
Financial payables to third parties	0	0	(8)	(8)	26
Trade payables	0	0	93,392	93,392	26
Trade payables to parent companies, subsidiaries and associates	0	0	98,416	98,416	26
TOTAL FINANCIAL LIABILITIES	0	2,513	3,214,834	3,217,347	

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of securities not listed on an active market is determined using the valuation models and techniques prevailing on the market or using the price provided by several independent counterparties.

The fair value of medium / long-term financial receivables and payables is calculated on the basis of the risk-less and risk-less adjusted rates.

It must be noted that for trade receivables and payables with contractual expiry within the financial year, the fair value has not been calculated as their book value approximates the same.

Furthermore, it must be noted that the fair values of financial assets and liabilities for which the fair value cannot be determined have not been calculated.

TYPES OF FINANCIAL RISKS AND RELATED HEDGING ACTIVITIES

Exchange rate risk

Acea is not particularly exposed to this type of risk which is concentrated on the conversion of the financial statements of foreign subsidiaries.

With regard to the Private Placement of 20 billion yen, the exchange risk is hedged by a cross currency described with respect to the interest rate risk.

Liquidity risk

As part of the Group's policy, the objective of managing liquidity risk, for Acea, is to have a financial structure that, in line with the business objectives and with the limits defined by the Board of Directors, ensures a level of liquidity appropriate to the financial needs, maintaining a correct balance between duration and composition of the debt.

The liquidity risk management process, which uses financial planning tools for outflows and receipts suitable to manage treasury hedges and to monitor the trend of consolidated financial debt, is carried out both through cash pooling management both through the support and assistance provided to the subsidiaries and associated companies with which there is no centralised finance contract.

At 31 December, 2017, the Parent Company had uncommitted credit lines for € 769 million, of which € 739 million not used. No guarantees were issued to obtain these lines.

At the end of the financial year, Acea has no outstanding investments in deposits with maturity and the like.

Finally, we note that, under the *EMTN* program for the amount of € 1.5 billion, resolved in 2014, Acea can place bond issues up to the total amount of € 400 million by 2019 since in October 2016 they were placed bonds to the program for € 500 million, which reduced the availability until the program expires.

Interest rate risk

Acea Group's approach to managing interest rate risk, taking into account the asset structure and the stability of the cash flows of Acea Group, has so far been essentially aimed at preserving funding costs and stabilising financial flows, in such a way as to guarantee the margins and the certainty of the aforementioned cash flows deriving from ordinary operations.

Therefore, the Group's approach to the management of interest rate risk is prudent and its management method tends to be static.

In particular, for static management (to be opposed to the dynamic one) we mean a type of management of interest rate risk that does not provide for daily operations on the markets but an analysis and control of the position carried out periodically on the basis of specific needs. This type of management therefore envisages operations on the markets not for trading purposes but rather oriented towards medium / long-term management with the objective of hedging the exposure identified.

Acea has so far chosen to optimise the risk of fluctuating interest rates by choosing a range of debt mix between fixed and variable rates.

As a matter of fact, the fixed rate indebtedness allows an operator to be immune to the cash flow risk since it stabilises the financial charges in the profit and loss account while it is very exposed to the fair value risk in terms of changes in the market value of the debt stock.

The analysis of the consolidated debt position shows that, as the risk to which Acea is exposed, most of it is represented by fair value risk being composed at 31 December, 2017 for about 71.0% of fixed rate debt considering the instruments thus hedging to a lesser extent the risk of variability in future cash flows.

Acea complies with its decisions regarding the management of interest rate risk, which essentially aims both at managing and controlling this risk and at optimizing the cost of debt, the interests of the stakeholders and the nature of the Group's activities, and having compliance with the principle of prudence and consistency with market best practices. The main objectives of these guidelines are as follows:

- identifying, from time to time, the optimal combination of fixed and variable rates,
- pursuing a potential optimization of the cost of debt within the limits of risk assigned by the competent bodies and consistently with the specifics of the reference business,
- managing derivative transactions for hedging purposes only, if Acea decides to use them, in compliance with the decisions of the Board of Directors and, therefore, of the approved strategies and taking into account (ex ante) the economic and equity impact of such transactions, favoring those instruments allowing hedge accounting (typically cash flow hedges and, at certain market conditions, fair value hedges).

Please note that Acea has:

- the fixed-rate loan underwritten on 27 December, 2007 of € 100 million through a swap. The IRS plain vanilla swap was signed on 24 April 2008 with effect from 31 March 2008 (date of the draw of the underlying) and expires on 21 December 2021,
- finalized a cross currency transaction to convert into Euro-through a DCS plain vanilla type swap - the currency of the Private Placement (yen) and the yen rate applied in a fixed rate in Euro via an IRS plain vanilla swap,
- variable rate debt, € 300 million on € 330 million of the fixed rate bond placed on the market in September 2013, with a duration of 5 years through a swap.

All the derivative instruments contracted by Acea listed above are non-speculative and their fair value is respectively

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

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

€ thousand	Amortised cost	FV RISK LESS	Delta	FV RISK ADJUSTED	Delta
Bank Loans:	(A)	(B)	(A) - (B)	(C)	(A) - (C)
Bonds	2,047,874	2,180,307	(132,432)	2,123,924	(76,050)
fixed rate	250,000	250,553	(553)	248,824	1,176
variable rate	632,484	645,205	(12,721)	643,344	(10,860)
variable vs fixed rate	36,760	37,326	(566)	36,876	(116)
Total	2,967,118	3,113,390	(146,272)	3,052,968	(85,849)

This analysis was also carried out with the «risk adjusted» curve, i.e. a curve adjusted for the level of risk and the business sector of Acea. In fact, the curve populated with fixed rate bonds denominated in EUR was used, issued by national public service companies and having a composite rating of between BBB+ and BBB-. Medium / long-term financial liabilities were subjected to a sensitivity analysis based on the Stress Testing method, or by applying a spread to the riskless interest rate curve for all the nodes of the latter.

In this way it is possible to assess the impacts on the Fair Value and on the evolution of future Cash Flows, with reference both to the individual instruments constituting the portfolio under analysis and to the overall portfolio.

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

Constant spread applied

Constant spread applied	Changes of Present Value (€ million)
-1.50%	(212.3)
-1.00%	(138.8)
-0.50%	(68.1)
-0.25%	(33.7)
0.00%	0.0
0.25%	30.1
0.50%	65.6
1.00%	128.8
1.50%	189.7

With regard to the type of hedging of which the fair value is determined and with reference to the hierarchies required by the IASB, it should be noted that, since these are composite instruments, the

level is type 2 and that during the period there were no reclassifications from or to other levels of fair value as defined by IFRS 13.

COMMITMENTS AND POTENTIAL RISKS

These amounted to € 770,957k and decreased by € 236,845k compared to 31 December 2016 (€ 1,007,802k).

GUARANTEES AND GUARANTEES ISSUED AND RECEIVED

These have a negative net balance of € 49,990k, as the endorsements and guarantees issued amounted to € 3,980k while those received amounted to € 50,969k.

These recorded a reduction of € 220,635k compared to the end of the previous year. The change is mainly attributable to the extinction of bank guarantees for the total value of € 200,000 issued by Cassa Depositi e Prestiti in the interest of the European Investment Bank for the two loans signed by Acea.

LETTERS OF PATRONAGE ISSUED AND RECEIVED

The balance is positive for € 569,305k, consisting of letters of patronage issued for € 569,508k and letters of patronage received for € 203k.

During the year they underwent a total reduction of € 16,209k.

The main changes concerned:

- the reduction of the counter-guarantee to Cassa Depositi e Prestiti for the loan granted to areti for € 28,095k,
- the increase in guarantees to various companies on behalf of Acea Energia including EDF Trading, Enel Trade and ERG Power Generation SpA offset by the reduction towards Eni Trading & Shipping for a total of € 11,633k.

THIRD PARTY ASSETS UNDER CONCESSION

These amount to € 86,077 thousand and have not changed since 31 December, 2016 and refer to assets related to public lighting.

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

Dear shareholders,
in inviting you to approve the financial statements that you submit to it, we propose to allocate the profit for the year ended on 31 December 2017, equal to € 226,579,312.00, as follows:

- € 11,328,965.60, equal to 5% of profit, to the legal reserve,
- € 133,905,181.40 to shareholders, corresponding to a unit dividend of € 0.63,
- € 81,345,165.00 for new earnings.

The dividend (coupon No. 19) of € 133,905,181.40, equal to € 0.63 per share, will be paid starting from 20 June, 2018 with coupon detachment on 18 June and record date 19 June.

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

Acea SpA

The Board of Directors

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

ANNEX 1: NET FINANCIAL POSITION

**ANNEX 2: CHANGES IN HOLDINGS AS AT 31
DECEMBER 2017**

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

**ANNEX 4: POSITIONS OR TRANSACTIONS
DERIVING FROM UNUSUAL AND / OR
ATYPICAL OPERATIONS**

ANNEX 5: SEGMENT INFORMATION (IFRS 8)

ANNEX 1 - NET FINANCIAL POSITION AT 31 DECEMBER 2017

€ thousand	31/12/2017	Related Parties	31/12/2016	Related Parties	Change
Non-current financial assets	126	0	126	0	0
Non-current intragroup financial assets	210,126	210,126	205,261	205,261	4,865
Non-current payables and financial liabilities	(2,440,786)	0	(2,487,904)	0	47,118
Financial Assets (Liabilities) from valuation of derivative instruments	(41,778)	0	(28,823)	0	(12,955)
Medium-long term financial position	(2,272,313)	210,126	(2,311,341)	205,261	39,028
Cash and securities	527,423	0	577,334	0	(49,911)
Current financial assets (liabilities)	(410,668)	(1,769)	(19,837)	(1,770)	(390,830)
Current (intragroup) financial assets (liabilities)	1,891,747	1,891,747	1,417,438	1,417,438	474,309
Short-term financial position	2,008,502	1,889,978	1,974,935	1,415,668	33,568
Total Net financial position	(263,811)	2,100,103	(336,406)	1,620,929	72,595

ANNEX 2 - CHANGES IN HOLDINGS AS AT 31 DECEMBER 2017

CHANGES FOR THE PERIOD

€ thousand	31/12/2016	Purchases	Disposals	Reclassifications	Increases / Decreases	Write-downs / losses	31/12/2017
Subsidiaries							
areti SpA	683,861	0	0	0	0	0	683,861
Acea ATO2 SpA	585,442	0	0	0	0	0	585,442
Acea8Cento SpA	120	0	0	0	0	0	120
Consorcio Agua Azul	4,970	0	0	(4,970)	0	0	0
Acea Elabori SpA	4,814	0	0	0	0	0	4,814
Ecomed Srl	118	0	0	(118)	0	0	0
Acea Energia SpA	277,044	0	0	0	0	0	277,044
Acea ATO5 SpA	13,934	0	0	0	0	0	13,934
Aguazul Bogotà SA	644	0	0	(644)	0	0	0
Consorcio Acea-Acea Dominicana	43	0	0	0	0	0	43
Acea Dominicana SA	610	0	(610)	0	0	0	0
Acque Blu Arno Basso SpA	14,663	0	0	0	0	0	14,663
Ombrone SpA	19,383	0	0	0	0	0	19,383
Acque Blu Fiorentine SpA	43,911	0	0	0	0	0	43,911
Acea Ambiente Srl	32,573	0	0	0	0	0	32,573
Umbra Acque SpA	6,851	0	0	(6,851)	0	0	0
Aquaser Srl	5,417	0	0	0	0	0	5,417
Crea Gestioni Srl	6,127	0	0	0	0	0	6,127
Gori Servizi Srl	1,659	0	(1,659)	0	0	0	0
Parco della Mistica	60	0	0	0	0	0	60
Sarnese Vesuviano Srl	163	0	0	0	0	0	163
Acea Illuminazione Pubblica SpA	4,590	0	0	0	0	0	4,590
Ingegnerie Toscane Srl	58	0	0	(58)	0	0	0
Acea Liquidation and Litigation Srl	9,821	0	0	0	0	0	9,821
Acea Produzione SpA	43,441	0	0	0	0	0	43,441
Acea Energy Management Srl	50	0	0	0	0	0	50
Aguas De San Pedro SA	8,117	0	(8,117)	0	0	0	0
Acea International SA	600	8,909	0	0	(1,212)	0	8,297
Crea SpA in liquidation	0	0	0	0	0	0	0
Hydreco Scarl in liquidation	0	0	0	0	0	0	0
UmbriaDue Servizi Idrici scarl	0	2,869	0	0	7	0	2,877
Acque Industriali Srl	0	1,203	0	0	19	0	1,222
TWS SpA	0	11	0	0	54	0	64
Total - subsidiaries	1,769,085	12,993	(10,385)	(12,641)	(1,132)	0	1,757,919

CHANGES FOR THE PERIOD

€ thousand	31/12/2016	Purchases	Disposals	Reclassifications	Increases / Decreases	Write-downs / losses	31/12/2017
Associates							
Aguas De San Pedro SA	(0)	0	0	0	0	0	(0)
Consorcio Agua Azul	0	0	0	4,970	(442)	0	4,529
Aguazul Bogotà SA	0	0	0	644	(74)	0	570
Ecomed Srl	0	0	0	118	0	0	118
Umbra Acque SpA	0	0	0	6,851	0	0	6,851
Ingegnerie Toscane Srl	0	0	0	58	0	0	58
Intesa Aretina Scarl	11,505	0	0	0	0	0	11,505
GEAL SpA	0	2,000	0	0	59	0	2,059
Umbria Distribuzione Gas SpA	318	0	0	0	0	0	318
Marco Polo SpA in liquidation	0	0	0	0	0	0	0
Citelum Napoli Pubblica Illuminazione Scarl.	306	0	0	0	0	0	306
Sienergia SpA in liquidation	0	0	0	0	0	0	0
DI.T.N.E. Scarl.	12	0	0	0	0	0	12
Total associates	12,142	2,000	0	12,641	(457)	0	26,327

CHANGES FOR THE PERIOD

€ thousand	31/12/2016	Purchases	Disposals	Reclassifications	Increases / Decreases	Write-downs / losses	31/12/2017
Other companies							
Polo Tecnologico Industriale Romano SpA	2,350	0	0	0	0	0	2,350
WRC PLC	0	0	0	0	0	0	0
Green Capital Alliance Società Benefit Srl	0	2	0	0	0	0	2
Total - Other companies	2,350	2	0	0	0	0	2,352

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

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

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

Pursuant to the Consob Communication of July 28, 2006, it should be noted that during 2017 Acea SpA has not performed atypical and / or unusual transactions, as defined by the Communication itself.

ANNEX N. 5 - SEGMENT REPORTING (IFRS 8)

€ thousand	Public Lighting	Corporate	TOTAL ACTIVITIES IN OPERATION	DISCONTINUING OPERATIONS	TOTAL
Investments	641	10,663	10,663	0	10,663
Sector activities					
Property, plant and equipment	1,791	96,609	98,400	0	98,400
Intangible fixed assets	0	11,624	11,624	0	11,624
Financial assets	0	1,786,598	1,786,598	0	1,786,598
Other non-current commercial activities					32,480
Other non-current financial assets	49,892	188,083	237,975		237,975
Raw materials	0	0	0	0	0
Trade receivables	675	279	954	0	954
Trade receivables from the parent company	0	93	93	0	93
Receivables due from parent company / associates	767	97,911	98,679	0	98,679
Other Current Commercial Activities	647	59,448	60,095		60,095
Other current financial assets	122,792	1,901,262	2,024,055	0	2,024,055
Bank deposits					527,423
Total assets					4,878,374

€ thousand	Public Lighting	Corporate	TOTAL ACTIVITIES IN OPERATION	DISCONTINUING OPERATIONS	TOTAL
Sector payables					
Trade payables	94	93,297	93,392	0	93,392
Payables from the parent company	0	0	0	0	0
Payables from the parent company / subsidiaries / associates	79,374	19,018	98,392	0	98,392
Other non-current commercial payables					57,786
Other current commercial payables	767	542,208	542,975		542,975
Defined benefit plans	0	24,464	24,464	0	24,464
Other provisions	0	14,984	14,984	0	14,984
Provision for deferred taxes					8,856
Other non-current commercial payables					0
Other non-current financial payables					2,482,564
Shareholders' equity					1,554,961
Total liabilities					4,878,374

€ thousand	Public Lighting	Corporate	TOTAL ACTIVITIES IN OPERATION	DISCONTINUING OPERATIONS	TOTAL
Revenue from third parties	60,205	16,456	76,661	0	76,661
Intersectorial sales	0	104,276	104,276	0	104,276
Work costs	0	(49,676)	(49,676)	0	(49,676)
External costs	(64,799)	(84,477)	(149,276)	0	(149,276)
EBITDA	(4,594)	(13,421)	(18,015)	0	(18,015)
Depreciation and write-downs of receivables	(4,641)	(16,100)	(20,741)	0	(20,741)
Write-downs / recovery of fixed assets	0	0	0	0	0
Operating profit	(9,235)	(29,521)	(38,756)	0	(38,756)
(Charges) / Financial Income					49,552
(Charges) / Income from investments					219,013
Net result Discontinued operations					0
Earnings before taxes					229,809
Taxes					(3,230)
Net Profit (Loss)					226,579

Board of Statutory Auditors' Report to the Shareholders' Meeting

(pursuant to art. 153 of Legislative Decree. 58/1998)

Dear Shareholders,

in accordance with art. 153 of Legislative Decree 58/1998 (hereinafter also "TUF"), the Board of Auditors of Acea SpA (hereinafter also "Acea" or "Company"), is called to report to the Shareholders' Meeting called to approve the financial statements, on the activity of supervision carried out during the period and on possibly relevant omissions or criticisable facts. The Board of Auditors is also called to put forward its proposal concerning the financial statements and approval thereof, as well as on the matters of its competence.

This report concerns the activity carried out by the Board of Auditors of Acea SpA in the financial year closing on 31 December 2017.

Preamble

During the financial year which closed on 31 December 2017, the Board of Auditors carried out the activity of supervision provided by the law, considering the principles of conduct recommended by the National Council of Chartered Accountants and Accounting Experts, Consob provisions regarding corporate controls and the indications contained in the Self-Governance Code for listed companies issued by Borsa Italiana SpA.

The activities described hereunder which were also performed jointly with the Control and Risks Committee have been acknowledged in the minutes of the 18 meetings of the Board of Auditors which were held over 2017.

The Board of Auditors has always attended the meetings of the Board of Directors and the Control and Risks Committee. It also attended the meetings of the Appointments and Remuneration Committee.

By board resolution of 27 April 2017, PricewaterhouseCoopers SpA (hereinafter also "PwC" or "Audit Company") was assigned the statutory audit of the financial statements and consolidated financial statements for the period 2017-2025.

Appointment of the Board of Auditors

The Board of Auditors in office as at the date of this report was appointed by the Shareholders' Meeting of 28 April 2016 and is formed of Enrico Laghi (Chairman), Rosina Cichello (statutory member) and Corrado Gatti (statutory member).

Carlo Schiavone and Lucia Di Giuseppe are substitute auditors.

Supervision pursuant to art. 149 of the TUF

Pursuant to art. 149 of the TUF, the board of auditors oversees:

- the observance of the law and articles of association;
- respect of the principles of correct administration;
- the adequacy of the company's organisational structure as regards the aspects of competence, the internal control system and the administrative-accounting system, as well as the reliability of the latter to correctly represent facts of management;

- the procedures for correctly implementing the rules of corporate governance provided under the codes of conduct drawn up by management companies of regulated markets or category associations with which the company declares its compliance through public disclosure;
- the adequacy of the provisions required by the company of the subsidiaries pursuant to article 114, paragraph 2 of the TUF.

Supervision of the observance of law and the articles of association

The Board of Auditors acquired information instrumental to performing the supervisory duties attributed to it by means of attending meetings of the Board of Directors and the Committees internal to the board, listening to the Management of the Company and the Group, meetings with the Audit Company, as well as other control activities.

In particular, the Board of Auditors:

- obtained from the Directors, on at least a quarterly basis, information regarding the activity carried out and transactions of greater economic, financial and equity related relevance realised by the Company, as well as the Group's strategic guidelines. The Board of Auditors can reasonably assure that the transactions resolved and brought about are conform to the law and the articles of association and are not evidently imprudent or risky, in conflict of interest, contrasting with the resolutions undertaken by the Shareholders' Meeting and/or such as to compromise the integrity of the company's assets. Furthermore no atypical or unusual transactions were found;
- points out the following events of particular relevance in 2017:
 - o The Shareholders' Meeting held on 27 April 2017 resolved that the number of Directors should be nine, it appointed the Board of Directors and the Chairman and it resolved that the term of office should be three financial periods and, in any case, until the Shareholders' Meeting that shall be called to approve the Financial Statements relating to financial year 2019. Therefore as of 31 December 2017 and to date, the Board of Directors is formed as follows: Luca Alfredo Lanzalone (Chairman), Stefano Antonio Donnarumma Managing Director since 3 May 2017), Michaela Castelli, Gabriella Chiellino, Liliana Godino, Alessandro Caltagirone, Massimiliano Capece Minutolo Del Sasso, Fabrice Rossignol and Giovanni Giani. Of the above directors in office, 2 are executive directors (the Chairman and the Managing Director), whereas the remaining 7 are non-executive directors. Again on 27 April 2017, the Meeting, by proposal of the Board of Directors and subject to the recommendation of the Board of Auditors, conferred PricewaterhouseCoopers SpA the assignment of auditing the Company's financial statements and the consolidated financial statements for a term of nine financial years (2017-2025), in other words until the approval of the financial statements of the last year of the said mandate - and established the relative fees;
 - o On 17 May 2017, the Board of Directors appointed: (i) as members of the Control and Risks Committee the independent directors: Michaela Castelli (Chairman), Liliana Godino, Giovanni Giani and Massimiliano Capece Minutolo Del Sasso; (ii) as members of the Appointments and Remuneration Committee the independent Directors: Liliana Godino (Chairman), Gabriella Chiellino, Giovanni Giani and Massimiliano Capece Minutolo Del Sasso; (iii) as members of the Related-Party Transaction Committee the independent directors: Fabrice Rossignol (Coordinator) and Michaela Castelli and Massimiliano Capece Minutolo Del Sasso; (iv) as members of the Ethics and Sustainability Committee the independent Directors: Gabriella Chiellino (Chairman), Michaela Castelli and Giovanni Giani. The Board approved the organisational changes to the Company's macrostructure;
 - o On 28 June 2017 the Board of Directors of Acea, subject to appraisal by the Appointments and Remuneration and Related-Party Transaction Committees, formed solely of independent Di-

rectors, with reference to the termination of the working relationship of Alberto Irace (former Managing Director of Acea), which began on 1st March 2007, approved payment to the latter of the amount due by way of severance;

- On 5 July 2017, the Region of Lazio issued presidential decree no. T00116 by which the state of natural disaster was declared throughout the territory due to the serious water crisis occurring due to the drought with the consequent difficulty of water procurement by the Municipalities. By the cited decree the Region of Lazio also asked the Presidency of the Council of Ministers, Civil Protection Department, given the intensity of the phenomenon arising and significant damages caused, to declare the state of emergency with consequent financial support and the adoption of urgent and extraordinary measures of the State, so that the serious situation of emergency could be properly dealt with;
- On 3 August 2017 the Board of Directors of Acea acknowledged the consensual termination, effective as from 1st September 2017 of the working relationship with Demetrio Mauro, Administration, Finance and Control Director and Financial Reporting Officers of Acea SpA pursuant to art. 154-*bis* of Legislative Decree 58/1998. During the same meeting the Board of Directors, subject to favourable opinion of the Board of Auditors and the prescribed declarations of integrity and absence of legal situations provided under art. 2382 of the civil code, resolved to appoint - effective as from 1st September 2017 - Giuseppe Gola as Financial Reporting Officer for Acea SpA, pursuant to art. 154 of Legislative Decree 58/1998, who also took the office of Administration, Finance and Control Director of Acea;
- As from September 2017, the Board of Directors integrated the Risk & Compliance Function into the macrostructure, strengthening safeguards for the governance and management of the internal control and risk management system;
- On 28 November 2017 the Board of Directors of the Company approved the business plan for Gruppo Acea 2018-2022;
- In December 2017 the Board of Directors of the Company approved the new Regulations for the Control and Risks Committee and the Ethics and Sustainability Committee.

Furthermore, as regards corporate bodies and functions, the Board of Auditors points out that:

- The Board of Directors held 14 meetings in 2017;
- The Control and Risks Committee met 11 times in 2017;
- The Appointments and Remuneration Committee met 14 times in 2017;
- The Ethics and Sustainability Committee met 7 times in 2017;
- The Party-Related Transactions Committee met 3 times in 2017;
- The Supervisory Body met 4 times in 2017.

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

- In January 2018 a Post Audit Committee was established, chaired by the Director assigned to the internal control and risk management system, having the task of analysing corrective interventions identified by the management downstream of the internal audit activities and monitoring the realisation times thereof;
- On 23 January 2018 the Acea Board of Directors authorised the issue, pursuant to its own Euro Medium Term Notes Programme (hereinafter also “EMTN”), of one or more debenture loans, not subordinated, for a nominal comprehensive counter value of up to a maximum of 1 billion Euros, to be allocated to institutional investors and listed at the Luxembourg Stock Exchange, to be carried out by 15 July 2018;
- On 1st February 2018 Acea completed the placement of bond issues of an amount respectively equal to 300 million Euros and 5-year duration at variable rate [the “Bonds 2023”) and 700 million Euros lasting 9 years and 6 months at fixed rate [the “Bonds” 2027”), pursuant to the 3 billion Euro EMTN programme, as amended last on 17 July 2017 and subsequently supplemented on 23 January 2018. The debenture loan is exclusively intended for intuitional investors of the Euromarket;

- The Board of Directors approved the new internal control and risk management system guidelines regarding Gruppo Acea in February 2018;
- With the attribution of office no. 3/2018 and effective as from 5 February 2018, Fabio Paris was appointed as responsible for the Administration and Budgets Unit of Acea SpA within the Administration, Finance and Control Department;
- On 14 March 2018 the Board of Directors of the Company: (i) appraised the adequacy of the internal control and risk management system, as well as the adequacy of the organisational, administrative and accounting structure of the Company and the subsidiary companies having strategic relevance, deeming the internal control system of Acea as comprehensively suited to allowing corporate objectives to be pursued; (ii) proceeded, as an integral part of said appraisal process, with self-assessing the composition and function of the Board and internal Committees. Such assessment concerned the independence, structure and composition of the Board of Directors, the operation of the Committees and the Board and the flow of information received from the Board and its Committees when exercising their functions. In order to fulfil the tasks of assessment, the Board availed of a specialised company in the sector. On the same date the Board of Directors confirmed, as in previous years, that the conditions do not exist, as provided under the Self-Governance Code, for the institution of a lead independent director, considering that the Chairman of the Board of Directors does not cover the role of main subject responsible for the company (chief executive officer) or dispose of controlling stake in the Company.

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

The Board of Auditors:

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

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

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

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

The Board also appraised the adequacy of the information given within the management report concerning the inexistence of significant atypical and/or unusual transactions during 2017.

Supervision over the effective implementation of corporate governance regulations

In relation to the provisions under art. 149, paragraph 1, letter *c-bis*, of the TUF regarding the Board of Auditor’s supervision “*over the processes of effective implementation of the corporate governance reg-*

ulations provided under the codes of conduct drawn up by regulated market management or by category associations with which the company declares its compliance through public disclosure”, the Board of Auditors reports that it has overseen:

- The processes of effective implementation of the corporate governance regulations provided under the codes of conduct drawn up by regulated market management or by category associations with which the company declares its compliance through public disclosure. Pursuant to art. 123-*bis* of the TUF, the Company has drawn up the annual Report on Corporate Governance and the Ownership Structure related to 2017, approved on 14 March 2018, which provides information concerning (i) corporate governance practices effectively applied by the Company; (ii) the main characteristics of the existing internal control and management systems, also in relation to the financial disclosure process, also consolidated; (iii) the operational mechanisms of the Shareholders’ Meeting, its main powers, Shareholders’ rights and the methods for exercising the latter; (iv) the composition and operation of the management and control bodies and their committees, as well as the other information required under art. 123-*bis* of the TUF;
- The adoption of the Remuneration Policy for Directors and Key Managers, in line with the provisions under the Self-Governance Code of listed companies issued by Borsa Italiana SpA, as well as the subsequent Remuneration Report as per art. 123-*ter* of the TUF;
- The application, during the period, of the procedure for assigning duties to the audit companies within Gruppo Acea, approved by the Acea Board of Directors on 7 October 2014, effective as of 1st November 2014.

The Board of Auditors states, moreover: (i) that it has verified, as recommended by the Self-Governance Code of Borsa Italiana SpA, that its members possess the same requirements of independence as requested for the directors of said Code; (ii) that it has established the correct application of the criteria and procedures for ascertaining the requisites of independence adopted by the Board of Directors in order to annually assess the independence of its members, as well as an appraisal performed by the Board of Directors which is based on the substantial profiles and consistently with decisions taken on the matter of identifying Acea’s related parties and has no observations to make in relation thereof.

Supervision over the adequacy of the provisions laid down by the company for the subsidiary companies
Pursuant to article 114, paragraph 2, of the TUF: (i) the listed issuers lay down the necessary provisions for the subsidiaries to provide all information required in order to fulfil the obligations of communication provided by the law; (ii) the subsidiaries send the required information in a timely manner.

The Board of Auditors has monitored the adequacy of the provisions laid down for the subsidiaries, having established that the Company is able to promptly and regularly comply with the obligations of communications provided under the law. This is also by means of collecting information from the organisational function managers and holding periodic meetings with the Audit Company, for the purposes of a reciprocal exchange of relevant data and information. In relation thereto, there are no particular observations to make. Furthermore, Directors and/or Managers from the Parent Company are present in the Boards of Directors of the subsidiaries, with operational delegation, thus guaranteeing coordinated management and an adequate flow of information, also supported by accounting information.

Intergroup or related parties transactions

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

Directors), adopted the procedure for related parties transactions.

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

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

On the basis of the received information, during financial year 2017 a series of related parties transactions took place, both intergroup and with third parties. Related parties transactions were executed, to our knowledge, also following the supervisory activities carried out, with substantial compliance to the Regulation and Procedure implemented by Acea. The intergroup transactions we examine prove to be of an ordinary nature, in that they essentially concern commercial services and reciprocal performance of administrative, financial and organisation services. The aforementioned relations were governed by applying normal conditions determined using standard parameters reflecting the effective use of the services and were carried out in the interest of the Company. Non intergroup related parties transactions that we examined also prove to be of an ordinary nature (inasmuch as falling within the normal exercise of the operational activity or the financial activities connected thereto) and concluded under equivalent conditions as those of the market or standard. The related parties transactions are described in the notes to the comment on the Company’s financial statements and the consolidated financial statements, which also show the consequent economic effects.

Supervision pursuant to Legislative Decree 39/2010

Pursuant to art. 19 of Legislative Decree 39/2010, as amended by Legislative Decree 135/2016, the internal control and statutory audit committee, which, in entities of public interest (which includes listed companies) which adopt the traditional governance system is identified as the Board of Auditors, shall undertake:

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

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

Apropos the practice of attendance by the entire Board of Auditors was introduced in the activities of the Control and Risks Committee when the subject matter is of specific relevance for the purposes of Legislative Decree 39/2010, rendering fluidity in relations and facilitation the informatory exchange between the two bodies.

With specific reference to the activities provided under Legislative Decree 39/2010 we report as follows.

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

The Board states that PwC issued on 29 March 2018 its supplementary report as per art. 11 of the European Regulation, which gives the results of the statutory audit and includes the declaration related to independence pursuant to art. 6, paragraph 2, letter a) of the Regulation, as well as the informatory documents required under art. 11 of such Regulation, finding some significant shortcomings in the internal control system with regard to the financial disclosure process which shall be mentioned later on. The Board of Auditors shall inform the Board of Directors about the results of the statutory audit, sending the supplementary report for such purpose, enclosing any observations, pursuant to art. 19 del Legislative Decree 39/2010.

B) Supervision of the financial disclosure process

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

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

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

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

On 29 March 2018 the Board of Auditors received the supplementary report from the Audit Company, as per art. 11 of the European Regulation, the contents of which were subject matter of comparison prior to such date. The report outlines certain significant shortcomings in the internal control system in relation to the financial disclosure process brought to the attention of the Audit Company while the financial statements were being audited.

In particular, the significant shortcomings concern:

- (i) The management of the assets register regarding which PwC suggests computerising the assets register management process both at accounting and fiscal level in order to eliminate exposure to potential errors

which could derive from annual management. With regard to such shortcoming, the Board of Auditors was informed by the management that corrective interventions have already begun on the related process. In particular, the transition to international accounting standards initiated in some of the Group's companies, consequently after the transposition process of the transitional adjustments on the accounting system of the interested companies the computerisation of the assets books shall be managed;

- (ii) The consolidation process, regarding which PwC suggests computerising the consolidation process in order to eliminate exposure to potential errors which can derive from manual management. Moreover PwC stresses the opportunity to proceed with updating the Group accounting manual (and its translation into English so it can be used by foreign Subsidiaries) upon the introduction of accounting standards IFRS 9 and IFRS 15 effective as from 1st January 2018. Regarding such shortcoming, the Board of Auditors was informed by the Management that analysis and planning has begun of corrective interventions. In particular, there shall be a review of the consolidation process during 2018 in order to identify the areas of improvement and solutions most suited to allow the identified potential shortcomings to be dealt with;
- (iii) The age of credit and debit balances, in relation to which PwC suggests introducing a control process (or a policy) which introduces, at process level, a periodic update of the credit and debit balances that are older than the foreseen operational cycles set out in the transactions which generated the recognition. Regarding such shortcoming, the Board of Auditors was informed by the Management that as early as 2017, activities of control were brought about on the highlighted items. In addition, the Management stated that during 2018 the process of analysis shall be strengthened with a view to a more efficient assessment of the balances in question.

The Board of Auditors thereby expresses an appraisal of substantial adequacy of the process of preparing financial disclosure as a whole, stating that, respect to the foregoing shortcomings, it shall monitor the implementation of the actions aimed at remedying them as well as the efficacy of such actions.

C) Supervision over the efficacy of the international control, internal audit and risk management systems

The Board of Auditors oversaw the adequacy and efficacy of the internal control and risk management system. Apropos, the Board of Auditors, also jointly with the Control and Risks Committee, periodically met with the Internal Audit Function Manager, becoming informed in relation to the results of the audit interventions aimed at verifying the adequacy and operativity of the internal control system, the observance of law, procedures and corporate processes as well as the implementation of the related improvement plans. It also received the audit plan for financial year 2017 as approved by the Board of Directors on 13 March 2017 (the content of which was positively assessed by the Risks and Control Committee and the board of Auditors existing on such date in the joint meeting of 8 March 2017) and was periodically updated on the state of progress of the plan and any identified corrective actions. It also received the Report by the Internal Audit Manager for 2017 on 9 March 2018, which outlines the main elements and function of the comprehensive internal control system and possible interventions of improvement are suggested. In particular, in 2017, with the establishment of the new Board of Directors, the Company launched a comprehensive review of the internal control and risk management system with the purpose of strengthening the efficacy and effectiveness thereof, also by means of identifying new subjects and methods of coordination among the various players and levels of control. Within this sphere, as mentioned hereabove, the Risk & Compliance Function was created, thus strengthening processes for governing and managing the internal control and risk management system. In the conclusions of the Internal Audit Function Report for 2017 it states that the single components of the internal control and risk management system, together with the result of the independent audits carried out by the Internal Audit Function, as provided by the activity plan approved by the Board of Directors or executed in relation to specific necessities, certify the function and adequacy of the fundamental elements for pursuing the

objectives of conformity, efficacy and efficiency of the activities and the reliability of the information and, therefore, highlight the comprehensive suitability of the system.

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

As regard the update of the Organisation, Management and Control Model as per Legislative Decree 231/2001 (hereinafter also “Model”) we point out that the Board of Auditors, in its capacity as Supervisory Body pursuant to the recalled Decree (hereinafter also “OdV”), following the introduction of new alleged crimes of administrative liability and organisational changes intervening since the last approval of the Model, assigned the Internal Audit Function with supporting the Company in the project for updating it. The review of the Model considered: (i) changes to the organisational structures taking place up to the date of its approval; (ii) developments in the procedures included in the special part of the Model as at the date of approval thereof; (iii) the new specific cases of crime introduced up to the approval of the Model. The OdV steered and constantly monitored the project activities functional to updating the Model and, on 11 December 2017, having analysed the latter and compared it with the Internal Audit Function, it gave its opinion in favour of approving the new Model drawn up by the Company; thereafter the Board of Directors approved the update of the Model on 15 December 2017.

As regards the liability of entities as per Legislative Decree 231/2001, the Board of Auditors reports the existence of investigations and procedures in progress concerning some companies of the Group.

The Board of Auditors gives an appraisal of substantial adequacy of the internal control and risk management system as a whole, recalling in this context the finding as above with regard to the internal control system in relation to the financial disclosure process.

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

We report that:

- The accounting records were submitted for the controls provided by the normative and carried out by PwC;
- The Board of Auditors: (i) analysed the activity carried out by the Audit Company and, in particular, the methodological system, the used approach to auditing for the various significant areas of the financial statements and planning the audit work; (ii) shared the problems related to corporate risks with the Audit Company, thus being able to fathom the adequacy of the auditor’s planned response in terms of their approach to auditing with the profiles, regarding structure and risk, of the Company and the Group;
- On 29 March 2018, PwC issued the supplementary report as per art. 11 of the European Regulation as described above;
- On 29 March 2018, PwC issued the report on the audit of the financial statements and the report on the audit of the consolidated financial statements. In relation thereto we state that:
 - Both reports contain: (i) a judgement of true and fair view of the equity and financial standing of Acea SpA and the Group as at 31 December 2017, the economic result and cash flows as of such date in compliance with the International Financial Reporting Standards adopted by the European Union, as well as the measures issued in implementation of art. 9 of Legislative Decree 38/05; (ii) a description of the key aspects of the audit and the audit procedures in response to the key aspects; (iii) a judgement of consistency of the management report and certain specific information on the Report on Corporate Governance and on the Ownership Structure with the financial statements and the consolidated financial statements as at 31 December 2017 as well as the conformity thereof with the norms of law; (iv) confirmation that the opinion on the financial statements and the consolidated financial statements expressed in the respective reports are in line with the indications in the supplementary report intended for the undersigned Board of Auditors, in its function as internal control and audit committee, drawn up pursuant to art. 11 of the European Regulation;

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

E) Independence of the audit company, with particular regard to supplying non audit-related services

With regard to the annual confirmation of independence pursuant to art. 17, paragraph 9, letter a) of Legislative Decree 39/2010, the Board of Auditors states that it received said confirmation from the Audit Company with the transmission of the related letter on 28 March 2018.

The Board of Auditors monitored the independence of the audit company and, in particular, received periodic evidence of the various assignments other than auditing to be attributed (or attributed by effect of specific regulatory provisions) to the statutory auditor.

As deduced from the consolidated financial statements of Gruppo Acea, during financial year 2017 PricewaterhouseCoopers SpA performed the activities summarised below for the Group:

Company and period of reference <i>Amounts in Euros (thousands)</i>	Audit Services	Audit related Services	Non audit Services post conferral or assignment	Non audit Services ante conferral or assignment	Total
Acea SpA 2017	272,430	66,813	417,552		1,330,243
Gruppo Acea 2017	858,990	78,010	104,500	573,479	1,041,500
Total Acea SpA and Group	1,131,420	144,823	522,022	573,479	2,371,743

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

Lastly, we report that on 10 March 2017 the Board of Auditors drew up its recommendation regarding the assignment of statutory auditing - pursuant to articles 13, paragraph 1, and 17, paragraph 1, of Legislative Decree 39/2010 as amended, respectively, by articles 16 and 18 of Legislative Decree 135/2016, art. 16 of European Regulation 537/2014 of the European Parliament and Council of 16 April 2014 - for the period 2017-2025, as well as approval of the related payment.

F) Statutory auditor selection procedure

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

Financial Statements, consolidated financial statements and management report

The financial statements for Acea, approved by resolution of the Board of Directors of the Company on 14 March 2018, were drawn up according to IAS/IFRS accounting standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, as well as in conformity with the measures issued in implementation of art. 9 of Legislative Decree 38/2005.

With specific regard to examining the financial statements for the year ended 31 December 2017, the consolidated financial statements and the management report, the Board of Auditors reports:

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

Omissions or criticisable facts, other opinions given, actions taken

The Board points out that:

- Pursuant to art. 2389, paragraph 3 of the civil code, it has expressed its favourable opinion regarding the remuneration of directors vested with special duties;
- It has not issued the opinion required under art. 2386 of the civil code;
- It has not received complaints as per art. 2408 of the civil code;
- It issued the opinion required under art. 154-b/s, paragraph 1, of Legislative Decree 58/1998;
- As at the date of this report, it has not received reports pursuant to art. 151, paragraphs 1 and 2, of Legislative Decree 58/1998;
- In its capacity as Supervisory Body, it has assessed the profiles of interest pursuant to Legislative Decree 231/2001 and in relation thereto has not found anomalies or significant criticisable facts;
- It has held periodic meetings with the representatives of PwC with a view to exchanging with the latter, as prescribed under art. 150, paragraph 3, of the TUF, relevant data and information for fulfilling its assignment.

Consolidated non-financial report pursuant to Legislative Decree 254/2016 - Sustainability Report 2017

The Acea Board of Directors approved the consolidated non-financial report - sustainability report 2017, drawn up pursuant to Legislative Decree 254/2016.

On 29 March 2018 the Audit Company issued the report concerning the compliance of the information disclosed in the consolidated non-financial report respect to the norms of law and the adopted reporting standard.

The Board of Auditors monitored the observance of the provisions established in Legislative Decree 254/2016 and has no observations to make on the matter in this report.

Proposal to the Shareholders' Meeting

1. Financial Statements as at 31 December 2017

The Board of Auditors expresses its opinion in favour of approving the financial statements as at 31 December 2017 and has no objections to raise regarding the proposal of resolution presented by the Board of Directors regarding the allocation of profits.

2. Group remuneration policy

We inform you that the Board of Auditors has no objections to raise with regard to the Remuneration Policy submitted for the consultation of the Meeting.

* * *

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

Rome, 29 March 2018

Prof. Enrico Laghi

Ms. Rosina Cichello

Prof. Corrado Gatti



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

ACEA SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017



Independent auditor's report

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

To the shareholders of Acea SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Acea SpA (the Company), which comprise the income statement, statement of comprehensive income, statement of financial position as of 31 December 2017, statement of changes in equity, statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

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

Emphasis of matter

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

- The uncertainties regarding the subsidiary Acea Ato 5 SpA related to the complex legal matter concerning the ongoing disputes with the Local Regulator which are mainly related to the termination of the concession agreement, the approval of the 2016-2019 tariffs, the contractual

PricewaterhouseCoopers SpA

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penalties charged to the company for alleged instances of non-compliance, the recognition of receivables related to higher operating costs incurred in the 2003-2005 period (as per the settlement agreement of 27 February 2007) and the determination of the concession fees;

- The uncertainties related to the associate Gori SpA mainly concerning the approval of the petition for economic and financial rebalancing submitted to the relevant authorities, and to the entering into of an arrangement with the Campania Region about the set-off of the respective credit and debt entries through an appropriate repayment plan commensurate with the expected recovery of tariff adjustments due to the Company;
- The complex regulatory measures, with particular reference to matters underlying the approval process of water tariffs.

Our conclusions are not qualified for these matters.

Key Audit Matters

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

Key Audit Matters

Auditing procedures performed in response to key audit matters

First year of audit

On 27 April 2017, the shareholders meeting of Acea SpA appointed us to perform the statutory audit of the financial statements of Acea SpA.

As this has been the first year of the audit engagement, within our activities obtaining an understanding of the Company, of the Acea Group and of its operating environment were of particular importance, specifically as regards the special regulations governing the sectors in which the Group operates, the related risks and the corporate processes and policies addressing those risks.

In performing our audit procedures, we held several meetings with the key representatives person of the Company (and of the Group) focusing in particular on understanding the organisation and the relevant regulatory framework, as specifically defined by the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA, formerly AEEGSI).

We focused our audit procedures on understanding the accounting policies adopted by the Company by reading the accounting manual and discussion with the main corporate representatives in relation to sector-specific matters, in addition to

acquiring the supporting documentation and analysing the rationale behind the main accounting choices adopted within the financial statements for the year ended 31 December 2016. In this regard, for our in-depth examinations we involved PwC network experts who, within their different competences, deal with the Energy&Utilities sector.

In compliance with ISA Italia 510 – *First-year Audit Engagements - Opening Balances*), we performed specific tests on the opening balances in order to establish whether these contained significant errors that could affect the financial statements as of 31 December 2017.

For this purpose, we gained access to and analysed the working papers of the former auditors related to the financial statements as of 31 December 2016. In particular, we discussed with the former auditors the audit method used, the materiality applied, the analyses carried out in relation to the accounting choices adopted by the Company, as well as the findings that emerged from the audit performed.

Recoverability of the value of investments in subsidiaries and associates

Note 14 to the financial statements “Investments in subsidiaries and associates”

In the financial statements as of 31 December 2017 the Company recognised investments in subsidiaries and associates for an amount equal to Euro 1,784,246 thousand.

Annually, the Company, on the basis of its internal procedures, verifies the presence, if any, of impairment losses of investments in subsidiaries and associates comparing their book

We planned our audit procedures in order to:

- assess the consistency of the method for the estimate of the recoverable amount used by the Company with what envisaged by IAS 36 and valuation practice (analysis of valuation model used);
 - verify if the types of cash flows used were appropriate and if these were consistent with the 2018-2022 Business Plan approved by the Board of Directors on 28
-



value with the estimated recoverable amount pursuant to IAS 36 (impairment test). The test is carried out on the main investments regardless of the existence of any impairment indicators emerging during the year.

As part of our audit activities, we paid particular attention to the risk of the existence of any impairment losses of the abovesaid investments, as the process for estimating the recoverable amount is particularly complex and based on valuation assumptions affected by economic, financial and market conditions which are hard to forecast.

November 2017; and

- verify the mathematical accuracy of the quantification of the recoverable amount.

In particular, our audit activities focused on verifying the reasonableness of the main assumptions underlying the estimated future cash flows and the discounting rates used to perform the impairment test (also through comparison with the budget data deriving from external information sources). We compared the forecasts of the prior years with the corresponding actual figures and finally we verified the sensitivity analyses performed by the Company and carried out independent sensitivity analyses changing the main valuation assumptions used.

As part of our audit activities, we were supported, where necessary, by valuation experts belongin to the PwC network.

Other matters

The financial statements of Acea SpA for the year ended 31 December 2016 were audited by another independent auditor that, on 4 April 2017, expressed an unqualified opinion thereon.

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

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

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



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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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



transactions and events in a manner that achieves fair presentation.

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

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

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

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

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

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

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

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

The directors of Acea SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Acea SpA as of 31 December 2017, including their consistency with the relevant financial statements and their compliance with the law.



We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Acea SpA as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Acea SpA as of 31 December 2017 and are prepared in compliance with the law.

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

Rome, 29 March 2018

PricewaterhouseCoopers SpA

Signed by

Massimo Rota
(Partner)

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



Certification of separate financial statements in accordance with art.154-bis of Legislative Decree 58/98

(Translation from the original Italian text)

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

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

of the administrative and accounting procedures for preparing the separate financial statements at 31 December 2017.

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

3. It is also certified that:

3.1 the separate financial statements:

- a) were drawn up in compliance the applicable international accounting standards recognised in European Community in accordance with EC regulation 1606/2002 of the European Parliament and the Council, of 19 July 2002,
- b) are consistent with the underlying accounting books and records,
- c) provide a true and correct view of the operating results and financial position of the issuer,

3.2 the report on operations includes a reliable analysis of the operational performance and result, as well as the situation of the issuer, together with a description of the main risks and uncertainties to which they are exposed.

Rome, 29 March 2018

signed by: Stefano Donnarumma, The CEO

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

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





CONSOLIDATED
FINANCIAL STATEMENTS

FORM AND STRUCTURE

GENERAL INFORMATION

The Consolidated Financial Statements as at 31 December, 2017 of Acea Group were approved by resolution of the Board of Directors on 14 March, 2018; the publication was authorised by the Directors on 14 March, 2018. The Parent Company Acea SpA is an Italian limited company, with registered office in Rome, piazzale Ostiense 2, and whose shares are traded on the Milan stock exchange. The main business sectors in which the Acea Group operates are described in the Management Report.

COMPLIANCE WITH IAS / IFRS

This Annual Report, drafted on a consolidated basis, has been drawn up in compliance with the international accounting standards effective on the reporting date, approved by the International Accounting Standards Board (IASB) and adopted by the European Commission according to the procedure set forth in Art. 6 of the regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and pursuant to Art. 9 and Italian Legislative Decree 38/2005.

International accounting standards are made up by the *International Financial Reporting Standards* (IFRS), *International Accounting Standards* (IAS) and by interpretations of the *International Financial Reporting Interpretations Committee* (IFRIC) and the *Standard Interpretations Committee* (SIC), collectively referred to as "IFRS".

BASES OF PRESENTATION

The Consolidated Financial Statements are made up by the Consolidated Statement of Financial Position, the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows and the Statement of Changes in Consolidated Net Equity, as well as by the Notes to the Financial Statements, drafted in accordance with applicable IAS / IFRS provisions.

It is specified that the Profit and Loss Account is classified according to the nature of the costs, the Balance Sheet and Financial Position on the basis of the liquidity criterion with a breakdown of items between current and non-current, while the Cash Flow Statement is presented using the indirect method.

The Consolidated Financial Statements are drafted in Euro and all values are rounded to thousands of Euro unless otherwise stated. The figures of these Consolidated Financial Statements are comparable with the same data for the period in question.

ALTERNATIVE PERFORMANCE INDICATORS

On 5 October 2015, the ESMA (European Security and Markets Authority) published its guidelines (ESMA / 2015/1415) on the criteria for submitting alternative performance indicators that replace, with effect from 3 July 2016, the recommendations of CESR / 05-178b. The above guidelines have been incorporated into our system by means of Notice no. 0092543 of 3 December, 2015 from CONSOB. Below are the contents and meaning of non-GAAP result measures and other alternative performance indicators used in these financial statements:

- the *gross operating margin* (or EBITDA) represents for the Acea Group an indicator of the operating performance and includes, from 1 January 2014, also the synthetic result of joint ventures for which the consolidation method has been modified as a consequence of the entry into force of the international accounting standards IFRS10 and IFRS11. The gross operating margin is calculated by adding to the operating result the item "Depreciation, Provisions and Write-downs" as the main non-cash items; instead, it is specified that the 2016 adjusted economic data do not include the positive effect resulting from the elimination of the so-called regulatory lag, the effects deriving from the repurchase transaction of a part of the bonds issued and, for 2017, the negative effect resulting from the re-entry into ownership of the Autoparco property (following a ruling issued in June), that deriving from the valuation the exposure of arets to GALA and the Group to ATAC, the write-downs of some assets carried out on Acea Ambiente and Acea Produzione, as well as a provision made on areti for real estate rents;
- the *net financial position* is an indicator of the financial structure of the Acea Group and is obtained from the sum of non-current financial payables and liabilities net of non-current financial assets (financial receivables and securities other than investments), current financial payables and other liabilities current financial assets net of current financial assets and cash and cash equivalents; it is specified that the adjusted net financial position does not include the impact deriving from the GALA affair, that relating to ATAC and the effects deriving from the application of the split payment;
- *net invested capital* is defined as the sum of "Current assets", "Non-current assets" and Assets and Liabilities held for sale, net of "Current liabilities" and "Non-current liabilities", excluding the items considered in determining the net financial position;
- *net working capital* is the sum of current receivables, inventories, the net balance of other current assets and liabilities and current payables, excluding the items considered in determining the net financial position.

USE OF ESTIMATES AND ASSUMPTIONS

Drafting of the Consolidated Financial Statements, in application of the IFRS, requires the making of estimates and assumptions that affect the values of revenues, costs, assets and liabilities in the financial statements and information on potential assets and liabilities reference date. Furthermore, in making the estimates, the main sources of uncertainties that could have an impact on the valuation processes are considered.

The final results may differ from these estimates. The estimates were used in the assessment of the impairment test, to determine some sales revenues, for provisions for risks and charges, the allowance for doubtful accounts and other provisions for depreciation, amortisation, valuations of derivative instruments, employee benefits, and taxes. The estimates and assumptions are reviewed periodically and the effects of each change are immediately recorded in the profit and loss account.

The estimates also took into account assumptions based on the parameters and market and regulatory information available at the time the financial statements were drafted. The current facts and circumstances that influence assumptions about future developments and events, however, may change due to, for example,

changes in market developments or applicable regulations that are beyond the Company's control. These changes in assumptions are also reflected in the financial statements when they occur.

It must also be noted that some valuation processes, in particular the most complex ones such as the determination of any impair-

ment of non-current assets, are generally carried out in full only during the drafting of the annual financial statements, except where there are indicators of impairment requiring an immediate assessment of any loss in value. For more information on the methods in question, please refer to the following paragraphs.

CRITERIA, PROCEDURES AND AREA OF CONSOLIDATION

CONSOLIDATION CRITERIA

Subsidiaries

The scope of consolidation includes the Parent Company Acea SpA and the companies in which it directly or indirectly exercises control, or when the group is exposed or entitled to variable returns deriving from the relationship with the investee and has the ability, through the exercise of its power over the investee, to influence its returns. Power is defined as the current ability to manage the relevant assets of the investee by virtue of existing substantive rights.

Subsidiaries are consolidated starting from the date on which control was effectively transferred to the Group and cease to be consolidated from the date on which control is transferred outside the Group. According to the provisions of accounting standard IFRS 10, control is obtained when the Group is exposed, or is entitled to variable returns deriving from the relationship with the investee and has the ability, through the exercise of power over the investee, to influence the relative returns. Power is defined as the current ability to manage the relevant assets of the investee by virtue of existing substantive rights.

The existence of control does not depend solely on the possession of the majority of the voting rights, but on the substantial rights of the investor on the investee company. Consequently, management's judgment is required to evaluate specific situations that determine substantial rights that give the Group the power to direct the significant activities of the investee in order to influence its returns.

For the purposes of assessing the requirement of control, the management analyzes all the facts and circumstances, including agreements with other investors, the rights deriving from other contractual agreements and from potential voting rights (call options, warrants, put options assigned to minority shareholders, etc.). These other facts and circumstances may be particularly relevant in the context of this assessment, especially in cases where the Group holds less than the majority of the voting rights, or similar rights, of the investee company.

The Group reviews the existence of the control conditions on an investee when the facts and circumstances indicate that there has been a change in one or more elements considered for the verification of its existence. Lastly, it should be noted that, in assessing the existence of the control requirements, no de facto control situations were found. The changes in the shareholding in investments in subsidiaries that do not involve the loss of control are recognized as capital transactions by adjusting the portion attributable to the shareholders of the Parent Company and that to third parties to reflect the change in ownership. Any difference between the consideration paid or received and the corresponding portion of equity acquired or sold is recognized directly in the consolidated shareholders' equity. When the Group loses control, any residual investment in the previously controlled company is remeasured at fair value (with a balancing entry in the income statement) on the date on which control is lost. Furthermore, the portion of OCI referred

to the subsidiary whose control is lost is treated as if the Group had directly disposed of the related assets or liabilities. Furthermore, where there is a loss of control of a company falling within the scope of consolidation, the Consolidated Financial Statements include the result for the year in proportion to the period of the year in which the Acea Group has maintained control thereof.

Jointly controlled companies

They concern companies on whose activities the Group holds joint control with third parties (so-called Joint Ventures), or when based on contractual agreements, financial, management and strategic decisions can be taken only with the unanimous consent of all the parties that share the control. The Consolidated Financial Statements include the portion pertaining to the Group of the results of jointly controlled companies, accounted for using the equity method.

According to the provisions of accounting standard IFRS11, a joint agreement is an agreement of which two or more parties have joint control. There is joint control when for the decisions concerning the relevant activities of the joint agreement the unanimous consent or at least two parts of the agreement is required. A joint agreement can be configured as a joint venture or a joint operation. A joint venture is a joint arrangement in which the parties that hold joint control have rights over the net assets of the agreement. By contrast, a joint operation is a joint arrangement in which the parties that hold joint control have rights to the assets and obligations for the liabilities relating to the agreement. For the purposes of determining the existence of joint control and the type of joint arrangement, management's judgment is required, which must assess the rights and obligations deriving from the agreement. To this end, management considers the structure and legal form of the agreement, the terms agreed between the parties in the contractual agreement and, when relevant, other facts and circumstances. The Group reviews the existence of joint control when the facts and circumstances indicate that there has been a change in one or more elements previously considered for the verification of the existence of joint control and the type of joint control.

Associates

Equity investments in associated companies are those in which significant influence is exercised, but not control or joint control, through participation in decisions on the financial and operating policies of the investee company. The Consolidated Financial Statements include the portion pertaining to the Group of the results of the associated companies, accounted for using the equity method, with the exception of cases in which they are classified as held for sale, starting from the date on which the significant influence began, until the moment in which it ceases to exist.

In order to determine the existence of significant influence, the management's judgment is required to assess all facts and circumstances. The Group reviews the existence of significant influence when the facts and circumstances indicate that there has been a change in

one or more elements considered for the verification of the existence of such significant influence.

If the share of loss pertaining to the Group exceeds the book value of the investment, the latter must be canceled and any excess must be covered by provisions to the extent that the Group has legal or implicit obligations towards the investee to cover the his losses or, in any case, to make payments on his behalf. The excess of the acquisition cost over the Group's percentage of the current value of the identifiable assets, liabilities and contingent liabilities of the associate at the acquisition date is recognized as goodwill. Goodwill is included in the carrying amount of the investment and is subject to impairment tests together with the value of the investment.

CONSOLIDATION PROCEDURES

General procedure

The financial statements of the subsidiaries, associates and joint ventures of the Group are drawn up adopting the same accounting principles of the parent company for each accounting term; any consolidation adjustments are made to homogenise the items that are affected by the application of different accounting standards.

All intragroup balances and transactions, including any unrealized profits deriving from transactions between Group companies, are completely eliminated. Unrealised losses are eliminated with the exception of cases in which they can not be recovered later.

The carrying amount of the investment in each of the subsidiaries is eliminated against the corresponding share of the shareholders' equity of each of the subsidiaries, including any adjustments to fair value at the acquisition date; any positive difference is treated as a "goodwill", the negative difference is recognized in the income statement at the acquisition date.

The minority interests in the net assets of the consolidated subsidiaries are identified separately from the Group's shareholders' equity. This interest is determined based on the percentage held by them in the fair value of the assets and liabilities recorded at the date of the original acquisition and in the changes in shareholders' equity after that date. Subsequently, losses attributable to minority shareholders exceeding their net assets are attributed to the Group's shareholders' equity, except in cases where minorities have a binding obligation to cover losses and are able to sustain further investments to cover the losses.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is determined by the sum of the current values, at the exchange date, of the assets acquired, of the liabilities incurred or assumed, and of the financial instruments issued by the Group in exchange for control of the acquired company.

The identifiable assets, liabilities and contingent liabilities of the acquired company that meet the conditions for recognition in accord-

ance with IFRS3 are recorded at their current values at the acquisition date, with the exception of non-current assets (or disposal groups) that they are classified as held for sale in accordance with IFRS5 and are recorded and valued at fair value less costs to sell.

If the business combination is recorded in more than one phase, the fair value of the investment previously held is recalculated and any resulting profit or loss is recorded in the income statement.

Any potential consideration is recognized by the purchaser at fair value at the acquisition date. The change in the fair value of the potential consideration classified as an asset or a liability is recognized in accordance with IAS 39, in the income statement or in the statement of other components of the comprehensive income statement.

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

Purchase cost is allocated by recognizing the identifiable assets, liabilities and contingent liabilities of the acquiree at the related fair values at the acquisition date. Any positive surplus between the consideration transferred, measured at fair value at the acquisition date, and the amount of any minority interest, compared to the net value of the amounts of identifiable assets and liabilities in the entity itself measured at fair value, is recorded as goodwill or, if negative, in the Income Statement.

For each business combination, the acquirer evaluates any minority interest in the acquired company at fair value or in proportion to the minority shareholding in the identifiable net assets of the acquiree.

Procedure for consolidation of assets and liabilities held for sale (IFRS5)

Non-current assets and liabilities are classified as held for sale, as follow provided for in IFRS5.

Consolidation of foreign companies

The financial statements of investee companies operating in currencies other than the euro, which is the functional currency of the Parent Company Acea, are converted into euro by applying to the assets and liabilities, the exchange rate in force at the end of the year and the account items financial statements and the cash flow statement for the year.

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

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

SCOPE OF CONSOLIDATION

The Acea Group's Consolidated Financial Statements include the financial statements of the Parent Company Acea and the financial statements of the Italian and foreign subsidiaries, for which, in accordance with the provisions of IFRS 10, the variability of returns deriving from the equity relationship is exposed to directly or indirectly holds the majority of the voting rights exercisable in ordinary shareholders' meetings, thus having the capacity to influence the returns of the investee companies, exercising their own decision-making power over them. Furthermore, the companies on which the Parent Company exercises joint control with other shareholders are consolidated using the equity method.

A. Changes in the scope of consolidation

The scope of consolidation as at 31 December 2017 has undergone changes compared to that of the Consolidated Financial Statements as at 31 December 2016 as a result of the acquisition of the total investment in the capital of Technologies for water services SpA (TWS), for which full consolidation was carried out. Furthermore, TWS holds a 63% stake in Umbriadue Servizi Idrici Scarl. which, in addition to the quota already held by the Group (equal to 36.2%), allowed to obtain exclusive control over the company; therefore, the full consolidation of the same was carried out. It is also noted that on 17 March 2017 the sale of the investment

(equal to 55%) held by Acea SpA was completed. In the company Acea Gori Servizi Scarl. (now Gori Servizi Srl) to the company G.O.R.I. SpA (which also acquired the stake held by the minority shareholder equal to 5% thus arriving to hold 100% of the company), of which the Group holds 36.74% (37.05% through Sarnese Vesuviano). Following this operation Gori Servizi Srl previously consolidated using the full consolidation method, it is valued using the equity method.

It should also be noted that on January 2, 2017, the Parent Company acquired 51% of the shares in Acque Industriali from the subsidiary Acque SpA, with the consequent full consolidation of the same. Lastly, it should be noted that on February 8, 2017 the transfer of GEAL shares held by Veolia Eaux Compagnie Generale Des Eaux SCA to Acea SpA was completed; following this acquisition, the share held by the Group rose from 28.8% to 48%.

B. Equity investments excluded from the scope of consolidation

Tirana Acque Scarl. in liquidation, it is 40% owned by Acea and is recorded at cost. In consideration of the fact that the investee, entirely devalued, is non-operational and not significant, also with reference to qualitative and quantitative factors, is excluded from the consolidation area.

EVALUATION CRITERIA AND ACCOUNTING PRINCIPLES

VALUATION CRITERIA

Currency conversion

Transactions in foreign currencies are initially recognised at the exchange rate in force on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are reconverted into the functional currency at the exchange rate at the balance sheet date. All exchange differences are recorded in the profit and loss account of the financial statements, with the exception of differences deriving from loans in foreign currency that have been entered into to hedge a net investment in a foreign company. These differences are recognised directly in equity until the net investment is disposed of and at that time any subsequent exchange rate difference is recognised in the profit and loss account. The tax effect and receivables attributable to the exchange differences deriving from this type of loan are also attributed directly to equity.

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

Revenue recognition

Revenues are recognized to the extent that it is probable that the economic benefits will flow to the Group and the related amount can be reliably determined when all the following conditions are satisfied: a) the amount of revenue can be reliably measured; b) it is probable that the economic benefits deriving from the transaction will flow to the entity; c) the stage of completion of the transaction at the balance sheet date can be reliably measured; and d) the costs incurred for the transaction and the costs to be incurred to complete it can be reliably calculated. Revenues are valued at the fair value of the consideration received or receivable, taking into account the value of any commercial discounts, returns and rebates granted by the Group. In particular:

- **revenues from the sale and transport of electricity and gas** are recognized at the time the service is supplied or supplied, even if they are not invoiced, and are determined by adding estimates calculated on the basis of pre-established reading calendars. These revenues are calculated on the basis of the provisions of the law, of the resolutions of the Regulatory Authority for Energy Networks and Environment in force during the period, also taking into account the pro tempore equalization measures in force; it should be noted that with reference to the valorisation of revenues from the transport of electricity, if the admission of investments in tariffs that establishes the right to payment for the operator is virtually certain already in the year in which they are realized, the corresponding revenues they are ascertained on an accrual basis regardless of how they will be financially recognized as a result of ARERA Resolution 654/2015;
- **the revenues of the integrated water service** are determined on the basis of the Water Tariff Method (MTI), valid for the determination of the tariffs for the years 2016 - 2019, approved with Resolution no. 664/15 / R / idr and subsequent modifica-

tions by ARERA. Based on the interpretation of the legal nature of the tariff component Fo.NI. (New Investments Fund) is entered among the revenues for the year the relative amount due to the Water Companies where expressly recognized by the Area Authorities which establish the intended use. The balance relating to the so-called CDs is also recorded in the revenues for the year. passersby (ie electricity, wholesale water) of which the aforementioned resolution provides specific details as well as any adjustment relating to costs relating to the Integrated Water System incurred due to the occurrence of exceptional events (ie water and environmental emergencies) if the preliminary investigation for their recognition has given positive result.

Contribution

Contributions obtained for investments in plants, both by public bodies and by private third parties, are recognised at fair value when there is a reasonable certainty that they will be received and that expected conditions will be met.

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

Operating grants (granted for the purpose of providing immediate financial assistance to the company or as compensation for expenses and losses incurred in a previous year) are recognised in full in the profit and loss account when the conditions for recognition are met.

Construction contracts in progress

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

Employee Benefits

Benefits guaranteed to employees paid in connection with or following termination of employment through defined benefit and defined contribution plans (such as: Employee severance indemnities, additional monthly salaries, tariff concessions, as described in the notes) or other long-term benefits are recognised in the period of accrual of the right. The valuation of the liability is carried out by independent actuaries. These funds and benefits are not funded. The cost of benefits provided by the various plans is determined separately for each plan using the actuarial valuation method of the unit credit projection, making the actuarial valuations at the end of each year.

Profits and losses deriving from the actuarial calculation are recorded in the statement of comprehensive income, then in a specific Shareholders' equity Reserve, and are not subsequently charged to the profit and loss account.

Financial income

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

Dividends

These are recognised when the unconditional right of shareholders is established to receive payment. They are classified in the income statement under the item investment income.

Taxes

Income taxes for the year represent the sum of current and deferred taxes.

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

Deferred taxes are the taxes that are expected to be paid or recovered on temporary differences between the book value of assets and liabilities in the financial statements and the corresponding tax value used in the calculation of the taxable income, recorded according to the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, while deferred tax assets are recognised to the extent where it is probable that there will be future taxable results that allow the use of deductible temporary differences. These assets and liabilities are not recognized if the temporary differences derive from goodwill or from initial recognition (not in business combination transactions) of other assets or liabilities in transactions that have no influence on the accounting result or on the taxable result.

Instrumental systems and equipment	(1.25% - 6.67%)
Non-instrumental systems and equipment	4%
Instrumental industrial and commercial equipment	(2.5% - 6.67%)
Non-instrumental industrial and commercial equipment	6.67%
Other capital goods	12.5%
Other non-capital goods	(6.67% - 19.00%)
Instrumental vehicles	8.33%
Non-instrumental vehicles	16.67%

Systems and equipment under construction for production purposes are recorded at cost, net of write-downs for losses in value. The cost includes any professional fees and, where applicable, capitalised financial charges. The depreciation of these assets, as for all other assets, begins when the assets are ready for use. For some types of complex goods for which long-lasting functional tests are required, the suitability for use is attested by the positive passing of these tests.

Assets held as financial leases are depreciated in relation to their estimated useful life as for assets held as property or, if lower, based on the expiry dates of leases.

Profits and losses deriving from the sale or disposal of assets are determined as the difference between the sale revenue and the net book value of the asset and are recorded in the profit and loss account for the year.

Deferred tax liabilities are recognized on the taxable temporary differences relating to investments in subsidiaries, associates and joint ventures, with the exception of cases in which the Group is able to control the cancellation of such temporary differences and it is probable that the latter will not they will cancel in the foreseeable future. The carrying amount of deferred tax assets is revised a each balance sheet date and reduced to the extent that, based on the plans approved by the Board of Directors of the Parent, the existence of sufficient taxable income is not considered likely to allow all or partly the recovery of these assets.

Deferred taxes are calculated based on the tax rate that is expected to be in effect at the time the asset is realised or the liability is relieved. Current and deferred taxes are charged directly to the income statement, with the exception of those relating to: (i) items recognized directly in equity, in which case the related deferred taxes are also recognized in equity; (ii) items recorded in the statement of other components of the comprehensive income statement.

Tangible assets

Tangible assets are recognised at historical cost, including ancillary costs directly attributable and necessary for putting the asset into service for the use for which it was purchased, net of the relevant accumulated depreciation and any accumulated impairment losses.

The cost includes the costs of the dismantling and removal of the assets and the costs of reclamation of the site on which the tangible assets stand, if they comply with the provisions of IAS 37. The corresponding liability is recognized in the liability item for risks and charges. Assets composed of components of a significant amount with a different useful life.

Costs for improvements, tangible assets are recognized as assets when it is probable that they will increase the expected future economic benefits of the asset.

Land, whether free of construction or annexed to civil and industrial buildings, is not depreciated as it has an unlimited useful life.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset by applying the following percentage rates:

Real estate investments

Real estate investments, represented by properties held for rental and / or capital appreciation, are recorded at purchase cost including negotiation costs net of the relevant accumulated depreciation and any impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The percentages applied are between a minimum of 1.67% and a maximum of 11.11%.

Real estate investments are eliminated from the financial statements when they are sold or when the investment property is permanently unusable and no future economic benefits are expected from its possible sale.

The sale of real estate which results in the leaseback of the assets is recorded on the basis of the substantial nature of the transaction considered as a whole. In this regard, reference is made to what has been explained regarding Leasing.

Any profit or loss deriving from the elimination of an investment

property is recorded in the profit and loss account in the year in which the elimination takes place.

Leasing

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

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

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

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

Intangible assets

Intangible assets refer to assets without identifiable physical substance, controlled by the company and capable of producing future economic benefits, as well as the goodwill purchased for consideration. Intangible assets, if acquired separately, are capitalized at cost, while those acquired through business combinations are capitalized at the fair value defined at the acquisition date. Following the initial recognition, the cost criterion is applied to the category of intangible assets. The useful life of intangible assets can be qualified as definite or indefinite.

Intangible assets with an indefinite useful life are subjected annually to a recoverability analysis in order to detect any loss in value: this analysis is carried out at the level of the individual intangible asset or, possibly, at the level of the cash-generating unit. Depreciation is calculated at constant rates based on the estimated useful life, which is reviewed annually and any changes, where possible, are made with prospective applications. Depreciation begins when the intangible asset is available for use.

Gains or losses deriving from the disposal of an intangible asset are determined as the difference between the disposal value and the carrying amount of the asset and are recorded in the profit and loss account at the time of disposal.

Good-will

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

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

the relative loss in value is recorded.

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

Concessions

This item includes the value of the thirty-year concession right by Roma Capitale on the assets consisting of water and purification plants, which were transferred to Acea and subsequently transferred, as of 31 December 1999, to the spun-off company Acea Ato2. This value refers to state property belonging to the so-called "accidental state" of water and sewage treatment and is systematically amortized based on the residual duration of the concession (equal to 30 years starting from the financial year 1998). It should be noted that the residual depreciation period is in line with the average duration of the operations entrusted with a public procedure. Also included in this entry:

- the net value at January 1, 2004 of the goodwill deriving from the transfer of the sewerage service effected with effect from 1 September 2002 by Roma Capitale in Acea Ato2;
- the higher cost, for the portion attributable to this item, deriving from the acquisition of the A.R.I.A. with particular reference to SAO, the company that manages the Orvieto landfill, now merged into Acea Ambiente;
- the higher cost, attributable to this item, deriving from Acea's acquisition of Acea Ato5.

The depreciation of the Concession item is carried out in a linear manner on the basis of the residual duration of the reference concessions.

Infrastructure law

In compliance with IFRIC 12, the total amount of the physical infrastructures supplied for the management of the water service is recognized in this item. The classification in this item derives from the application of IFRIC12, starting from 2010, based on the model of the intangible asset: the aforementioned interpretation requires, in fact, instead of the collection of the physical infrastructures for the management of the service, the registration of a single intangible asset representing the concessionaire's right to charge the fee to users of the public service.

The costs of replacement and scheduled maintenance are allocated to a special fund called "Provision for restoration costs".

Rights of use of intellectual property

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

Impairment

At the end of each reporting period, the Group reviews the value of its property, plant and equipment and intangible assets to assess whether there is any indication that an asset may be impaired ("Impairment test"). If any indication exists, the Group estimates the recoverable amount of the asset in order to determine the impairment charge.

When it is not possible to estimate the recoverable amount of the individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives, including goodwill, are tested for impairment annually and each time there is any indication that an asset may be impaired, in order to determine the impairment charge.

The test consists of a comparison between the carrying amount of the asset and its estimated recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In determining the value in use, estimated future cash flows are discounted to their current value using

a pre-tax rate that reflects current market assessments of the value of money and the specific risks of the asset.

If the recoverable amount of an asset (or of a cash-generating unit) is estimated to be lower than the relative book value, it is reduced to the lower recoverable value. An impairment loss is immediately recognised in the profit and loss account, unless the asset is represented by land or buildings other than real estate investments recorded at revalued values, in which case the loss is recognised in the respective revaluation reserve.

When an impairment no longer exists, the carrying amount of the asset (or cash-generating unit), with the exception of goodwill, is increased to its new estimated recoverable amount. The reversal must not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment charge been recognised for the asset in prior periods. The reversal of an impairment charge is recognised immediately as income in the income statement, unless the asset is carried at a revalued amount, in which case the reversal is recognised in the revaluation reserve.

Where an impairment charge is recognised in the income statement, it is included among amortisation, depreciation and impairment charges.

Emission allowances, green certificates and white certificates

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

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

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

The burden resulting from the fulfilment of the energy efficiency obligation is estimated on the basis of the average purchase price for the contracts entered into, taking into account the certificates in the portfolio at the financial statements date; a provision for liabilities is allocated for the negative difference between the said burden and the contribution estimated pursuant to AEEGSI Resolution 13/2014/R/efr, to be paid at the time the certificates are delivered in fulfilment of the obligation.

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

Warehouse stock

Warehouse stock is valued as the difference between costs and net value of earnings. Costs include direct materials and, where applicable, direct labour, general production expenses and other costs sustained to bring the stock to its current conditions and location. Cost is calculated using the moving weighted average method. The net value of earnings is estimated sales price minus estimated costs for completion and estimated costs necessary to execute the sale. Devaluations of warehouse stock, according to its nature, are made through allocation funds, written in the balance sheet reducing assets entries, i.e. item by item, offsetting variations of leftover stock in the profit and loss statement.

Financial instruments

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

Commercial credits and other assets

Commercial credits, whose expiry falls within normal commercial terms, are expressed at nominal value reduced by an appropriate devaluation to reflect the estimated loss on credits.

An estimate of amounts deemed irrecoverable is made when it is deemed likely that the business will not be able to recover the full amount of the credit. Credits toward customers refers to the invoiced amount which, on the date of this document, has still not been collected as well as credits for revenue related to the time period in question with invoices which shall be issued subsequently.

Financial assets related to service concession contracts

In reference to application of IFRIC12 to service concessions for public lighting, Acea has adopted the *Financial Asset Model* reporting a financial asset to the extent which it has an unconditional contractual right to receive cash flows.

Financial assets

Financial assets are reported and cancelled from the balance sheet based on the date of negotiation and are initially valued at cost including fees directly connected to the purchase.

On the date of subsequent balance sheets, financial assets which the Group has the intention and ability to hold until expiry (**financial assets held until expiry**) are reported at cost amortised according to the effective interest rate method, net of devaluations made to reflect losses in value.

Financial assets other than those held until expiry are classified as held for negotiation or available for sale and are valued at fair value at the end of each period.

When financial assets are **held for negotiation**, the gains and losses deriving from variations in fair value are entered in the period’s profit and loss statement. For financial assets **available for sale**, gains and losses deriving from changes in fair value are entered directly in a separate entry on the net worth statement until they are transferred or sustain a loss in value; at that time, the total gains and losses previously reported in the net worth statement are entered in the period’s profit and loss statement. The amount of total loss is equal to the difference between purchase price and the current fair value.

In the case of securities widely traded in (active) regulated markets, fair value is determined in reference to the exchange’s price (bid price) reported at the end of trading on the date of the financial year’s closing. For investments for which a market price is not available, fair value is determined based on the current market value of other financial instruments that are substantially analogous or calculated based on expected future financial flows for the asset net the underlying investment.

Purchases and sales of financial assets, which involve delivery within a time span generally established by regulations or norms of the market in which they are exchanged, are reported on the negotiation date, i.e. on the date on which the Group undertook the obligation to buy/sell said assets.

The initial reporting of non-derivative financial assets, not listed on active markets and having fixed or determinable payment flows are made at fair value.

Subsequent to initial entry they are valued at amortised cost, based on the effective interest rate method.

The Group verifies on the date of each financial statement whether a financial asset or group of financial assets has sustained a loss in value. A financial asset or group of financial assets is held to be subject to a loss in value if, and only if, there is objective evidence of a loss in

value as a result of one or more events which occurred after the initial reporting and which impacted the estimated future cash flows that can be expected. Evidence of loss in value derives from the presence of indications such as financial difficulties, inability to satisfy obligations, default in the fulfilment of important payments, probability that the debtor shall go bankrupt or be subject to another form of financial restructuring and the presence of objective data which indicates a measurable decrease in estimated future cash flows.

Cash and cash equivalents

Said entry includes cash and current and deposit bank accounts repayable on sight or in a very short term and other short-term assets with high liquidity, which are readily convertible into cash and are subject to an insignificant risk in change of value.

Financial liabilities

Financial liabilities are valued according to the amortised cost criterion. Specifically, costs sustained to acquire financings (transaction fees) and any appreciation or discount of the issuance are used to directly adjust the nominal value of the financing. As a result, net financial obligations are recalculated based on the effective interest rate method.

Derivative financial instruments

Derivative financial instruments are initially reported at fair value counterbalancing profit and loss account; fair value is then updated on subsequent closing dates. They are designated as coverage instruments when the relationship between the derivative and the covered object is formally documented and the effectiveness of coverage, periodically verified, is high.

When coverage derivatives cover the risk of variation in fair value of the covered object (Fair Value Hedge), derivatives are valued at fair value and the associated effects are reported in the Profit and loss statement; consistent with this, the fair value of the asset or debt that is the subject of coverage is also reported in the Profit and loss statement.

When the object of coverage is risk of change to the cash flows of covered items (Cash Flow Hedges), changes in fair value for the portion classified as effective are reported in the Net Worth statement, while that which is ineffective is reported directly in the Profit and loss statement.

Commercial debts

Commercial debts, whose expiry date falls with normal commercial terms, are reported at nominal value.

Cancellation of financial instruments

Financial assets are cancelled from the balance sheet when the Group loses all risk and the right to receive cash flows connected to the financial asset. A financial liability (or part of a financial liability) is eliminated from the net worth statement when, and only when, it is terminated, or when the obligation specified in the contract is fulfilled or nullified, i.e. expired. If a previously issued debt instrument is repurchased, the debt is terminated, even if it is intended to be resold in the near future. The difference in carrying value and the price paid is reported in the profit and loss statement.

Allocation funds for risks and obligations

Provision funds for risks and obligations are made when the Group must handle a current obligation (legal or implicit) which derives from a past event, if a payment of resources is probable to satisfy the obligation and a reliable estimate can be made regarding the amount of the obligation.

Provisions are allocated based on Management's best estimate of the costs required to fulfil the obligation on the date of the finan-

cial statement, and if the effect is significant.

When the financial effect at the time is significant and the payment dates for the obligation can be reliably estimated, the provision is determined discounting at the company's average interest rate for debt the expected cash flows taking into consideration the risks associated with the obligations; the increase in the Fund connected to the passage of time is reported in the profit and loss statement under the "Financial Proceeds/(Obligations)" item.

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

ACCOUNTING PRINCIPLES, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS IMPLEMENTED SINCE 1 JANUARY 2017

Beginning 1 January 2017 the following documents came into force, as previously issued by the IASB and certified by the European Union, which bring with them the modification of international accounting principles:

IAS 7: Statement of cash flows

Document issued by the IASB on 29 January 2016. The modification under IAS 7 Statement of Cash Flows requires entities to furnish information on variations in their financial debt, in order to allow users to better evaluate the reasons underlying the variations in the entity's indebtedness including both variations connected to cash flows and non-economic variations. At the time of this amendment's first application, the entity does not need to report comparison information related to previous periods. The application of these modifications brings with it for the Group the need to supply additional information.

IAS 12: Income taxes

On 19 January 2016 the IASB published the aforesaid Amendments which have the goal of supplying clarifications regarding the method of reporting anticipated taxes related to debt instruments valued at fair value. Said amendments clarify the requirements for reporting anticipated taxes with reference to unrealised losses, in order to eliminate variations in accounting practices.

Improvements To International Financial Reporting Standards (2014-2016 Cycle)

On 8 December 2016, the IASB published "Annual Improvements to IFRSs: 2014-2016 Cycle."

The amendments relate to a preliminary project issued on 19 November 2015 (cfr. IRFB 2015/10).

The document introduces, among other things, amendments to **IFRS 12 Disclosure of Interests in Other Entities**: the amendment provides that the reporting obligations required for shares in other entities applies even if they are classified as holdings for sale.

The amendments apply retrospectively, beginning in financial years starting on or after 1 January 2017.

ACCOUNTING PRINCIPLES, AMENDMENTS AND INTERPRETATIONS APPLICABLE SUBSEQUENT TO THE END OF THE FINANCIAL YEAR AND NOT ADOPTED IN ADVANCE BY THE GROUP

IFRS 9 Financial Instruments

In July 2014 the IASB published principle IFRS 9 – Financial Instru-

ments (IFRS 9) which handles new international accounting rules for the Classification & Measurement of financial instruments, Impairment of assets and Hedge Accounting.

Adoption of IFRS 9 is mandatory for Companies that apply International Accounting Principles beginning 1 January 2018 in replacement of the previous accounting principle IAS 39.

The Acea Group centrally managed the implementation of IFRS 9 and to that end a valuation was made for financial instruments impacted by the requirements of adopting IFRS 9's Classification & Measurement and suitable methods were developed for Impairment used to calculate expected losses. Given the discretion granted by the principle, the group has decided for the financial year 2017 to avail itself of the "Option Out", applying regulations in force to said Balance Sheet and awaiting the definitive issuance of regulations for Hedge Accounting.

1. Classification and measurement of financial assets and liabilities

The new principle provides for the classification of financial assets based on the Business Model with which the Company manages the financial assets and the contractual characteristics of said instruments' cash flows (Solely payments of principal and interest on the principal amount outstanding Test):

- Business Model valuation determines the classification of instruments based on the purpose for which said instrument is held in the company's portfolio. Financial assets are measured at amortised cost if they are held for the purpose of collecting contractual cash flows (Held to Collect). Financial assets are measured at Fair Value with changes in value entered in Other Comprehensive Income if they are held for the purpose of collecting the financial cash flows which will be transferred (Held to Collect and Sell). Finally, they are measured at Fair Value with changes in value recorded in the Profit and Loss Statement if they are held for the purposes typical of other Business Models.
- The valuation of the characteristics of contractual cash flows provides that financial assets be valued at amortised cost if the characteristics of contractual cash flows provide for the repayment of principal and accrued interests on said principal. In cases in which said condition is not met, a valuation will be made through a determination of Fair Value.

Currently the Acea Group does not hold financial instruments for purposes of negotiation or financial instruments that provide for contractual cash flows which do not solely represent the repayment of principal and accrued interest.

Equity Instruments are measured at FVTPL so long as the specific option is not exercised to record it at FVOCI. The latter possibility can be exercised only in cases in which the Company does not hold said shares for purposes of negotiation and, in that case, the reported changes in OCI are never imputed to the Profit and Loss Statement.

The shares held by the Acea Group which fall under the definition of Equity Instrument according to IFRS 9 have a minimal value in the Group's financial statement.

Financial liabilities are recorded at amortised cost so long as they are not held for purposes of negotiation. IFRS 9 provides a specific option for accounting treatment of liabilities at Fair Value in cases in which said choice helps to eliminate an accounting misalignment. At the moment in which said option is exercised all variations in Fair Value are imputed to the Profit and Loss Statement save for variations in Fair Value ascribable to the effect of its own credit risk which are imputed to the OCI.

1.1 Estimated impacts

The Group does not foresee significant impacts on its balance

sheet or net worth resulting from the application of the classification and measurement requirements provided by IFRS 9. Indeed it is the Group's intention to hold shares in non-listed companies in its portfolio for the near future. Furthermore, as evidenced in previous financial years, no losses in value have been recorded in relation to said instruments. The Group has further analysed the characteristics of the contractual cash flows of financings and credits, finding that these fulfil the criteria for valuation at amortised cost in accordance with IFRS 9. Thus one does not foresee the need to proceed with a reclassification of said instruments.

2. Impairment of Financial Assets

IFRS 9 introduces a new framework related to the calculation of Impairment of financial assets and any type of off balance sheet financial instrument (loan commitments and financial guarantees). The new calculation method requires an estimate of the devaluation of certain financial instruments based on the concept of expected loss (Expected Loss) which differs from the method provided by IAS 39 which provided for the determination of losses based on the concept of realised loss (Incurred Loss).

The adoption of the Expected Credit Loss model for impairment of financial assets brings with it the reporting of devaluation of financial assets based on a predictive approach, based on forecast of the counterparty's default (probability of default) and the ability to recover in cases in which a default event occurs (loss given default). IFRS 9 requires that the Group register expected losses on credits for all bonds in its portfolio, financings and commercial credits, having as its reference either a 12 month period or the entire contractual duration of the instrument (e.g. lifetime expected loss) according to adoption of the General or Simplified Model. The group, given the characteristics and duration of its exposure, shall apply the simplified approach to commercial credits and thus record expected losses based on the remaining duration of the contract.

Specifically, during the 2017 financial year, activities were completed to establish and implement the methods for impairment of financial assets, through identification of the following models and parameters: Expected loss depends on probability of default (PD), exposure to default (EAD) and loss given default (LGD) and said estimate must be made both by incorporating "looking forward" information and through the exercise of judgment owing to experience regarding the credit in order to reflect factors which are not captured by the models.

PD represents the probability that an asset will not be repaid and go into default, its size is determined both for a twelve month time period (stage 1) and for a lifetime time period (Stage 2). PD for each instrument is built taking into consideration historic data and estimated in consideration of current market conditions through reasonable and supportable information, regarding future economic conditions through the use of Internal Ratings already in use for purposes of dependability.

EAD represents the estimate of credit exposure held toward counterparties at the moment in which a default event may occur. Said parameter includes an estimate for each value item that is not expected to be recovered at the moment of default (such as, for example, collateral guarantees, insurance policies, offset debts, etc.).

LGD represent the amount one does not expect to recover at the time in which a default event may occur and is determined both on a historic basis and through supportable and reasonable information regarding future market conditions.

IFRS 9 further allows for the possibility of using an additional approach, called "simplified." This method may be used solely for the following categories of financial instruments:

1. Commercial credits;
2. Leasing Credits as per IFRS 16;
3. Contract Assets as per IFRS 15.

Said approach allows for the sole use of lifetime PD in calculating

expected losses eliminating the necessity of calculating 12 month PD and monitoring credit risk on each valuation date.

A further expedient provided for by IFRS 9 within the simplified approach provides for the use of the so-called Provision Matrix. Said model provides for the use of devaluation percentages based on historic losses recorded by the Company. Said percentages must be subsequently supplemented with forward looking information so they also reflect market information besides historic data. Said model was applied in particular for retail customers not having internal ratings.

2.1 Estimated Impacts

The Acea Group believes the accounting item which will sustain the greatest impact from adoption of the new Impairment rules as per IFRS 9 is commercial credits. To that end, the Group has conducted simulations in order to identify expected impacts on Net Worth owing to the adoption of the new accounting principles. The Group thus determined that the appropriation for losses on commercial credits shall increase within an estimated range between € 150 million and € 200 million (gross tax effects).

3. Hedge Accounting

IFRS 9 introduced a new model for managing coverages which identifies a wider spectrum of coverage instruments and risks subject to coverage, in order to have the accounting reflect risk management practices. The new rules further eliminate the need to perform quantitative efficacy tests and the contemporaneous elimination of efficacy thresholds.

IFRS 9 allows those who apply Internal Accounting Principles the possibility of continuing to apply the Hedge Accounting rules provided by IAS 39. Said option is granted until such time as principle IFRS 9 is updated with rules regarding Marco Hedging. The choice to implement Hedge Accounting according to IFRS 9 is irrevocable while the choice to continue to apply IAS 39 shall be made every financial year until the issuance of definitive accounting rules for coverage transactions.

The Acea Group continues on 1 January 2018 to apply the Hedge Accounting rules provided by IAS 39 and defers its decision for subsequent financial years.

IFRS 15 Revenue from contracts with customers

IFRS 15 was issued in May 2014 and amended April 2016 and it introduces a model in five stages which shall be applied to revenue deriving from contracts with customers. The goal is to create a complete and homogeneous frame of reference for the reporting of revenue, applicable to all commercial contracts (with the exception of leasing contracts, insurance contracts and financial instruments). The new principle shall replace all present requirements included in the IFRS regarding registration of revenue, specifically replacing the following principles:

- **IAS 18** – Revenue from sales and Services;
- **IAS 11** – Multi-year Commissions and interpretations;
- **IFRIC 13** – Customer Loyalty Programmes;
- **IFRIC 15** – Agreement for the Construction of Real Estate;
- **IFRIC 18** – Transfer of assets from customers;
- **SIC 31** – Barter transactions involving advertising services.

IFRS 15 provides for reporting revenue at an amount which reflects the payment that the entity deems it has a right to in exchange for transfer of goods or services to the customer. The steps deemed essential for accounting treatment of revenue are:

- identifying the contract, defined as an agreement (written or verbal), commercial in nature, between two or more parties which creates rights and obligations with the customer that are legally enforceable;

- identifying the discretely identifiable obligations to be performed (including “performance obligations”) contained in the contract;
- determining the price of the transaction, whatever payment the business expects to receive from the transfer of goods or the disbursement of service to the customers, in compliance with the techniques provided by the Principle and resulting from the presence of any financial components and variable components;
- allocate the price to each obligation to be performed;
- report the revenue when the associated obligation to be performed is fulfilled by the entity, taking into consideration the fact that services may be rendered not in one specific moment, but also over the course of a period of time.

During 2016, the Group carried out an analysis to evaluate the expected impact deriving from the adoption of IFRS 15. Said valuation has been continued and completed with an analysis in greater detail in 2017.

Based on the results of said work, the Group will proceed with applying the new standard beginning on the date of its mandatory applicability, using the amended method, i.e. retroactively accounting for the cumulative effect deriving from the adoption of IFRS 15 on the date of initial application.

IFRS 15's rules regarding presentation and required information are more detailed than the current principles. The provisions related to presentation show a significant change in practices and significantly increase the volume of information required on the balance sheet. A significant part of the information required by IFRS 15 is newly introduced and the Group has established the impact of some of these reporting requirements shall be significant in regards to the quality/quantity of information to be furnished.

Furthermore, as required by IFRS 15, the Group will disaggregate revenue deriving from contracts with customers into categories which represent how the nature, amount, timeline and uncertainty of revenue and cash flows are affected by economic factors. Information shall also be given on the relationship between this disaggregated information on revenue and the information on revenue given for each sector. In 2017, the Group continued to test the systems, internal controls, policies and procedures necessary to gather and present the required information.

In the process of analysing the first application of IFRS 15 conducted by the Group for each of the four business areas (Environment, Energy, Water and Networks) all types of contracts were examined that are significant for purposes of the principle within the scope of the revenue stream in which they operate.

Therefore laid out infra are the possible impacts expected for the Group's material issues, divided by associated business area.

A. Environment

1. Identification of performance obligations and associated recognition

The Group operates primarily in the treatment of refuse and associated disposal. From the examinations conducted, the Group does not expect accounting impacts from the application of IFRS 15, with respect current accounting treatment.

B. Energy

2. Identification of performance obligations and recognition of associated revenue

The Group in its contracts with customers given the nature of the business provides for the payment of user activation fees (i.e. activation fees) and connection fees by customers in addition to the supply of gas and electric energy. The Group therefore examined the elements in question in light of the Standard related to connection fees, user activation fees, supplying of gas and electric en-

ergy, associated variable payments and “contract costs.” One reports *infra* details on the only areas of impact identified.

- **Connection fees**

The connection fee, based on the analyses conducted, does not constitute a separate performance obligation with respect to the supply of energy given that connection activities allow the customer to initiate subsequent services for energy supply, therefore with the adoption of IFRS 15 the revenue related to connection fees shall be allocated to the performance obligation of energy supply and distribution across the duration of the contract. As a result, the Group, in accordance with IFRS 15, shall recognise the revenue deriving from connection fees over the course of time rather than at the specific moment with a resulting difference in revenue compared with current accounting treatment.

- **User activation fees**

The activation fee is paid by customers for administrative expenses sustained by the Company at the moment of the contract’s signature (e.g. costs for activation of new users, transfers and subentries). Currently said revenue is entirely recorded when it is paid by the customer on the activation date. In light of IFRS 15, the Group does not believe that said fees are disbursed for a distinct performance obligation given that they do not give the customer any significant right; therefore the associated revenue will be registered with the same recognition pattern as the other performance obligations under the contract. As a result, the Group, in accordance with IFRS 15, shall recognise the revenue deriving from activation fees over the course of time rather than at the specific moment with a resulting difference in revenue compared to current accounting treatment.

3. Contract Costs (costs for obtaining contracts)

In light of IFRS 15, Acea evaluated the types of incremental costs sustained for obtaining sales contracts, which are not capitalised based on other accounting principles. Specifically, the Group identified as incremental costs to be capitalised the commissions disbursed to sales agents in the free market for new contracts signed by customers. In light of IFRS 15 said costs shall thus be capitalised in a specific category and amortised. Acea has determined that, despite the fact that the associated contracts have a monthly duration (so-called “month-to-month”) as they can be terminated by the customer on a monthly basis without incurring penalties, the expected duration and the associated period for amortisation of the costs in question shall also include an estimate of the expected renewals (which shall be estimated by the entity based on indications currently available regarding the average lifespan of the contracts in question). Currently, the Group already recognises said “commissioning” costs based on the average lifespan of customer use, therefore one primarily expects a different representation of said costs through the recording in a specific category of fixed assets and the resulting amortisation in the profit and loss statement based on the estimated average lifespan of contracts.

C. Hydro

1. Identification of performance obligations and associated recognition

Acea in its contracts with customers, in reference to this area of business as well, provides for the recognition of user activation fees (i.e. activation fees) and connection fees by customers in addition to the supply of comprehensive water services. The Group therefore analysed the elements in question in light of the Standard in reference to the connection fees, user activation fees, supply of comprehensive water services and the resulting variable payments. One reports *infra* the details of the only areas of impact identified.

- **User activation fees**

The activation fee is paid by customers for administrative expenses sustained by the Company at the moment of the contract’s signature (e.g. costs for activation of new users, transfers and subentries). Currently said revenue is entirely registered when it is paid by the customer on the activation date. In light of IFRS 15, the Group does not believe that said fees are disbursed for a distinct performance obligation given that it does not give the customer any significant right, therefore the associated revenue will be registered with the same recognition pattern as the other performance obligations under the contract. As a result, the Group, in accordance with IFRS 15, shall recognise the revenue deriving from activation fees over the course of time rather than at the specific moment with a resulting difference in revenue compared to current accounting treatment.

D. Networks

1. Identification of performance obligations and associated recognition

In reference to said business area, the Group in its contracts with customers provides for the recognition of fees from customers deriving from connection services as well as transport services and measure of electrical energy and the associated variable payments. One reports *infra* details on the only areas of impact identified:

- **Connection service**

Connection service does not constitute a separate performance obligation, but rather an initial non-refundable fee (“non-refundable upfront fee”) therefore, with the adoption of IFRS 15, the associated revenue shall be recognised consistent with the performance obligation of supplying energy to the end customer and distributed across the period over which the Group expects the customer to benefit from the service, i.e. the duration of the associated contract.

Normally, the Group furnishes connection services for production plants, estimated and lump-sum connection services to end users in favour of the sales companies.

In reference to the furnishing of connection services of connection to the electric network for production plants and estimated connection service to end users, the Group, in accordance with IFRS 15, shall continue to recognise said revenue over the course of time, across the expected lifespan of use by the plants, rather than at a specific moment.

Differing from current accounting treatment, in reference to lump-sum connection services issued in favour of sales companies, the Group shall recognise the associated revenue over time, rather than at a specific moment with a resulting difference in revenue compared to current accounting treatment.

The Group has estimated an impact for reopening of values on 1 January 2018 somewhere in the approximate range between € 30 million and € 50 million (gross of tax effects). One clarifies that the information presented in the notes could be subject to additional changes in 2018.

IFRS 16 Leases

Issued on January 2016, it replaces the preceding standard on leasing, IAS 17 and associated interpretations, identifying the criteria for reporting, measuring and submission as well as the information to be supplied in reference to leasing contracts for both parties, the lessor and lessee. IFRS 16 indicates the end of the distinction, in terms of classification and accounting treatment, between operative leases (whose information is off balance sheet) and finance leases (which factor into the balance sheet). The right to use a good in lease (“right of use”) and the obligation assumed appear in the financial data of the balance sheet (IFRS 16 shall ap-

ply to all transaction which provide for a right of use, regardless of their contractual form, i.e. lease or real estate lease). The primary innovation is the introduction into the definition of the concept of control. Specifically, to determine whether or not a contract represents a lease. IFRS 16 requires the verification of whether or not the lessee has the right to control the use of a certain asset for a set period of time.

There will not be a symmetry in accounting treatment with lessees: one continues to have a distinct accounting treatment according to whether this is an operational leasing contract or a finance leasing contract (based on the guidelines in place today). Based on said new model, the lessee must report:

a) in the Net Worth statement, the assets and liabilities for all leasing contracts which have a duration of over 12 months, unless the underlying asset has a relatively small value; and
b) in the Profit and Loss statement, the amortisation of assets related to the leases separate from interest related to the associated liabilities.

On the lessor's side, the new principles should have a lesser impact on the balance sheet (unless a so-called "sub-lease" is carried out) given that current accounting treatment shall not be modified, except for financial information reported which must be quantitatively and qualitatively greater than before. The standard, which ended its endorsement process in October 2017, shall be applied beginning 1 January 2019, however advanced application is allowed if one also adopts IFRS 15 – Revenue from contracts with customers.

“Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions”

The document issued in June 2016:

- clarifies that the fair value of a transaction with payment based on listed shares to be settled in cash on the date of valuation (i.e. the date of assignment, the closure of each accounting period and the settlement date) must be calculated taking market conditions into consideration (e.g.: a target of the shares' price) and conditions other than those of maturity, ignoring on the other hand conditions of continued employment, and conditions deriving from results other than market results;
- clarifies that share-based payments with the characteristic of liquidation net withholding tax should be entirely classified as transactions settled with shares (as long as they could be so classified even without payment net withholding tax);
- furnishes provisions for the accounting treatment of modifications in terms and conditions which determine a change in the classification of share-based payments settled through issuance of shares.

The amendments shall be applicable, subject to certification, beginning in financial years that start on or after 1 January 2018. The Group does not foresee any impacts deriving from future application of the new provisions.

“IFRIC 22 - Foreign currency transactions and advance consideration”

This interpretation, issued by the IASB in December 2016, supplies clarifications for purposes of establishing the exchange rate to be used at the time of initially reporting an asset, cost or revenue (or part of them), the date of the transaction is that in which the company shows any non-monetary asset (liability) as a result of advances paid (received). The amendments shall apply, subject to confirmation, beginning in financial years starting on or after 1 January 2018.

“Amendments to IAS 40 - Transfers of investment property”

The document, issued December 2016, clarifies that transfers to

or from, of investment properties, must be justified by a change of use supported by evidence; a simple change of intention is not sufficient to support said transfer. The amendments widened the examples of changes of use to include construction and development activities, and not just the transfer of completed real assets. The amendments are applicable, subject to certification, beginning in financial years starting on or after 1 January 2018.

“IFRIC 23 – Uncertainty over Income Tax Treatments”

This interpretation supplies clarifications on the subject of recognition and measurement of IAS 12 – Income Taxes regarding the accounting treatment of income taxes in cases of regulatory uncertainty, also pointing toward improvements in transparency. IFRIC 23 does not apply to taxes and duties which do not fall within the scope of IAS 12 and it is effective beginning in financial years which start on 1 January 2019 but allows for advanced implementation.

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

On 8 December 2016, the IASB published “Annual Improvements to IFRSs: 2014 – 2016 Cycle.”

The document introduces amendments to the following principles:

- **IFRS 1 First – time Adoption of International Financial Reporting Standards:** the amendment eliminates the limited exemption provided for transition of new users of principles IFRS 7, IAS 19 and IAS 10. These provisions for transition were available for past reporting periods and therefore are no longer applicable.
- **IAS 28 Investments in Associates and Joint Ventures:** the amendment allows corporations, mutual investment funds, trust units and similar entities to choose to register their investments in associated companies or joint ventures classifying them at fair value through profit or loss (FVT-PL). The Council clarified that said valuations should be made separately for each associate or joint venture at the time of initial registration.

Said modifications must be applied retrospectively for annual periods which began on or after 1 January 2018. Advanced implementation is allowed.

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

On 12 December 2017, the IASB published the “Annual Improvements to IFRSs: 2015-2017 Cycle.”

The document introduces amendments to the following principles:

- **IFRS 3 - Business Combinations:** The IASB added paragraph 42A to IFRS 3 to clarify that when an entity obtains control of an asset which is a joint operation, it must recalculate the value of said asset, given that said transaction shall be considered a company merger realised in stages and thus should be accounted for on said basis.
- **IFRS 11 - Joint Arrangements:** Furthermore, paragraph B33CA was added to IFRS 11 to clarify that if a party who participates in a joint operation, but does not have joint control, subsequently obtains joint control of the joint operation (which constitutes an asset as defined by IFRS 3), it is not required to recalculate the value of said asset.
- **IAS 12 - Income Taxes:** This amendment clarifies that the tax effects of taxes on income deriving from distribution of assets (i.e. dividends), including payments on financial instruments classified in

the net worth statement must be reported when a liability is recorded for payment of a dividend. The results of the income taxes must be reported in the profit and loss statement, in the comprehensive profit and loss statement or in the net worth statement depending on the nature of the transaction or of the past events which generated assets to be distributed or how they were initially recorded.

- **IAS 23 - Borrowing Costs:** The amendment clarifies that in calculating the capitalisation rate for financing, an entity

should exclude financial obligations applicable to loans made specifically to obtain an asset, so long as the asset is not ready and available for its planned use or sale. Financial obligations related to specific loans which remain in place after the associated asset is ready for planned use or sale must subsequently be included as part of the entity's general cost of indebtedness.

Said amendments must be implemented retroactively for annual periods which start on or after 1 January 2019. Advanced implementation is allowed.

CONSOLIDATED INCOME STATEMENT

Ref. Note		2017	of related parties	2016	of related parties	Change
1	Revenue from sales and services	2,669,876		2,708,646		(38,770)
2	Other revenue	127,107		123,772		3,336
	Net consolidated revenue	2,796,983	104,081	2,832,417	134,931	(35,435)
3	Labour costs	215,231		199,206		16,025
4	External Costs	1,768,621		1,766,209		2,412
	Consolidated Operating Costs	1,983,853	50,023	1,965,415	42,333	18,437
5	Net revenue/(Costs) from management of risk commodities	0		0		0
6	Revenue/(Costs) from non-financial shares	26,864		29,345		(2,481)
	Gross Operating Margin	839,994	54,058	896,347	92,598	(56,353)
7	Amortisations, Appropriations and Devaluations	480,102		370,403		109,699
	Operating Income	359,892	54,058	525,944	92,598	(166,052)
8	Financial Revenue	17,379	8,147	17,258	4,256	121
9	Financial Obligations	(89,334)	0	(128,822)	(3)	39,488
10	Revenue/(Costs) from shares	259		1,707		(1,448)
	Income before Taxes	288,196	62,205	416,087	96,850	(127,891)
11	Taxes on income	95,992		143,548		(47,555)
	Net Income	192,203	62,205	272,539	96,850	(80,335)
	Net income from intermittent activities					
	Net Income	192,203		272,539		(80,335)
	Profit/(Loss) attributable to minority interests	11,521		10,192		1,329
	Net income attributable to Group	180,682		262,347		(81,665)
12	Earnings (loss) per share attributable to Parent Company shareholders					
	Basic	0.84841		1.23188		(0.38347)
	Diluted	0.84841		1.23188		(0.38347)
	Earnings (loss) per share attributable to Parent Company shareholders net Treasury Shares					
	Basic	0.85008		1.23430		(0.38422)
	Diluted	0.85008		1.23430		(0.38422)

Amounts in thousands of euros

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2017	2016	Change	Change %
Net income for period	192,203	272,539	(80,335)	(29.5%)
<i>Items capable of reclassification to profit and loss account</i>				
Profit/loss deriving from conversion of foreign balance sheets	(5,311)	471	(5,782)	n/a
Reserve for Exchange Rate Differences	14,800	(10,051)	24,851	(247.2%)
Tax Reserve for Exchange Rate Differences	(3,552)	2,412	(5,964)	(247.2%)
Profit/loss deriving from exchange rate differences	11,248	(7,639)	18,887	(247.2%)
Effective part of profits/(losses) on coverage instruments ("cash flow hedge")	(8,245)	13,714	(21,959)	(160.1%)
Tax effect related to other profits/(losses) on coverage instruments	1,982	(3,694)	5,676	(153.6%)
Profits/losses deriving from effective part of coverage instruments net tax effect	(6,263)	10,019	(16,282)	(162.5%)
Actuarial gains/(losses) on employee benefits registered in net worth statement	298	(8,184)	8,482	(103.6%)
<i>Items not capable of reclassification to profit and loss account</i>				
Tax effect related to other actuarial gains/(losses) on employee benefits	421	2,235	(1,814)	(81.2%)
Actuarial gains/losses on set benefit pension plans net tax effects	719	(5,949)	6,668	(112.1%)
Total of comprehensive profit and loss account items, net tax effects	393	(3,098)	3,490	(112.7%)
Total comprehensive Profit/loss	192,596	269,441	(76,845)	(28.5%)
Net income of Comprehensive Profit and Loss Statement attributable to:				
Group	180,673	259,009	(78,336)	(30.2%)
Minority Interests	11,923	10,432	1,491	14.3%

Amounts in thousands of euros

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Ref. Note	ASSETS	31/12/17	of related parties	31/12/16	of related parties	Change
13	Material fixed - assets	2,252,910		2,210,338		42,572
14	Investment Properties	2,547		2,606		(58)
15	Goodwill	149,978		149,825		153
16	Licenses	1,770,865		1,662,727		108,137
17	Other Intangible Fixed - Assets	144,121		158,080		(13,959)
18	Shares in related entities	280,853		260,877		19,976
19	Other Shares	2,614		2,579		35
20	Deferred tax assets	271,148		262,241		8,906
21	Financial Assets	38,375	35,637	27,745	25,638	10,629
22	Other Assets	234,154		34,216		199,937
	NON-CURRENT ASSETS	5,147,563	35,637	4,771,235	25,638	376,328
23.a	Warehouse stock	40,201		31,726		8,475
23.b	Commercial Credits	1,022,710	158,748	1,097,441	129,284	(74,731)
23.c	Other current assets	148,192		132,508		15,683
23.d	Current tax assets	61,893		74,497		(12,604)
23.e	Current financial assets	237,671	121,137	131,275	117,309	106,396
23.f	Cash at hand and equivalent liquidity	680,641		665,533		15,108
23	CURRENT ASSETS	2,191,309	279,886	2,132,981	246,593	58,328
24	Non-current assets destined for sale	183		497		(314)
	TOTAL ASSETS	7,339,055	315,523	6,904,713	272,231	434,342

Amounts in thousands of euros

Ref. Note	LIABILITY	31/12/17	of related parties	31/12/16	of related parties	Change
	Net Worth					
	Share capital	1,098,899		1,098,899		0
	Legal reserve	100,619		95,188		5,431
	Other reserves	(308,073)		(351,090)		43,017
	Profit (loss) from previous financial years	645,500		565,792		79,709
	Profit (loss) from financial year	180,682		262,347		(81,665)
	Total Group Net Worth	1,717,626		1,671,136		46,491
	Minority Interest Net Worth	93,580		86,807		6,772
25	Total Net Worth	1,811,206		1,757,943		53,263
26	Severance packages and other set benefit plans	108,430		109,550		(1,120)
27	Risks and obligations allocation fund	209,619		202,122		7,497
28	Financial liabilities and debts	2,745,035		2,797,106		(52,071)
29	Other liabilities	184,270		185,524		(1,255)
30	Deferred tax allocation fund	92,835		88,158		4,678
	NON-CURRENT LIABILITIES	3,340,189		3,382,460		(42,270)
	Debts toward suppliers	1,237,808	136,054	1,292,590	148,998	(54,782)
	Other current liabilities	277,819		273,782		4,038
	Financial Debt	633,155	3,042	151,478	4,010	481,677
	Tax Debt	38,841		46,361		(7,520)
31	CURRENT LIABILITIES	2,187,623	139,096	1,764,211	153,008	423,413
24	Liabilities directly associated with assets destined for sale	37		99		(63)
	TOTAL LIABILITIES AND NET WORTH	7,339,055	139,096	6,904,713	153,008	434,342

Amounts in thousands of euros

CONSOLIDATED STATEMENT OF CASH FLOWS

Ref. Note	31/12/17	Related parties	31/12/16	Related parties	Change
	Cash flow for financial year activities				
	Profits before tax for activities in progress		416,087		(127,891)
7	Amortisations		254,247		74,664
7	Revaluations/Devaluations		33,643		29,586
27	Variation to risks fund		12,266		43,766
26	Net variations in severance packages		(8,683)		6,596
	Net financial debt interest		111,564		(39,609)
11	Taxes paid		(109,635)		(28,129)
	Cash flows generated by operative activities before variations		709,487		(41,018)
23	Increase in credits included in working assets	29,465	(56,652)	(28,621)	(187,467)
31	Increase/decrease in debts included in current liabilities	10,752	47,334	(8,021)	(36,582)
23.a	Increase/(Decrease) in stock	(8,475)	(5,103)		(3,372)
	Variation in working capital	(241,842)	(14,422)		(227,421)
	Variation in other financial year assets/ liabilities	13,570	(49,391)		62,961
	TOTAL CASH FLOW FOR FINANCIAL YEAR ACTIVITIES	440,199	645,674		(205,478)
	Cash flow for investment activities				
13-14	Purchase/sale of material fixed-assets		(248,949)		65,554
15-17	Purchase/sale of intangible fixed-assets		(318,472)		(12,110)
18-19	Shares	19	9,481		(9,462)
18	Purchase/sale of shares in subsidiary companies	(3,833)	-		(3,833)
19	Collections/payments deriving from other financial investments	(117,026)	13,827	33,246	(83,698)
	Dividends collected	9,626	9,318	9,318	307
	Interest income collected	16,929	22,178		(5,250)
	TOTAL CASH FLOW FOR INVESTMENT ACTIVITIES	(608,263)	(559,772)		(48,491)
	Cash flow from investment activities				
	Minority interest share in subsidiary capital increases	0	3,129		(3,129)
28	Repayments of long-term loans and financial debts	386,401	239,167		147,233
28	Disbursement of medium/long-term loans/other debts	(450,000)	(146,757)		(303,243)
31	Decrease/Increase in other short-term financial debts	481,614	(107,609)	(31,921)	589,223
	Debt interest paid	(98,732)	(112,273)		13,541
	Dividend payments	(136,110)	(110,679)	(110,679)	(25,431)
	TOTAL CASH FLOW FOR FINANCIAL ACTIVITIES	183,173	(235,022)		418,196
	Cash flow for the period	15,108	(149,120)		164,228
	Starting net available liquidity	665,533	814,653		(149,120)
	Final net available liquidity	680,641	665,533		15,108

Amounts in thousands of euros

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Share Capital	Legal Reserve	Other Reserves	Financial Year Profits	Total	Minority interest Net Worth	Total Net worth
Balance on 01 January 2016	1,098,899	87,908	155,533	181,584	1,523,924	72,128	1,596,053
Profits from profit and loss account				262,347	262,347	10,192	272,539
Other comprehensive profits (loss)				(3,338)	(3,338)	240	(3,098)
Total comprehensive profit (loss)	0	0	0	259,009	259,009	10,432	269,441
Allocation of 2015 Income	0	7,280	174,304	(181,584)	0	0	0
Distribution of Dividends	0	0	(106,274)	0	(106,274)	(4,405)	(110,679)
Variation in perimeter of consolidated financial statement	0	0	(5,524)	0	(5,524)	8,652	3,129
Other variations	0	0	0	0	0	0	0
Balance on 31 December 2016	1,098,899	95,188	218,040	259,009	1,671,136	86,807	1,757,943

Amounts in thousands of euros

	Share Capital	Legal Reserve	Other Reserves	Financial Year Profits	Total	Minority interest Net Worth	Total Net worth
Balance on 01 January 2017	1,098,899	95,188	218,040	259,009	1,671,136	86,807	1,757,943
Profits from profit and loss account				180,682	180,682	11,521	192,203
Other comprehensive profits (loss)				(9)	(9)	402	393
Total comprehensive profit (loss)	0	0	0	180,673	180,673	11,923	192,596
Allocation of 2016 Income		5,431	253,579	(259,009)	0	0	0
Distribution of Dividends			(131,780)	0	(131,780)	(4,330)	(136,110)
Variation in perimeter of consolidated financial statement			(2,496)	0	(2,496)	(714)	(3,210)
Other variations			93	0	93	(106)	(14)
Balance on 31 December 2017	1,098,899	100,619	337,435	180,673	1,717,626	93,580	1,811,206

Amounts in thousands of euros

NOTES TO CONSOLIDATED INCOME STATEMENT

CONSOLIDATED NET REVENUE

On 31 December 2017 totals € 2,796,983 thousand (it was

€ 2,832,417 thousand on 31 December 2016) registering a decrease of € 35,435 thousand (-1.3%) with respect to the previous financial year and composed as follows:

€ million	2017	2016	Change	Change %
Revenue from sales and services	2,669,876	2,708,646	(38,770)	(1.4%)
Other revenue	127,107	123,772	3,336	2.7%
Net consolidated revenue	2,796,983	2,832,417	(35,435)	(1.3%)

1. Revenue from sales and services – € 2,669,876 thousand

This item registered a total decrease of € 38,770 thousand (-1.4%)

compared to the previous financial year which closed with € 2,708,646 thousand. The item's composition is reported infra.

€ million	2017	2016	Change	Change %
Revenue from electric energy sales and services	1,697,743	1,813,648	(115,906)	(6.4%)
Revenue from sale of gas	62,816	62,258	558	0.9%
Revenue from electric energy incentives	22,670	21,064	1,606	7.6%
Revenue from Comprehensive Water Services	657,348	629,214	28,134	4.5%
Revenue from foreign water management	35,124	11,761	23,363	198.7%
Revenue from refuse commissions and landfill management	58,835	44,727	14,108	31.5%
Revenue from services to customers	106,056	98,358	7,698	7.8%
Connection fees	29,285	27,616	1,669	6.0%
Revenue from sales and services	2,669,876	2,708,646	(38,770)	(1.4%)

REVENUE FROM ELECTRIC ENERGY SALES AND SERVICES

Total € 1,697,743 thousand and, net infra-group eliminations, are comprised as follows:

€ million	2017	2016	Change	Change %
Generation of electric energy and heat	9,637	9,447	190	2.0%
Sale of electric energy	1,366,364	1,423,240	(56,875)	(4.0%)
Energy transportation and measurement activities	272,404	332,756	(60,352)	(18.1%)
Transfer of energy from WTE	43,700	43,345	355	0.8%
Energy from photovoltaic plants	714	630	84	13.4%
Cogeneration	4,922	4,231	692	16.4%
Revenue from electric energy sales and services	1,697,742	1,813,648	(115,906)	(6.4%)

Primary variations relate to:

- decrease in revenue from sale of electric energy by € 56,875 thousand due to: 1) reduction in volume of electric energy sold in Price-Controlled market (-3.8%), 2) reduction in volume of electric energy sold on the Free Market (-24.6%). The reduction largely relates to the B2B segment connected to industrial, and it is substantially imputable to the execution of a customer portfolio diversification strategy, which saw the small business and mass market segments grow in terms of number
- of customers served;
- the decrease in revenue from transportation and measurement activities for energy destined for the price-controlled and free markets by € 60,352 thousand due to rate-related dynamics as well as regulatory changes which brought about the registration for FY 2016 of € 111,500 thousand in income in areti related to cost items connected to investments made; said effect is partially offset by greater energy issued in the network.

REVENUE FROM SALE OF GAS

Total € 62,816 thousand and register a positive change of € 558 thousand compared to 31 December 2016 primarily due to the price effect, given that the quantity sold to wholesalers and end customers by Acea Energia, fell by € 3.6 million standard cubic metres of gas.

REVENUE FROM ELECTRIC ENERGY INCENTIVES

Total € 22,670 thousand and show an increase of € 1,606 thousand compared to the previous financial year. The entry includes the entry of revenue from green certificates:

1. belonging to Acea Produzione (€ 17,460 thousand) accrued in relation to energy produced by the Salisano and Orte power stations,

2. Acea Ambiente (€ 4,512 thousand) from revenue from green certificates deriving from the incentive system for renewable sources from the Terni and San Vittore del Lazio WTE plants.

REVENUE FROM COMPREHENSIVE WATER SERVICES

As anticipated in the paragraph on the subject to which one is directed for more detailed explanations, these are produced almost exclusively by the Companies which manage services in Lazio and to a lesser extent in Campania. Said revenue amounts in total to € 657,348 thousand and shows an increase of € 28,134 thousand (+ 4.5%) compared to the previous year (€ 629,214 thousand).

The following gives detailed information regarding the breakdown by company:

€ million	2017	2016	Change	Change %
Acea Ato2	570,789	549,893	20,896	3.8%
Acea Ato5	64,455	64,540	(85)	(0.1%)
Crea Gestioni	3,707	4,461	(755)	(16.9%)
Gesesa	11,913	10,320	1,593	15.4%
Umbria2	6,484	0	6,484	n/a
Revenue from Comprehensive Water Services	657,348	629,214	28,134	4.5%

The variation recorded by Acea Ato2 (+ € 20,896 thousand) derives primarily from the 2017 VRG increase approved at the 27 July 2016 meeting compared to the previous year (+ € 10,543 thousand) and greater equalisation payments from pass-through entries (electric energy, concession fees) for € 1,273 thousand; to that one adds the entry of a premium (€ 30,628 thousand), awarded to Acea Ato2 as per Article 32, letter a) of Resolution 664/2015, gross reimbursements assigned to customers: on 7 March 2017, the STO verification activities reached a positive conclusion related to the final balance of the indices on which the premium is based. The growth of Gesesa (+ € 1,593 thousand) derives primarily from a variation in the perimeter served. The change in the consolidation scope has a € 6,484 thousand effect and relates to Umbria2 which was wholly consolidated starting at the end of February 2017.

REVENUE FROM FOREIGN WATER MANAGEMENT

Total € 35,124 thousand and show a positive change of € 23,363 thousand compared to the previous year (€ 11,761 thousand on 31 December 2016). The increase derives primarily from a change in the consolidation scope following the full consolidation of Aguas De San Pedro (+ € 23,797 thousand), and the equity consolidation beginning 1 July 2016 of Agua Azul Bogotà (- € 342 thousand).

REVENUE FROM REFUSE COMMISSIONS AND LANDFILL MANAGEMENT

Total € 58,835 thousand and show an increase of € 14,108 thousand compared with the same period in the previous year (€ 44,727 thousand). The breakdown by company is as follows:

€ thousand	2017	2016	Change	Change %
Acea Ambiente	46,017	39,928	6,089	15.3%
Aquaser	6,415	4,799	1,616	33.7%
Iseco	154	0	154	n/a
Acque Industriali	6,249	0	6,249	n/a
Revenue from refuse commissions and landfill management	58,835	44,727	14,108	31.5%

The 2016 trend is influenced by the consolidation in full of Acque Industriali (+ € 6,249 thousand) and Iseco (+ € 154 thousand). Excluding change in consolidation scope the variations relate to:

- Acea Ambiente + € 6,089 thousand following more pulper commissions to the WTE plants as well as rate effects;
- Aquaser + € 1,616 thousand due to larger commissions in agriculture and landfill.

REVENUE FROM CUSTOMER SERVICES

Total € 106,056 thousand (€ 98,35 thousand on 31 December 2016) with growth of € 7,698 thousand, primarily due to changes in the consolidation scope (+ € 17,519 thousand), specifically the primary assets relate to contract jobs for creation of public sector waste water treatment plants carried out by TWS.

This type of revenue is composed as follows:

€ thousand	2017	2016	Change	Change %
Rome Public Lighting	59,887	68,549	(8,662)	(12.6%)
Naples Public Lighting	48	3,637	(3,590)	(98.7%)
Work for third parties	33,013	11,899	21,114	177.5%
Infragroup services	10,272	7,682	2,590	33.7%
Photovoltaic	203	210	(7)	(3.4%)
GIP revenue	6,361	6,380	(19)	(0.3%)
Variations in stock	(3,728)	0	(3,728)	n/a
Revenue from customer services	106,056	98,358	7,698	7.8%

Furthermore, the positive variation is partially offset by the reduction in the Parent Company's revenue toward Roma Capitale (- € 8.662 thousand) and less revenue from Public Lighting for the Municipality of Naples (- € 3.590 thousand) given that on 31 October 2016 the contract was terminated for management

of public lighting services for the Municipality of Naples, carried out under extension since July 2015.

In reference to the breakdown of said item by Industrial Area, see the following table:

€ thousand	2017	2016	Change	Change %
Environment	5,964	176	5,787	n/a
Commercial and Trading	606	801	(196)	(24.4%)
Foreign	0	0	0	n/a
Hydro	14,948	12,063	2,884	23.9%
Energy Infrastructure	68,496	11,160	57,336	n/a
Engineering and Services	8,170	83	8,087	n/a
Parent Company	7,872	74,074	(66,202)	(89.4%)
Revenue from customer services	106,056	98,358	7,698	7.8%

CONNECTION FEES

Total € 29,285 thousand and show a € 1,669 thousand decrease compared to 31 December 2016. Said revenue is obtained as follows:

- Commercial and Trading Area: € 13,381 thousand (- € 321 thousand);
- Hydro Area: € 5,884 thousand (+ € 2,831 thousand);
- Energy Infrastructure Area: € 9,977 thousand (- € 884 thousand);
- Environment Area: € 43 thousand due to the full consolidation of Acque Industriali.

2. Other revenue – € 127,107 thousand

This item shows an increase of € 3,336 thousand (+2.7%) compared to 31 December 2016 which closed with € 123,772 thousand.

The variation was primarily determined by the following offset-

ting effects:

- € 26,577 increase in cancellation payments accrued on energy efficiency securities as a result of the greater quantity acquired over the course of the financial year (+ 164,132 securities),
- € 16,222 thousand less in extraordinary income deriving primarily from Acea Energia due energy entries in the previous financial years,
- lesser revenue in Acea Liquidation e Litigation (formerly Elga Sud) for € 9,600 thousand deriving from the registration in the previous financial year of the effects produced by contracts signed in the month of March 2016 for the sale of digital meters. Said sale fell under the scope of a wider commercial agreement involving several Group companies,
- greater Ecogena revenue (+ € 2,500 thousand) substantially related to the transaction undersigned with the Up Side Fund.

The following table supplies the breakdown of said entry:

€ thousand	2017	2016	Change	Change %
Contributions by Bodies for Clean Energy Securities	42,168	15,591	26,577	170.5%
Active Contingencies	47,159	63,382	(16,222)	(25.6%)
Other revenue	12,741	19,135	(6,394)	(33.4%)
Refund for damage, penalties, compensation	5,114	5,268	(153)	(2.9%)
Energy account	5,169	4,764	404	8.5%
State contributions ex DPCM 23/04/04	4,000	4,000	0	0
Regional contributions	3,446	2,258	1,188	52.6%
Revenue from users	1,503	2,436	(933)	(38.3%)
Seconded personnel	899	1,751	(852)	(48.6%)
Income from real property	1,797	1,684	113	6.7%
IFRIC 12 Margin	2,262	1,424	837	58.8%
Capital gains from transfer of goods	10	0	10	n/a
Back change of bodies for company officers	813	971	(159)	(16.3%)
Premiums for continuity of service	26	1,108	(1,081)	(97.6%)
Other revenue	127,107	123,772	3,336	2.7%

CONSOLIDATED OPERATING COSTS

On 31 December 2017 total € 1,983,853 thousand (they were €

1,965,415 thousand 31 December 2016) and show an increase of € 18,437 thousand (+0.9%) compared to the previous financial year. Below is the breakdown:

€ thousand	2017	2016	Change	Change %
Labour costs	215,231	199,206	16,025	8.0%
External costs	1,768,621	1,766,209	2,412	0.1%
Consolidated operating costs	1,983,853	1,965,415	18,437	0.9%

3. Labour costs – € 215,231 thousand

€ thousand	2017	2016	Change	Change %
Labour costs gross capitalised costs	327,757	307,883	19,874	6.5%
Capitalised costs	(112,526)	(108,676)	(3,849)	3.5%
Cost of labour	215,231	199,206	16,025	8.0%

A €19,874 thousand increase in labour costs, gross capitalised costs, is reported, influenced primarily by changes in the consolidation scope + € 9,331 thousand and for the remainder higher personnel costs shown in the Engineering and Laboratory (+ € 5,825 thousand) and Environment Areas (+ € 2,405 thousand). Regarding capitalised costs, a € 3,849 thousand increase is reported, substantially caused by the growth of capitalised costs registered in the Energy Infrastructure Area (+ € 8,745 thousand).

Said increase derives from the high allocation of Group personnel to the complex project of modifying the IT systems and company processes (Acea2.0); one reports that the *go live* for subsidiary companies was completed in spring of 2017.

The following tables show the average composition as well as that effected by employees by Industrial Area, compared with that of the previous financial year.

Average composition for the period

	2017	2016	Change	Change %
Environment	355	238	117	49.0%
Commercial and Trading	474	473	1	0.2%
Foreign	595	336	260	77.4%
Hydro	1,796	1,818	(22)	(1.2%)
Lazio-Campania	1,751	1,757	(6)	(0.4%)
Other	45	61	(16)	(26.3%)
Energy Infrastructure	1,366	1,380	(14)	(1.0%)
Distribution	1,287	1,182	106	9.0%
Electric energy generation	79	81	(2)	(2.3%)
Public lighting	0	118	(118)	(100.0%)
Engineering and Services	319	181	138	76.2%
Parent Company	589	622	(33)	(5.3%)
Totale	5,494	5,048	446	8.8%

Final composition for the period

	2017	2016	Change	Change %
Environment	361	247	114	46.2%
Commercial and Trading	467	482	(15)	(3.1%)
Foreign	601	267	335	125.5%
Hydro	1,811	1,796	15	0.8%
Lazio-Campania	1,766	1,734	32	1.9%
Other	45	62	(17)	(27.4%)
Energy Infrastructure	1,362	1,370	(8)	(0.6%)
Distribution	1,283	1,174	109	9.3%
Electric energy generation	79	79	0	0%
Public lighting	0	117	(117)	(100.0%)
Engineering and Services	323	233	90	38.6%
Parent Company	594	573	21	3.7%
Totale	5,519	4,968	552	11.1%

4. External costs – € 1,768,621 thousand

Said entry shows a total increase of € 2,412 thousand (+0.1%) compared to 31 December 2016 which closed with € 1,766,209 thousand.

€ thousand	2017	2016	Change	Change %
Energy, gas and combustibles	1,312,451	1,349,331	(36,881)	(2.7%)
Materials	49,687	38,576	11,110	28.8%
Services	252,976	216,791	36,186	16.7%
Concession fees	45,741	47,442	(1,701)	(3.6%)
Use of third party goods	27,886	25,968	1,918	7.4%
Expenses not related to operational management	79,880	88,101	(8,221)	(9.3%)
External costs	1,768,621	1,766,209	2,412	0.1%

COSTS FOR ENERGY, GAS AND COMBUSTIBLES

The entry includes:

€ thousand	2017	2016	Change	Change %
Purchase of electric energy	889,988	863,316	26,672	3.1%
Purchase of gas	16,489	14,535	1,954	13.4%
Transportation of electric energy and gas	361,497	456,352	(94,855)	(20.8%)
Bank certificates	43,372	13,300	30,072	n/a
Green certificates and CO ₂ rights	1,105	1,829	(724)	(39.6%)
Costs of energy, gas and combustibles	1,312,451	1,349,331	(36,881)	(2.7%)

The variation stems primarily from:

1. lesser transportation costs due to less electric energy distributed offset in part by different quantity/price mix for months and time slots;
2. increase in costs for obtaining bank certifications by areti to fulfil regulatory energy efficiency obligations as a result of larger quantities acquired in 2017;
3. increased costs tied to provision of electric energy;
4. greater costs sustained for provision of gas primarily due to price effect.

MATERIALS

Costs for material total € 49,687 thousand and represent the consumption of materials in the period net costs destined for investment as shown in the following table.

€ thousand	2017	2016	Change	Change %
Purchase of materials	77,980	64,927	13,053	20.1%
Variation in stock	(3,979)	(3,826)	(153)	4.0%
Variation in stock	74,001	61,102	12,900	21.1%
Capitalised costs	(24,315)	(22,525)	(1,789)	7.9%
Materials	49,687	38,576	11,110	28.8%

The purchase of materials net warehouse stocks shows an increase of € 12,900 which essentially derives from the € 9,055 thousand change in the consolidation scope and from the Energy

Infrastructure Area (+ € 4,138 thousand). The costs of materials sustained by Industrials Area breakdown as reported below.

€ thousand	2017	2016	Change	Change %
Environment	6,793	4,738	2,055	43.4%
Commercial and Trading	439	304	135	44.5%
Foreign	1,723	365	1,359	n/a
Hydro	13,986	14,285	(300)	(2.1%)
Energy Infrastructure	20,167	17,954	2,213	12.3%
Engineering and Services	6,165	0	6,165	n/a
Parent Company	413	930	(517)	(55.6%)
Costs for materials	49,687	38,576	11,110	28.8%

SERVICES AND OUTSOURCING

thousand, compared to € 216.791 thousand on 31 December 2016. Examining the composition one reports the following:

Total € 252,976 thousand and show a total increase of € 36,186

€ thousand	2017	2016	Change	Change %
Technical and Administrative Services (including consulting and collaboration)	58,618	43,718	14,900	34.1%
Works performed by outsourcers	40,153	31,847	8,306	26.1%
Disposal and transport of mud, waste, ash and refuse	32,610	27,251	5,359	19.7%
Other services	35,023	31,642	3,380	10.7%
Personnel services	14,093	13,313	780	5.9%
Insurance expenses	11,077	10,728	349	3.3%
Electric, water and gas consumption	9,300	4,457	4,843	108.7%
Energy support	8,777	6,808	1,969	28.9%
Infragroup and other services	1,442	5,627	(4,184)	(74.4%)
Telephone and data transmission expenses	6,645	5,886	759	12.9%
Postal expenses	3,889	4,088	(200)	(4.9%)
Maintenance fees	12,251	12,751	(500)	(3.9%)
Cleaning, transport and portorage expenses	1,036	3,406	(2,370)	(69.6%)
Marketing and sponsorship expenses	6,731	5,062	1,669	33.0%
Company bodies	2,112	2,448	(336)	(13.7%)
Collection of reading indications	3,978	1,837	2,141	116.6%
Banking expenses	2,681	2,624	57	2.2%
Travel expenses	1,598	1,343	254	18.9%
Seconded personnel	644	1,767	(1,122)	(63.5%)
Printing expenses	321	188	132	70.3%
Costs for services	252,976	216,791	36,186	16.7%

Changes in the consolidation scope have a € 18,756 thousand impact; indeed the increase of said item with an equal consolidation perimeter is € 17,430 thousand (+ 8.2%).

compared to 2016) refers to companies with service management concessions in some Environmental Territory Areas in Lazio and Campania.

The following table shows the breakdown by Company compared with that of the previous financial year.

CONCESSION FEES

The total amount of € 45,741 thousand (-€ 1,701 thousand

€ thousand	2017	2016	Change	Change %
Acea Ato2	38,669	40,143	(1,474)	(3.7%)
Acea Ato5	6,631	6,886	(255)	(3.7%)
Gesesa	390	361	28	7.8%
Crea Gestioni	52	52	0	0
Concession fees	45,741	47,442	(1,701)	(3.6%)

One is directed to the paragraph labelled "Information on Service Concessions".

USE OF THIRD-PARTY ASSETS

This item totals € 27,886 thousand and shows a € 1,918 thousand increase compared to the same period in the previous financial year (€ 25,968 thousand on 31 December 2016).

The following table shows variations by Industrial Area:

€ thousand	2017	2016	Change	Change %
Environment	1,303	817	486	59.5%
Commercial and Trading	805	1,129	(324)	(28.7%)
Foreign	2,206	658	1,548	NA
Hydro	8,070	5,778	2,292	39.7%
Energy Infrastructure	6,962	6,837	125	1.8%
Engineering and Services	1,458	0	1,458	NA
Parent Company	7,081	10,747	(3,666)	(34.1%)
Use of third-party assets	27,886	25,968	1,918	7.4%

Said items contains € 8,458 thousand in rent charges (€ 10,814 thousand on 31 December 2016) and expenses related to other licenses and rentals € 19,428 thousand (€ 15,154 thousand on 31 December 2016).

EXPENSES UNRELATED TO OPERATIONAL MANAGEMENT

Total € 79,880 thousand on 31 December 2017 with a € 8,221 thousand decrease of which € 652 thousand derives from changes in scope of the consolidation. The following table breakdowns the entry by nature of expense:

€ thousand	2017	2016	Change	Change %
Taxes and duties	11,376	12,686	(1,310)	(10.3%)
Damage payments and expenses for legal disputes	11,636	5,797	5,839	100.7%
Contributions disbursed and membership fees	2,945	2,413	532	22.0%
General expenses	7,978	5,806	2,172	37.4%
Extraordinary liabilities	45,946	61,399	(15,453)	(25.2%)
Expenses unrelated to operational management	79,880	88,101	(8,221)	(9.3%)

Said decrease derives primarily: from less extraordinary liabilities coming from energy items coming from previous financial years (partially covered by the latter's active contingencies) partially offset by accrued reimbursements under ARERA resolution 655/2015 for € 2,745 thousand and from the share of FNI item destined to cover rate relief for € 2,000 thousand.

5. Net Revenue / (Costs) from management of risk commodities –€ 0 thousand

On 31 December 2017, the change in Fair Value of those financial contracts entered in the consolidated profit and loss account is equal to zero.

The Hedge Accounting financial instruments portfolio represents the total component of the existing portfolio.

For greater detail refer to the “Supplemental information on financial instruments and risk management policies” paragraph. One notes that the valuation of counterparty risk performed in compliance with IFRS 13 does not affect efficacy tests performed on instruments evaluated in Hedge Accounting.

6. Revenue/(Costs) from non-financial shares - € 26,864 thousand

This entry represents consolidated income according to the equity method included among the items contributing to the calculation of the Gross Operating Margin for companies which were previously included in the consolidation under the proportional method. The details of its breakdown are reported below:

€ thousand	2017	2016	Change	Change %
EBITDA	149,577	146,463	3,114	2.1%
Amortisations, devaluations and appropriations	(100,881)	(94,495)	(6,386)	6.8%
Total (Costs)/Revenue from Shares	0	(48)	48	n/a
Financial management	(6,753)	(7,257)	504	(6.9%)
Taxes	(15,079)	(15,318)	239	(1.6%)
Revenue from non-financial shares	26,864	29,345	(2,481)	(8.5%)

The Gross Operating Margin of these companies increased by € 3,114 thousand primarily due to a changes in the consolidation scope. Compared to 31 December 2016 there was a decrease in the amor-

tisations, devaluations and appropriations entry primarily due to:

- increase in amortisations registered by Publicacqua by € 3,728 thousand, Acque by € 2,090 thousand and Gori by € 1,731

- thousand following greater investments made;
- decrease in devaluation of credits above all related to Gori (- € 1,805 thousand);
- decrease in appropriations above all related to Acque (- € 1,876

thousand) partially offset by the increase of Publiacqua's (+ € 913 thousand).

The valuations of the companies is reported in detail below.

€ thousand	2017	2016	Change	Change %
Publiacqua	9,201	12,422	(3,221)	(25.9%)
Gruppo Acque	8,191	6,963	1,228	17.6%
Acquedotto del Fiora	2,303	3,214	(911)	(28.4%)
Umbra Acque	279	(28)	307	n/a
Gori	1,796	3,384	(1,588)	(46.9%)
Nuove Acque and Intesa Aretina	964	540	424	78.5%
Agua Azul	1,002	1,053	(51)	(4.9%)
Ingegnerie Toscane	1,786	1,812	(26)	(1.4%)
Ecomed in receivership	(32)	(15)	(17)	112.3%
Gori Servizi	122	0	122	n/a
GEAL	1,253	0	1,253	n/a
Total	26,864	29,345	(2,481)	(8.5%)

7. Amortisations, devaluations and appropriations - € 480,102 thousand

Compared with the previous financial year there is an increase of € 109,699 thousand.

The breakdown is shown below:

€ thousand	2017	2016	Change	Change %
Material and intangible amortisations	328,911	254,247	74,664	29.4%
Devaluation of credits	90,351	64,694	25,657	39.7%
Appropriations for risks	60,840	51,462	9,378	18.2%
Total	480,102	370,403	109,699	29.6%

MATERIAL AND INTANGIBLE AMORTISATIONS

€ thousand	2017	2016	Change	Change %
Material amortisations	140,100	125,215	14,885	11.9%
Intangible amortisations	166,853	134,221	32,632	24.3%
Losses in value	21,958	(5,189)	27,147	n/a
Amortisations	328,911	254,247	74,664	29.4%

The € 74,664 thousand positive change in amortisations is composed as follows:

- € 14,885 thousand increase in amortisations for material fixed assets;
- € 32,632 increase in amortisations for intangible fixed assets due primarily to growth of investments in all business areas and the go live of the Acea2.0 technology platform for the main Group Companies.

Losses in value refer to:

- devaluations (for € 9,664 thousand total) related to some Acea Ambiente plants (specifically Monterotondo, Paliano and Sabaudia), made necessary following the impairment tests performed at the end of FY 2017;
- adjustment to the value of Autoparco (€ 9,539 thousand) which, following a judgment by the Court of Rome with ruling n. 11436/2017, published on 6 June 2017, in essence declared the nullity of the sales contract entered into with

the company Trifoglio Srl on 22 October 2010; therefore Acea assumes, as of now, ownership of the building complex at the net accounting value registered for the asset at the time of its transfer. For more details see the paragraph "Update on legal controversies".

DEVALUATIONS AND LOSSES ON CREDITS

Said entry shows an increase of € 25,657 thousand related primarily to Acea Ato2 (+ € 11,293 thousand) and Acea Ato5 (+ € 3,464 thousand) following valuations deriving from historic analysis, in relation to the age of the credit, type of recovery action taken and status of the credit.

One notes that, for credits issued by areti, the seller Gala, which represents one of the primary parties operating in the territory under license by areti as a wholesaler for transportation services, has

stopped payments to the Company, using as a tool recent Regional Administrative Court decisions reading general system costs; therefore, one has devalued said credits by € 15,723 thousand. For more information on the Gala case see paragraph “Update on primary legal controversies” and paragraph “Energy Infrastructure In-

dustrial Area”. Furthermore, credits were devalued toward ATAC for € 6,361 thousand, of which € 4,793 thousand relate to credits registered by Acea Ato2.

Below is the breakdown by industrial area:

€ thousand	2017	2016	Change	Change %
Environment	315	335	(20)	(6.1%)
Commercial and Trading	36,357	44,103	(7,746)	(17.6%)
Foreign	1,309	212	1,098	n/a
Hydro	24,937	10,551	14,385	136.3%
Energy Infrastructure	21,767	4,663	17,105	n/a
Engineering and Services	136	43	93	n/a
Parent Company	5,529	4,787	742	15.5%
Losses and devaluations of credits	90,351	64,694	25,657	39.7%

APPROPRIATION RESERVES

appropriation reserves total € 60,840 thousand and are divided thusly by type:

As of 31 December 2017, net sums released due to surplus,

€ thousand	2017	2016	Change	Change %
Legal	5,408	1,642	3,766	n/a
Tax	3,385	1,930	1,455	75.4%
Regulatory Risks	8,961	7,907	1,054	13.3%
Subsidiaries	48	336	(288)	(85.8%)
Contributory risks	115	114	1	0.5%
Contracts and supplies	4,784	1,510	3,273	n/a
Insurance deductibles	804	1,634	(831)	(50.8%)
Licensing fees	0	0	0	n/a
Other risks and obligations	2,935	14,572	(11,637)	(79.9%)
Total Risks Appropriation	26,438	29,645	(3,207)	(10.8%)
Retirement and redundancy	28,052	22,569	5,484	24.3%
Post mortem	0	0	0	n/a
Liquidation Costs	(5)	0	(5)	n/a
Third-Party Costs	110	0	110	n/a
Ifric12 reinstatement costs	9,062	11,116	(2,054)	(18.5%)
Contractual obligations	0	0	0	n/a
Total appropriations	63,656	63,329	327	0.5%
Released from allocation funds	(2,816)	(11,868)	9,051	(76.3%)
Total	60,840	51,462	9,378	18.2%

The breakdown of appropriations by industrial area is shown in the following table:

€ thousand	2017	2016	Change	Change %
Environment	(568)	5	(573)	0.0%
Commercial and Trading	5,935	13,546	(7,611)	(56.2%)
Foreign	79	76	3	3.7%
Hydro	22,486	19,241	3,245	16.9%
Energy Infrastructure	13,241	13,066	174	1.3%
Engineering and Services	1,460	1,859	(399)	(21.5%)
Parent Company	18,207	3,667	14,540	n/a
Appropriations	60,840	51,462	9,378	18.2%

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

- retirement and redundancy fund (€ 28,052 thousand) and represent the sum necessary to handle the personnel reduction plan through the adoption of a voluntary redundancy and facilitated retirement programs for Group personnel;

- € 5,408 thousand in legal risks;
- € 3,951 thousand in regulatory risks related to Acea Produzione; this refers to additional fees owed to the Abruzzo Region based on Regional Law 22/10/2013 n. 38 for FY 2014. For greater detail see note n. 27 as well as paragraph "Update on primary legal controversies".

8. Financial revenue - € 17,379 thousand

€ thousand	2017	2016	Change	Change %
Interest on Financial credits	4,615	4,014	602	15.0%
Interest on Bank Assets	420	388	33	8.4%
Interest on credits toward customers	5,975	9,737	(3,763)	(38.6%)
Interest on credits toward others	852	634	219	34.6%
Financing revenue from discounting	5,395	863	4,532	n/a
Revenue from Valuing derivatives at Hedge Fair value	(302)	298	(600)	n/a
Other revenue	423	1,325	(902)	(68.1%)
Financial Revenue	17,379	17,258	121	0.7%

Financial revenue, equal to € 17,379 thousand, shows a € 121 thousand increase compared to the previous financial year. The variation derives primarily from the registration of € 4,532 thousand in revenue from discounting as a result of changes in accounting

estimates related to discounting of the so-called *Post mortem* fund for the non-dangerous waste disposal facility, located in Pian del Vantaggio (Orvieto); said variation is partially offset by lesser financial revenue for Acea Energia customers (- € 3,763 thousand).

9. Financial costs - € 89,334 thousand

€ thousand	2017	2016	Change	Change %
Costs (Revenue) on Interest Rate Swaps	1,051	1,342	(291)	(21.7%)
Interest on bond loans	59,225	97,964	(38,739)	(39.5%)
Interest on medium/long-term debt	17,667	18,089	(422)	(2.3%)
Interest on short-term debt	376	551	(175)	(31.7%)
Arrears interest	2,166	1,435	731	50.9%
Interest cost net actuarial gains and losses	1,438	2,038	(599)	(29.4%)
Commissions on transferred credits	5,486	6,153	(667)	(10.8%)
Interest for payment in instalments	159	276	(118)	(42.5%)
Discounting costs	444	0	444	n/a
Other financial costs	311	429	(118)	(27.5%)
Interest toward users	755	436	319	73.2%
(Profit)/loss on exchange rate	255	109	146	134.0%
Financial Costs	89,334	128,822	(39,488)	(30.7%)

Financial costs, equal to € 89,334 thousand, have decreased € 39,488 thousand compared to 31 December 2016.

The Acea Group's average global "all in" cost of debt is report on 31 December 2017 at 2.59%, compared to 3.16% from the previous financial year.

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

- interest on bond loans fell € 38,739 thousand, compared to 31 December 2016, due to the registration in the previous year of the surcharge paid to withdraw two bond instalments

from the market, and less interest;

- on short-term and medium/long-term debt due to reduction of the interest rate thanks to the October 2016 asset and liability management transaction;
- arrears interest, compared to 31 December 2016, has increased € 731 thousand due to Acea Energia;
- commissions on transferred credits, were reduced by € 667 thousand, compared to 31 December 2016 are reduced by;
- the balance of gains and losses on exchange rates, compared to 31 December 2016, has increased by € 146 thousand.

10. Costs and Revenue from Shares - € 259 thousand

€ thousand	2017	2016	Change	Change %
Revenue from shares in related companies	1,021	3,173	(2,152)	(67.8%)
(Costs) of shares in related companies	(762)	(1,466)	704	(48.0%)
(Costs) and revenue from shares	259	1,707	(1,448)	(84.8%)

Revenue from shares refers to consolidation according to the net worth method of some Group companies primarily S.I.I. S.c.p.a. which manages water services in the province of Terni and is 25% owned by Umbriadue (+ € 862 thousand). One further reports that, since the end of 2016, Aguazul Bogotà has moved from total consolidation to equity; said transaction negatively effects said entry by € 263 thousand.

11. Taxes on income - € 95,992 thousand

The estimated tax burden for the period is equal to € 95,992 thousand compared to € 143,548 thousand in the previous financial year.

€ thousand	2017	%	2016	%
Income before taxes of ongoing activities and intermittent activities	288,196		416,087	
Theoretic taxes calculated on profits before taxes	69,167	24.0%	114,424	27.5%
Net deferred tax	(9,335)	(3.2%)	8,307	2.0%
Permanent deferrals*	4,268	1.5%	(15,181)	(3.6%)
IRES [tax on corporate income]	64,100	22.2%	107,549	25.8%
Asset Tax	7,873	2.7%	7,873	1.9%
IRAP [regional tax on productive activities]	24,019	8.3%	28,125	6.8%
Total taxes	95,992	33.3%	143,548	34.5%

* Primarily includes the un-taxed portion of dividends

The tax rate from the financial year is reported as 33.3% (it was 34.5% in 2016).

12. Profit per share

Basic profit per share is calculated by dividing profit for the financial year attributable to Acea by the weighted average number of Acea shares in circulation during the year, excluding treasury shares. The weighted average number of shares in circulation is 212,547,907 at the end of 2017. Diluted profit per share is calculated dividing profit for the financial year attributable to Acea

This is essentially comprised of the following:

- Current taxes: € 97,344 thousand (€ 127,368 thousand on 31 December 2016),
- Net deferred/(prepaid) taxes: -€ 1,351 thousand (€ 16,180 thousand on 31 December 2016). The decrease in taxes recorded in this period results from the reduction of the IRES [corporate] tax rate (from 27.5% to 24%) beginning in 2017 and the reduction of profits before taxes.

The following table shows the breakdown of taxes and the associated percentage calculated on consolidated pre-tax assets.

by the weighted average number of Acea shares in circulation during the year, excluding treasury shares, increased by the number of shares which could potentially be put in circulation. On 31 December 2017 there are no shares which could potentially be put into circulation and, therefore, the weighted average number of shares for calculating basic profit coincides with the weighted average number of shares for calculating diluted profit.

Profit per share calculated according to IAS 33 is reported in the following table:

€ thousand	2017	2016	Change
Group profit for the period (€/000)	180,682	262,347	(81,665)
Group profit for the period belonging to ordinary shares (€/000) (A)	180,682	262,347	(81,665)
Weight average number of ordinary shares for purposes of calculating profit per share			
- basic (B)	212,964,900	212,964,900	0
- basic (C)	212,964,900	212,964,900	0
Profit per share (in €)			
basic (A/B)	0.848	1.232	(0.384)
diluted (A/C)	0.848	1.232	(0.384)

€ thousand	2017	2016	Change
Group profit for the period (€/000)	180,682	262,347	(81,665)
Group profit for the period belonging to ordinary shares (€/000) (A)	180,682	262,347	(81,665)
Weight average number of ordinary shares in circulation for purposes of calculating profit per share			
- basic (B)	212,547,907	212,547,907	0
- basic (C)	212,547,907	212,547,907	0
Profit per share (in €)			
basic (A/B)	0.850	1.234	(0.384)
diluted (A/C)	0.850	1.234	(0.384)

NOTES TO CONSOLIDATED NET WORTH AND FINANCIAL STATEMENT

ASSETS

On 31 December 2017 total € 7,339,055 thousand (they were

€ 6,904,713 thousand on 31 December 2016) and showed an increase of € 434,342 thousand equal to +6.3% compared to the previous year and are comprised as follows:

€ thousand	31/12/17	31/12/16	Change	Change %
Non-current assets	5,147,563	4,945,282	202,281	4.1%
Current assets	2,191,309	1,958,934	232,375	11.9%
Non-current assets destined for sale	183	497	(314)	(63.2%)
Total Assets	7,339,055	6,904,713	434,342	6.3%

13. Material fixed assets - € 2,252,910 thousand

80% of the material fixed assets is comprised of the net accounting value of infrastructure used for distribution and generation of electric energy (€ 1,825,181 thousand).

The remaining 20% refers to:

- plants belonging to the Environment Area for € 226,106 thousand;

- infrastructure related to the Parent Company for € 99,827 thousand;
- infrastructure related to the Hydro area for € 56,338 thousand;
- infrastructure related to the Foreign Area € 32,097.

The following table reports the details and transfers of material assets related to FY 2017.

€ thousand	Land and Buildings	Plants and Machinery	Industrial Equipment	Other Assets	Fixed assets under construction	Reversible assets	Total material fixed assets
Historical cost 31.12.2016	492,157	2,672,970	742,076	134,500	61,105	5,759	4,108,567
Assets Destined for Sale	-	-	-	-	-	-	-
Investments/ Acquisitions	7,805	118,124	56,994	8,274	17,682	1,238	210,119
Divestments	(267)	(12,745)	(2,776)	(628)	(10)	-	(16,425)
Changes in scope of consolidation	91	4,752	(923)	1,223	-	-	5,143
Other transfers	13,062	18,143	10,443	(1,433)	(48,387)	(119)	(8,290)
Historic cost 31.12.2017	512,849	2,801,245	805,815	141,937	30,391	6,878	4,299,114
Amortisation fund 31/12.2016	(127,111)	(1,459,464)	(218,188)	(90,100)		(3,367)	(1,898,229)
Assets Destined for Sale	-	-	-	-	-	-	-
Amortisations and Reductions in Value	(28,057)	(87,646)	(31,485)	(10,896)	(2,091)	(741)	(160,916)
Divestments	9	5,030	1,591	468	-	-	7,098
Changes in consolidation scope	(37)	(2,650)	(109)	(1,159)	-	-	(3,955)
Other transfers	151	8,538	(2)	1,111	-	1	9,797
Amortisation fund 31.12.2017	(155,045)	(1,536,192)	(248,193)	(100,576)	(2,091)	(4,107)	(2,046,204)
Net value 31.12.2017	357,804	1,265,053	557,622	41,360	28,300	2,771	2,252,910

Investments have decreased compared to the previous financial year (€ 220,129 thousand on 31 December 2016) and total € 210,119 thousand. They refer primarily to:

- areti** € 151,140 thousand related to construction activities, maintenance of AT lines, maintenance and planned expansion of primary stations and reconstruction of secondary stations, restoration, expansion and ordinary and extraordinary maintenance of MT and BT lines;
- Acea Ambiente** € 13,913 thousand for investments related to:
 - plant improvement works for Line II and line III of the

- San Vittorio del Lazio plant;
 - plant improvement works primarily involving the boiler oven complex of the Terni plant;
 - works to update and restore the Orvieto waste treatment plant;
 - works to update and strengthen compost plant sites in Aprilia and Sabaudia;
- Acea Produzione** € 22,818 thousand relate to plant revamping work for the Castel Madama hydroelectric power plant, modernisation of the Tor di Valle power plant and an exten-

sion of the district heating network for the Mezzocammino district in southern Rome;

- **Acea** € 3,284 thousand for extraordinary maintenance activities for plants and sites under lease, for investments in hardware within the scope of the Acea2.0 project.

Changes in the scope of consolidation refer to the total inclusion in consolidation of the companies Umbriadue Servizi Idrici, TWS, Iseco and Acque industriali.

The amortisations and reductions in value entry includes € 20,874 thousand in reductions carried out:

- by the Parent Company (€ 9,539 thousand) to update the total value of the Autoparco property re-entered in the Parent Company's real property assets following decision n. 11436/2017 which nullified the sales contract signed in 2010;
- by Acea Ambiente (€ 8,600 thousand) for devaluations made following the impairment test in reference to the Paliano, Monterotondo Marittimo and Sabaudia plants;
- by Acea Produzione (€ 2,532 thousand) for devaluations

made on the Tor di Valle plant.

Other transfers refer to reclassifications due to the coming online of fixed assets under construction and to alienations/discharges and devaluations of income sources.

14. Investment properties - € 2,547 thousand

Are comprised primarily of land and buildings not used for production and held under lease. The € 58 thousand decrease compared to the previous financial year derives from amortisations.

15. Goodwill - € 149,978 thousand

On 31 December 2017, the entry totals € 149,978 thousand (€ 149,825 thousand on 31 December 2016). The variation compared to the previous financial year relates to the goodwill registered in the balance sheet of **TWS** (*Technologies for Water Services*) fully consolidated following acquisition in February 2017. The table below shows the individual CGUs by associated Industrial Area.

€ thousand	31/12/2016	Acquisitions	Devaluations/ Revaluations	Other changes	31/12/2017
Environment Area	11,232	-	-	-	11,232
Incineration and Compost Plants	11,232	-	-	-	11,232
Commercial and Trading Area	46,976	-	-	6	46,982
Energy Sales	46,976	-	-	6	46,982
Energy Infrastructure Area	91,618	-	-	-	91,618
Renewable Source Plants	91,618	-	-	-	91,618
Other	0	-	-	147	147
Goodwill	149,825	-	-	153	149,978

One specifies that:

for the Energy Infrastructure Area:

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

for the Commercial and Trading Area:

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

for the Environment Area:

- The "Incineration and compost plants" CGU is composed of the Acea Ambiente plants acquired from SAO, Kyklos and Solemme following the corporate merger which took place in 2016.

The 2017 impairment process supplies an estimate of the interval related to the recoverable amount of individual Cash Generating Units (CGUs) in terms of "value in use" using the same methodology as the previous financial year, i.e. through the discounting of operational income cash flows discounted at a post-tax discount rate reflecting the weighted average cost of capital.

The estimated recoverable amount of CGUs – expressed in terms of value in use – was estimated through the combined use of

the financial method and sensitivity analysis.

Application of the financial method for calculating the recoverable amount of CGUs and subsequent comparison with the corresponding accounting values, brought about the estimate of post-tax WACC, of the value of operational cash flows and of terminal value (TV) and, in particular, the rate of growth used for projection of flows beyond the plan horizon, the value of the net financial position (PFN) and the value of accessory assets (ACC).

For purposes of determining operational cash flows and Terminal Value the provisions were used related to the 2018-2022 Plan approved by the Board of Directors. The recoverable amount of CGUs is calculated as the sum of current value of Plan's cash flows and current Terminal Value.

The following table reports the CGUs to which a significant goodwill value was allocated, compared to the total goodwill amount entered in the balance sheet, specifying, for each type of recoverable amount considered, the discount rate used and the time horizon for cash flows.

Operational Sector/CGU	Amount in € million	Recoverable amount	WACC	Terminal value	Cash flow period
Energy Infrastructure Area					
Renewable sources plants	91.6	value in use	5.5%	two stage	up to 2022
Commercial and Trading Area:					
Acea Energia	46.9	value in use	6.9%	Perpetuity w/o growth	up to 2022
Environment Area:					
Incineration and Composting Plants	11.2	value in use	6.6%	two stages	up to 2022

Terminal value is calculated:

- for the “Renewable sources plants” CGU: in two stages. The first stage relates to a normalised cash flow for the 2023-2032 period while the second stage includes the residual value corresponding to the net invested capital in 2032,
- for the Environment area: in two stages. The first stage rela-

tes to the 2023-2038 period while the second stage includes the residual value corresponding to net circulating capital in 2038.

One further notes that WACC was subject to a sensitivity analysis. Following the impairment verification the registered values were confirmed as they are recoverable.

INTANGIBLE FIXED ASSETS

€ thousand	Patent rights	Other intang fixed assets	F Assets under construction	Licenses	Totale intang. fixed assets
31.12.2016	134,660	20,826	2,593	1,662,727	1,820,807
Amortisations and Reductions in Value	(57,932)	(1,889)	(1,084)	(106,935)	(167,840)
Investments/Acquisitions	59,253	333	2,641	259,906	322,134
Divestments	(1,118)	-	-	(4,702)	(5,820)
Change to consolidation scope	(54)	(104)	292	119	255
Other Transfers	2,267	(16,287)	(279)	(40,251)	(54,550)
31.12.2017	137,077	2,880	4,163	1,770,865	1,914,985

These show €1,914,985 thousand, registering an €94.178 thousand increase compared to 31 December 2016, resulting from the net balance between investments equal to €322,134 thousand, amortisations and reductions in value, equal to €167,840 thousand, divestments equal to - €5,820 thousand and other changes for - €6,015 thousand. The change to the consolidation scope equal to €255 thousand follows the acquisition of TWS and the full consolidation of Acque Industriali, which in the previous financial year was consolidated according to the Equity method. The “other changes” entry refers primarily to the variation in estimates of the restoration costs fund related to concessions held by water sector companies. Internal development investments, referring to Acea 2.0, are equal to around €40.1 million for 2017.

16. Concessions and rights on infrastructure - €1,770,865 thousand

Said entry refers primarily to Hydro Management activities and includes in essence:

- the value of concessions received from Municipalities (€133.986 thousand),
- the total amount for the entirety of material infrastructure assigned for management of water services (€1.635.506 thousand), in compliance with IFRIC12.

Concession refer to €123,776 thousand by right of thirty-year concession by Roma Capitale on assets composed of water and purification plants and the right deriving from the sub-entry in the management of Comprehensive Water Services in the Municipality of Formello. Amortisation is basic, with respect to the residual duration of the concession signed between Acea and Roma Capitale and the duration of the Management Contract signed by the mayors of ATO2. Included is the balance of the 30-year comprehensive water management concession for San Pedro Sula in Honduras for a total amount of €11,884 thousand.

18. Shares in related entities - €280,853 thousand

€ thousand	31/12/2016	P&L Impact	Net Worth Impact	Change to scope of consolidation and other transfers	31/12/2017
Shares in related entities	260,877	27,122	2,530	-9,676	280,853

The financial year’s investments related to **Rights on Infrastructure** are equal to €259,906 thousand and refer primarily to:

- Acea Ato2, €98,853 thousand for extraordinary maintenance activities, refurbishment, modernisation, expansion and remediation of water, sewage and purification plants and networks;
- Acea Ato5, €19,443 thousand for works to replace, maintain and expand pipes for water, sewage and purification plants.

The **Other Changes** entry is primarily comprised of reclassification due to placing income producing assets online.

17. Other intangible fixed assets - €144,121 thousand

The decrease compared to the previous financial year, equal to €13,959 thousand, derives from investments sustained in the period (€62,227 thousand) net amortisations (€60,905 thousand) and reclassifications.

Investments carried out in 2017 equal €62,227 thousand and are primarily attributable to:

- areti, €34,252 thousand in costs sustained for the project of reengineering IT and commercial distribution systems, for the development of the technological platform related to the Acea2.0 project, and for harmonisation of systems supporting measurement activities;
- Acea Energia, €19,184 thousand for implementation of the Acea2.0 project, CRM systems and for the improvement of invoicing software;
- the Parent Company, €7,379 thousand for purchase and implementation of software supporting administrative management systems, management of IT platforms and company security.

The “**other intangible assets**” entry underwent a reduction compared to the previous financial year of €17,957 thousand primarily due to the reclassification of Acea Produzione and Acea Ambiente’s Green Certificates in working assets under the entry “Credits toward others”.

The primary changes which occurred over the course of 2017 refer to:

- valuations related to businesses consolidated with the equity method which impacted the profit and loss account for a total of € 27,122 thousand; said valuations are reported in the P&L account primarily in the “Revenue/Costs from non-financial shares” entry (€ 26,864 thousand) and in the “Costs/Revenue from shares” entry (€ 259 thousand);
- impact of valuations of business consolidated according to equity in net worth statement entries (€ 2,530 thousand).

These also include the balance of changes in the consolidation scope and other transfers, which derive from:

- full consolidation of the companies Umbriadue Servizi, Acque industriali, consolidated according to equity in the previous financial year;
- consolidation of an additional 19.2% shareholding acquired in the company GEAL;
- consolidation according to the net equity method of AceaGori Services (now called Gori Servizi), fully consolidated in the previous financial year, following the transfer of shares to Gori;
- € 9,806 thousand in dividends distributed by companies.

For the primary shares in companies valued with the equity method, economic and net worth data are provided.

Year 2017

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

Year 2016

€ thousand	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Net Profit/(Loss)	Net Financial Position
AZUL	6,198	1,625	(173)	(185)	3,184	1,053	1,280
INTESA ARETINA	9,099	700	-	(741)	266	(434)	150
NUOVE ACQUE	19,305	5,367	(12,700)	(2,810)	9,263	973	(6,959)
AZGA NORD	0	0	6	0	0	0	0
ECOMED	3	376	(4)	(385)	0	(15)	165
FIORA	101,950	26,059	(79,975)	(20,864)	40,954	3,214	(52,662)
GEAL	0	0	2	0	0	0	0
GORI	83,453	164,986	(65,826)	(141,433)	74,577	3,384	(523)
INGEGNERIE TOSCANE	3,364	11,655	(459)	(8,847)	10,896	1,812	(2,092)
ACQUE INDUSTRIALI	1,461	3,547	(650)	(3,318)	3,875	5	(524)
ACQUE SERVIZI	985	11,902	(1,030)	(8,450)	10,164	375	(1,141)
ACQUE	181,564	46,634	(132,967)	(50,905)	67,770	6,583	(92,080)
PUBLIACQUA	186,427	54,918	(102,171)	(42,216)	97,811	12,422	(51,993)
UMBRA ACQUE	55,305	14,559	(30,679)	(29,245)	27,560	(28)	(13,154)

19. Other shares - € 2,614 thousand

These total € 2,614 thousand (they were € 2,579 thousand at the end of 2016) and are comprised of investments in shareholder securities which do not represent control, association or joint control. The variation compared to the previous financial year is € 35 thousand and it refers primarily to the adjustment of the exchange rate for shares in foreign currencies.

20. Deferred tax assets - € 271,148 thousand

Deferred tax assets, net the deferred tax allocation fund, on 31 December 2017 total € 178,313 thousand (€ 174,084 thousand on 31 December 2016). The variations in deferred tax assets are substantially related:

- for € 20,726 thousand (€ 27,756 thousand on 31 December 2016), to temporary difference between amounts entered in subsidiary companies' balance sheets following the granting of business branches and the corresponding amounts registered in the consolidated balance sheet,

- for € 18,016 thousand, to the fund for risks having tax effects (€ 19,565 thousand on 31 December 2016),
- for € 56,648 thousand, to the devaluation of credits (€ 52,445 thousand on 31 December 2016),
- for € 14,027 thousand to set benefit plans and contributions (€ 12,778 thousand on 31 December 2016),
- for € 11,171 thousand to the valuations at fair value of commodities and other financial instruments (€ 8,430 thousand on 31 December 2016).

The deferred taxes allocation fund includes in particular the deferred taxes tied to differences existing between the economic-technical amortisation portions applied to depreciable assets and tax portions. Contributing to said entry are € 4,062 thousand in used assets and € 9,056 thousand in allocated reserves.

The following table details the changes occurring for the item in question.

€ thousand	2016				Changes in 2017			
	Balance	Change to scope of consolidation	Adjustments/Reclassifications	Transfers to Net Worth	Assets used	Adjustment of portion	IRES/IRAP tax reserves	Balance
Pre-paid taxes								
Tax losses	677	0	(430)	0	(114)	0	0	132
BoD member compensation	669	(3)	(9)	0	(570)	0	23	110
Risks and costs funds	19,565	(3)	15	0	(17,552)	0	15,992	18,016
Devaluation of credits and shares	52,445	(17)	(328)	0	(3,044)	0	7,593	56,648
Amortisations	117,640	(1)	2,047	(475)	(6,575)	0	17,205	129,842
Set benefit plans and contributions	12,778	0	0	218	(607)	0	1,637	14,027
Consolidation cancellations tax assets	27,756	0	0	0	(7,031)	0	0	20,726
Fair value commodities and other financial instruments	8,430	0	0	2,816	(75)	0	0	11,171
Others	22,282	285	(1,981)	426	(4,909)	0	4,373	20,476
Total	262,241	262	(686)	2,986	(40,477)	0	46,822	271,148
Deferred taxes								
Amortisations	74,973	0	0	0	(1,482)	0	6,134	79,625
Set benefits plans and contributions	(1,522)	0	14	(263)	13	0	92	(1,666)
Fair value commodities and other financial instruments	5,248	0	0	3,560	0	0	0	8,807
Others	9,459	0	(3,628)	0	(2,593)	0	2,830	6,069
Total	88,158	0	(3,614)	3,297	(4,062)	0	9,056	92,835
Net	174,084	262	2,927	(311)	(36,415)	0	37,767	178,313

The Groups reported deferred tax assets based on the profitability reports contained in the business plans which confirm the probability that in future financial years they will generate taxable income able to support the release of all allocated pre-paid taxes.

21. Non-current financial assets - € 38,375 thousand

These total € 38,375 thousand (€ 27,745 thousand on 31 December 2016) and show a € 10,629 thousand increase, owing primarily to the consolidation of Umbriadue which holds a financial

credit (expiry in 2028) toward related entity S.I.I. S.c.p.a. The item also includes credits toward Roma Capitale for € 22,168 thousand which concern investments related to Public lighting, such as upgrading plants, energy savings, regulatory compliance and technical innovation, which shall be paid to Acea, in amounts equal to tax amortisation, beyond FY 2015, in conformity with what was agreed to in the Supplemental agreement to the service contract entered into on 15 March 2011.

22. Other non-current assets - € 234,154 thousand

On 31 December 2017 these are comprised of:

€ thousand	31/12/17	31/12/16	Change	Change %
Credits toward the state	92	113	(21)	(18.7%)
Credits for advanced payments and deposits	897	1,507	(610)	(40.5%)
Miscellaneous Credits	28,019	32,283	(4,264)	(13.2%)
Long-term credits to equalise rates	135,920	128,070	7,850	6.1%
Long-term credits for Regulatory Lag	68,938	45,977	22,961	49.9%
Receivable Accruals/Discounts	288	313	(25)	(8.0%)
Other non-current assets	234,154	208,263	25,891	12.4%

Miscellaneous credits total € 28,019 thousand (they were € 32,283 thousand on 31 December 2016) and refer primarily to long-term credits deriving from service contracts for Public lighting in the Municipality of Rome, which represent the entirety of investments made up to December 2010 connected to said service, arising following adoption of the financial method provi-

ded by IFRIC 12 as a result of supplements negotiated between Acea and Roma Capitale to the service contract. Said entry also includes long-term credits to equalise water companies' rates, € 135.920 thousand (€ 128.070 thousand on 31 December 2016), while € 68.938 thousand (€ 45.977 thousand on 31 December 2016) are credits registered in areti for Regulatory lag.

23. Current assets - € 2,191,309 thousand

€ thousand	31/12/17	31/12/16	Change	Change %
Warehouse Stock	40,201	31,726	8,475	26.7%
Commercial Credits:				
Credits towards Customers	933,709	849,513	84,196	9.9%
Credits towards Parent Company	52,498	45,611	6,887	15.1%
Credits toward subsidiaries or related entities	36,503	28,271	8,233	29.1%
TOTAL COMMERCIAL CREDITS	1,022,710	923,395	99,315	10.8%
Other current assets and credits	148,192	132,508	15,683	11.8%
Financial current assets	237,671	131,275	106,396	81.1%
Tax credits	61,893	74,497	(12,604)	(16.9%)
Cash at hand and equivalent liquidity	680,641	665,533	15,108	2.3%
Current assets	2,191,309	1,958,934	232,375	11.9%

23.a – Warehouse stock

Totals € 40,201 thousand (€ 31,726 thousand on 31 December 2016) and can be broken down by industrial area:

€ thousand	31/12/17	31/12/16	Change	Change %
Environment	5,639	4,980	658	13.2%
Foreign	777	1,311	(533)	(40.7%)
Hydro	7,016	6,122	894	14.6%
Energy Infrastructure	22,022	19,042	2,980	15.7%
Engineering and Services	4,747	0	4,747	n/a
Parent Company	0	270	(270)	(100.0%)
Total	40,201	31,726	8,475	26.7%

The increase is substantially determined by the change to the consolidation scope due to the acquisition of the TWS Group (+ € 5,238 thousand); and by areti (+ € 2,995 thousand).

23.b – Commercial credits

Total € 1,022,710 thousand and show a € 99,315 thousand decrease compared to the previous financial year which closed with a total of € 923,395 thousand.

23.c – Credits towards customers

Total € 933,709 thousand, € 84,196 higher than 31 December 2016.

€ thousand	31/12/17	31/12/16	Change	Change %
Credits towards users for invoices issued	482,147	397,726	84,421	21.2%
Credits towards users for invoices to be issued	301,480	315,727	(14,247)	(4.5%)
Total credits towards users	783,627	713,453	70,174	9.8%
Credits towards non-user customers	150,022	135,995	14,027	10.3%
Other current assets and credits	60	64	(4)	(7.0%)
Total credits	933,709	849,513	84,196	9.9%

Credits are reported net the Credit Devaluation Fund which on 31 December 2017 totals € 403,604 thousand with a decrease compared to the previous financial year of € 59,159 thousand.

The following shows the trend of credits gross and net the credit devaluation fund.

€ million	31/12/17			31/12/16			Change		
	Gross Credits	Devaluation Fund	Net Credit	Gross Credits	Devaluation Fund	Net Credit	Gross Credits	Devaluation Fund	Net Credit
	(a)	(b)	(c)	(c)	(d)	(a)-(c)	(b)-(d)	(b)-(d)	(a)-(c)
Environment	54,016	(3,611)	50,405	41,372	(3,128)	38,244	12,644	(483)	12,161
Commercial and Trading	622,047	(270,661)	351,386	624,570	(254,675)	369,895	(2,523)	(15,986)	(18,509)
Foreign	14,209	(6,248)	7,961	15,040	(6,299)	8,741	(832)	51	(780)
Hydro	454,681	(81,521)	373,160	403,608	(59,775)	343,833	51,073	(21,746)	29,327
Energy Infrastructure	182,529	(37,336)	145,194	97,834	(14,584)	83,250	84,695	(22,752)	61,943
Engineering and Services	5,741	(859)	4,882	731	(501)	230	5,010	(358)	4,652
Parent Company	4,090	(3,368)	722	10,803	(5,482)	5,320	(6,713)	2,115	(4,598)
Total	1,337,313	(403,604)	933,709	1,193,958	(344,445)	849,513	143,355	(59,159)	84,196

Environment Area Credits

Total € 50,405 thousand, a € 12,161 thousand increase compared to 31 December 2016; the increase is ascribable for € 3,705 thousand to Acea Ambiente and for € 1,599 thousand to Aquaser. One further notes a total increase of € 6,857 thousand due to the consolidation of Acque Industriali and Iseco.

Commercial and Trading Area Credits

Total € 351,386 thousand and are primarily generated by sale of electric energy to customers in the price-fixed and free market and gas sales. The negative variation since 2016 is equal to € 18,509 thousand. The 31 December 2017 devaluation fund totals € 270,661 thousand and shows an increase, net used assets, of € 15,986 thousand compared to 31 December 2016.

Foreign Area Credits

Total € 7,961 thousand and do not show significant variations compared to 31 December 2016.

Hydro Area Credits

Total € 373,160 thousand and show a € 29,327 thousand increase compared to 31 December 2016; the increase is primarily attributable, for € 4,946 thousand, to changes in the consolidation scope and, for € 20,194 to Acea Ato2 which also incurred an increase in size and the concentration of sales personnel for extraordinary activities (for example replacement of meters due to cold) or in compliance with resolution 655 rather than on the re-

covery of credits.

On 31 December 2017, the devaluation fund totals € 81,521 thousand and shows an increase, net used assets, of € 21,746 thousand compared to 31 December 2016.

Credits for invoices to be issued include rate equalisations, accrued by Acea Ato2 and Acea Ato5, for a total of € 179,432 thousand (including contractual quality premium), related to the following rate periods:

- before 2012 (so-called prior equalisations) for € 167 thousand;
- first regulated period (2012-2015) for € 94,578 thousand;
- second regulated period (2016 e 2017) for € 84,688 thousand.

The Group proceeded to report part of the equalisations among non-current assets, equal to € 135,920 thousand (€ 128,070 thousand on 31 December 2016).

Energy Infrastructure Area Credits

Appear as € 145,194 thousand with a € 61,943 thousand increase compared to 31 December 2016 which is attributable exclusively to areti due to effects deriving from regulatory modifications contained in ARERA resolution 654/2015/R/eel which called for the registration of revenue deriving from the elimination of so-called regulatory lag. For further details one is directed to the note on the trend of areas of activity. One notes the amount entered in current credits is € 53,000 thousand.

On 31 December 2017, the credit devaluation fund totals € 37,336 thousand and shows a € 22,752 thousand increase due

primarily to the appropriation of € 15,723 thousand related to Gala; for more details one is directed to the Management Report as well as the paragraph “Update on primary legal controversies”.

Engineering and Services Area Credits

Total € 4,882 thousand and do not show significant changes compared to 31 December 2016.

Parent Company Credits

Total € 722 thousand and decreased by € 4,598 thousand compared to 31 December 2016. The Credit devaluation fund is reported at € 3,368 thousand and decreased € 2,115 thousand compared to the end of the previous financial year. During 2017 credits without recourse were assigned for a total amount of € 1,314,572 thousand of which € 232,708 thousand are toward

the Public Administration (in 2016 the figures were € 1,397,420 thousand and € 190,625 thousand respectively).

23.d – Credits toward parent company shareholder Roma Capitale

On 31 December 2017, credits toward Roma Capitale total € 52,672 thousand (on 31 December 2016 they were equal to € 45,533 thousand).

The total amount of the credits, including financial credits deriving from the public lighting contract both short and medium/long-term, is € 188,214 thousand versus € 167,177 thousand at the end of the previous financial year.

The following table displays together the size of the accounts held with Roma Capitale by the Acea Group, both regarding credit exposure and debt exposure, including financial items.

€ thousand	31/12/17	31/12/16	Change	Change %
CREDITS	192,137	179,636	12,501	7.0%
DEBTS (including Dividends)	(129,064)	(142,286)	13,222	(9.3%)
Balance (Credits - Debts)	63,074	37,350	25,723	68.9%

The following table further illustrates the composition of the Group's credit and debt toward Roma Capitale.

Credits toward Roma Capitale	31/12/17	31/12/16	Change
Credits for users	43,089	34,220	8,868
Credits for works and services	5,673	7,435	(1,763)
Miscellaneous credits: seconded personnel	158	184	(26)
Total invoiced services	48,920	41,840	7,080
Credits for contributions	2,402	2,402	0
Total services requested	51,321	44,242	7,080
Credits for invoices to be issued: Public Lighting	0	0	0
Credits for invoices to be issued: other	1,351	1,291	59
Total Credits for Services to be invoiced	1,351	1,291	59
Total Commercial Credits	52,672	45,533	7,139
Financial credits for Public Lighting	135,542	121,644	13,898
Financial credits from Public Lighting: invoice issued	118,228	106,317	11,912
Financial credits from Public Lighting: invoice to be issued	17,314	15,328	1,986
Total Credits Receivable in Next financial year (A)	188,214	167,177	21,037

Debts toward Roma Capitale	31/12/17	31/12/16	Change
Debts for sewage and purification fees	0	0	0
Debts for additional electric energy	(15,257)	(15,260)	2
Debts for Concession fees	(100,235)	(112,715)	12,480
Total commercial debts	(115,492)	(127,974)	12,483
Total Debts payable in next financial year (B)	(115,492)	(127,974)	12,483
Total (A) - (B)	72,722	39,203	33,519
Other financial credits/(debts)	1,162	9,088	(7,926)
Other commercial credits/(debts)	(10,810)	(10,941)	130
Net Balance	63,074	37,350	25,723

The variations in credits and debts is due to accrual during the period and to the effects resulting from payments and collections. The stock of credits in existence on 31 December 2017 shows an increase of € 7,139 thousand compared to the previous financial year, specifically one reports:

- a € 17,572 thousand increase in credits for hydro users;
- a € 8,405 thousand decrease in credits for electric users;
- a € 1,729 thousand decrease in credits for works and services.
- A € 301 thousand.
- decrease in credits for district heating.

For financial credits one sees a € 13,898 thousand increase compared to the previous financial year exclusively attributable to the maturity of credits related to the public lighting service contract, the LED Plan agreement and Public Lighting work.

During this period € 87,605 thousand in collections were shown total. Below one lists the types of credits involves:

- € 3,260 thousand in credits for hydro users following the recognition of the off-balance sheet debt approved by the Capitoline assembly on 29/12/2016 for invoices issued on 31 December 2013;
- € 15,989 thousand in credits for hydro users issued in 2017;
- € 8,897 thousand in credits for electric users following the recognition of the off-balance sheet debt approved by the Capitoline assembly on 29 December 2016 for invoices issued on 31 December 2014;
- € 24,911 thousand in credits provided for under the public lighting contract in force (payments from September 2016 to March 2017, adaptation to standard and pro-rata 2015);
- € 31.326 thousand in credits connected to the new LED Plan agreement of which € 15,081 thousand were reported on 31 December 2016;
- € 974 thousand in credits related to public street lighting work, of which € 863 thousand were reported on 31 De-

ember 2016;

- € 1,434 thousand in credits related to hydro jobs;
- € 423 thousand in credits for district heating services, of which € 310 thousand were reported on 31 December 2016.

On the debt side, one sees a total decrease of € 13,222 thousand. The primary variations are given below:

- increase in Acea Ato2 debts due to the share of concession fees accrued over the period (+ € 24,703 thousand);
- registration of rent fees for occupying public space accrued in 2017 by subsidiary areti (+ € 1,394 thousand);
- registration of debt for shareholder dividends matured in 2016 by Acea Ato2 following approval by the shareholders' Assembly on 20 April 2017, € 2,169 thousand;
- Decrease in debt due to new regulation of street cables (- € 1,983 thousand) almost entirely ascribable to payment in 2017 of debt registered on 31 December 2016. Around € 12 million was paid during the year for the portion maturing in 2017;
- reduction of debt for the account toward Roma Capitale due to the LED Plan following the replacement of lights with LED devices (- € 2,273 thousand);
- reduction of Acea Ato2 concession fee for a total of € 37,184 thousand due to:
 1. payment through compensation of the 2012 concession fee balance (- € 7,080 thousand);
 2. payment of the 2013 concession fee balance (- € 25,004 thousand);
 3. payment on account of 2014 concession fee (- € 5,100 thousand).

One notes that in June 2017 the coupon was detached related to dividends accrued for FY 2016 equal to € 67,339 thousand (debt registered following 27 April 2017 shareholder resolution).

23.e Commercial credits towards related and jointly-controlled entities

€ thousand	31/12/17	31/12/16	Change	Change %
Credits toward related companies	2,807	3,838	(1,031)	(26.9%)
Credits toward jointly-controlled entities	33,696	24,433	9,264	37.9%
Total	36,503	28,271	8,233	29.1%

Credits toward related businesses

Total € 2,807 thousand (they were € 3,838 thousand on 31 December 2016) and refer primarily to credits toward Marco Polo for € 1,236 thousand, toward Geal for € 157 thousand, toward S.I.I. for € 1,139 thousand.

Credits toward jointly-controlled businesses

Total € 33,696 thousand (€ 24,433 thousand on 31 December

2016), showing a € 9,264 thousand increase and refer to credits held towards companies consolidated with the equity method. Specifically, the balance is comprised of credits recorded in Acea toward its subsidiaries for € 23,402 thousand and in Sarnese Vesuviano towards the subsidiary Gori for € 10,431 thousand. The credits registered in Acea toward its subsidiaries arise from the recording of credits deriving from the allocation of costs sustained for the Acea2.0 programme and represent the assignment of a mutual investment.

23.f Other current assets and credits

€ thousand	31/12/17	31/12/16	Change	Change %
Credits toward other parties	132,273	119,714	12,559	10.5%
Receivable accruals and discounts	13,678	10,850	2,828	26.1%
Credits for derivatives on commodities	2,241	1,944	296	15.2%
Total	148,192	132,508	15,684	11.8%

Credits toward other parties

Total € 132,273 thousand, below is an analysis of the primary items contributing to the balance:

€ thousand	31/12/17	31/12/16	Change	Change %
Credits towards Cassa Conguaglio for Energy Equalisation	47,842	37,747	10,095	26.8%
Credits towards Cassa Conguaglio for CT to be cancelled	12,809	14,339	(1,530)	(10.7%)
Other Credits towards Cassa Conguaglio	(55)	10,658	(10,713)	(100.5%)
Financial credits towards Trifoglio immobiliare	0	10,250	(10,250)	(100.0%)
Credits for regional contributions	6,841	6,841	0	0%
Credits for Social Security contributions as per Article 41, 2nd paragraph, lettera A of Law 488/1999	4,160	4,576	(416)	(9.1%)
Credits towards Equitalia	4,293	4,264	29	0.7%
Security deposits	10,803	3,077	7,726	n/a
Credits towards welfare institutions	3,160	3,697	(537)	(14.5%)
Credits from individual transfers	2,200	2,441	(241)	(9.9%)
Credits for advanced payments to suppliers	5,387	2,773	2,614	94.3%
Credits towards Municipalities	1,085	1,085	0	0%
Credits towards Factorers for transfers	62	62	0	0%
Credits for accrued Green Certificates	12,657	0	12,657	n/a
Credits towards employees	5	0	5	n/a
Other Credits for IP Napoli	647	616	31	5.0%
Credits for advanced payments to employees	(38)	0	(38)	n/a
Other Credits	20,415	17,287	3,128	18.1%
Total	132,273	119,714	12,559	10.5%

Receivable accruals and discounts

Total € 13,678 thousand (€ 10,850 thousand al 31 December

2016) and refer primarily to public land rent fees, rent and **insurance** fees. There is a positive change of € 2,828 thousand.

23.g – Current financial assets

€ thousand	31/12/17	31/12/16	Change	Change %
Financial credits towards parent company	117,472	108,387	9,085	8.4%
Financial credits towards subsidiaries and related companies	2,309	6,038	(3,729)	(61.8%)
Financial credits towards third parties	117,891	16,851	101,040	n/a
Total	237,671	131,275	106,396	81.1%

Financial Credits towards parent company shareholder Roma Capitale

Total € 117,472 thousand and have increased by - € 9,085 thousand compared to 31 December 2016. Said credits represent the unconditional right to receive cash flows consistent with the methods and timelines provided for by the service contract for management of public lighting. For more details see the note to the item *Credits towards parent company shareholder Roma Capitale*.

Financial credits towards related and jointly-controlled businesses

Total € 2,309 thousand (€ 6,038 thousand on 31 December 2016) and refer, to a € 2,823 thousand financing, including accrued interest, disbursed in November 2010 to Sienergia in receivership to handle its needs related to some investment projects to the € 1,241 thousand current portion of the credit for shareholder financing recorded in Umbriadue Servizi disbursed to the company Servizio Idrico Integrato and to the € 322 thousand financing granted to the Company Citelum Acea Napoli Pubblica Illuminazione.

Financial credits towards third parties

Total € 117,891 thousand (€ 16,851 thousand on 31 December 2016) and are substantially composed of:

- € 100,000 recorded in Acea for opening of a short-term deposit with expiry on 3 April 2018;
- € 10,700 thousand recorded in Acea Ato5. This is a credit towards the Ambito Territoriale Ottimale Authority accrued in three years given that a third of said amount is to be paid by 31 December of each year, with the first instalment due 31 December 2007. The Settlement agreement signed by the Company and the Environment Authority has as its object the definition of issues related to greater operational costs sustained in 2003 – 2005: recognition of the greater cost net sums related to 1) the portion of rates – corresponding to amortisations and remuneration of inflated invested capital – related to investments provided under the Environment Plan and not realised in the first three years 2) to the share of inflation accrued on concession costs and 3) to

penalties for contractual non-fulfilments having occurred in the three-year period,

- € 5,320 thousand recorded in Acea related to matured credits for management of public lighting services.

23.h – Current tax assets

Total € 61,893 thousand (€ 74,497 thousand on 31 December 2016) and include:

€ thousand	31/12/17	31/12/16	Change	Change %
VAT Credits	26,329	48,783	(22,453)	(46.0%)
IRAP [regional tax] and IRES [corporate tax] credits	24,739	3,557	21,182	n/a
Additional municipal, provincial and revenue taxes	6,396	3,502	2,894	82.6%
Other tax credits	4,428	18,655	(14,227)	(76.3%)
Total	61,893	74,497	(12,604)	(16.9%)

23.i – Cash in hand and equivalent liquidity

The balance on 31 December 2017 of the current bank and postal accounts opened at various credit institutions as well as the Post

Office by consolidated companies, excepting those held for sale, is equal to € 680,641 thousand. The following table shows the breakdown and variation by activity area:

€ thousand	31/12/17	31/12/16	Change	Change %
Environment	1,875	23	1,852	n/a
Commercial and Trading	27,118	5,775	21,343	n/a
Foreign	2,785	3,217	(432)	(13.4%)
Hydro	65,089	78,378	(13,289)	(17.0%)
Energy Infrastructure	55,019	808	54,210	n/a
Engineering and Services	1,332	0	1,332	n/a
Parent Company	527,423	577,332	(49,909)	(8.6%)
Total	680,641	665,533	15,108	2.3%

24. Non-current assets destined for sale/Liabilities directly related to assets destined for sale - € 146 thousand

The balance on 31 December 2017 is equal to € 146 thousand and remains invariable compared to 31 December 2016. € 183 thousand represents the fair value of the commitment to buy back, in the case of failure to fulfil certain conditions provided under the contract, as a result of the possible exercise of the put granted to the buyer of the photovoltaic branch and € 37 thou-

sand represents the debt toward the purchaser for buyback of the equity corresponding to the plants subject to the put.

Liabilities

On 31 December 2017 total € 7,387,591 thousand (they were € 6,904,713 thousand on 31 December 2016), show a € 482,878 thousand increase (+ 7,00%) compared to the previous financial year, and are comprised as follows:

€ thousand	31/12/17	31/12/16	Change	Change %
Net worth	1,811,206	1,757,943	53,263	3.0%
Non-current liabilities	3,388,725	3,382,460	6,265	0.2%
Current liabilities	2,187,623	1,764,211	423,413	24.0%
Liabilities directly related to assets destined for sale	37	99	(63)	(63.2%)
Total Liabilities	7,387,591	6,904,713	482,878	7.0%

25. Net worth - € 1,811,206 thousand

Consolidated Net Worth on 31 December 2017 is € 1,811,206 thousand (€ 1,757,943 thousand on 31 December 2016). The variations occurring over the course of the period are shown in detail in the designated table.

Share capital

Totals € 1,098,899 thousand, represented by 212,964,900 Ordinary shares of € 5.16 each as shown in the Shareholders Register, and is currently subscribed and paid-in in the following amounts:

- **Roma Capitale: 108,611,150 shares;** for a total nominal value of € 560,434 thousand;
- **Market: 103,935,757 shares** for a total nominal value of

€ 536,309 thousand;

- **Treasury Shares: 416,993** ordinary shares for a total nominal value of € 2,151 thousand;
- **AMA: 1,000 shares** for a total nominal value of € 5 thousand.

Legal reserve

Includes 5% of the profits from the previous financial year as provided by Article 2430 of the Civil Code and refers to the Parent Company's reserve which totals € 100,619 thousand.

Other reserves and retained earnings

On 31 December 2017 these are equal to € 337,427 thousand versus € 214,702 thousand on 31 December 2016.

The € 122,725 thousand variation stems, in addition to the desti-

nation of income from the previous financial year, from

1. € 131,780 thousand dividend distribution by the parent company and
2. € 6,450 thousand decrease in the financial instruments and commodities cash flow hedge reserves (net the associated tax reserve)
3. € 204 thousand increase in the actuarial gains and losses reserves net the associated tax reserve
4. € 11,248 thousand increase in the exchange rate reserve.

One further notes that the acquisition of the TWS Group carried out on 23 February 2017 had a positive effect, therefore the consolidated reserve includes amounts not yet allocated given that the business combination has not yet closed on the date of this document was drafted.

On 31 December 2017 Acea has 416,993 of its own shares in its portfolio usable for future medium/long-term incentive plans. Currently there are no plans aimed at share-based medium/long-term incentivisation.

€ thousand	31/12/17	31/12/16	Change	Change %
Benefits owed at the moment of employment termination				0,0%
- Severance Plan	67,002	65,848	1,154	1.8%
- Accrued Additional Salary Payments	10,989	10,961	28	0.3%
- Long-term incentive plan (LTIP)	1,219	780	440	56.4%
Benefits subsequent to employment				
- Rate Rebates	29,220	31,961	(2,741)	(8.6%)
Total	108,430	109,550	(1,120)	(1.0%)

The variation, in addition to the allocation reserve, which following severance reform represents employees' severance plans up to 31 December 2006, derives from the revision of the discount rate used for valuation based on IAS19.

As provided by paragraph 78 of IAS 19 the interest rate used to calculate the actual amount of the obligation is determined in re-

	December 2017	December 2016
Discount rate	1.30%	1.31%
(Average) rate of income growth	1.59%	1.59%
Long-term inflation	1.50%	1.50%

In reference to Group Employee Benefits (Severance Plan, Additional Salary Payment, Rates Rebates for active and pensioned employees) a sensitivity analysis was performed in order to value

Type of plan	+0.5%	-0.5%
€ million		
Severance	-3.7	+4.1
Rates Rebates	-2.2	+0.3
Accrued Additional Salary Payments	-0.8	+0.4

Furthermore, a sensitivity analysis was performed related to the age of the group, hypothesizing a group one year younger than

Type of plan	-1 year of age
€ million	
Severance	-0.1
Rates Rebates	-1.8
Accrued Additional Salary Payments	+0.3

Net Worth of Minority Interests

Is equal to € 93,580 thousand and shows an increase of € 6,772 thousand. The variation between the two periods compared is substantially due to the combined effect of the share of profits attributable to minority interests, the decrease in net worth deriving from the distribution of dividends related to 2016 profits and changes to the scope of the consolidation due to the consolidation according to equity of AceaGori Servizi (today called Gori Servizi).

26. Severance plans and other set benefit plans -€ 108,430 thousand

On 31 December 2017 these total € 108,430 thousand (€ 109,550 thousand on 31 December 2016) and reflect severance payments and other benefits to be disbursed subsequent to employees cessation work activities.

The following table shows the variation in actuarial liabilities which occurred in the financial year:

ference to the performance on the valuation date of shares of the main companies in the financial market to which Acea belongs and to the performance of State securities in circulation on said date having a comparable term to the residual term for the group of employees examined.

Regarding the economic-financial scenario, the following table indicates the main parameters used for valuation.

the variations in liability resulting from the flat variations, both positive and negative, of the rates' curve (shift + 0.5% - shift -0.5%). The results of said analyses are summarised below.

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

27. Risks and obligations allocation fund - € 209,619 thousand

On 31 December 2017 the risks and obligations fund totals € 209,619 thousand (€ 202,122 thousand on 31 December 2016) and is designated to cover probable liabilities which could arise from pending legal controversies, based on the indications of inside and outside counsel, without however considering the effects of those controversies which are expected to have a positive outcome and

those for which a negative outcome is deemed merely “possible.” In calculating the size of the fund one considers both presumed costs, which could derive from legal controversies or other disputes occurring in the period, and the update of estimates of positions made in previous years charged to the company. The following table shows the breakdown by type and the variations which occurred over the course of the period:

€ thousand	31/12/16	Used	Appropriations	Released Fund Surplus	Reclassifications/ Other Changes	31/12/17
Legal	11,030	(4,616)	5,408	(980)	898	11,739
Tax	4,361	(344)	3,385	(89)	2,031	9,344
Regulatory risks	57,267	(4,437)	8,961	(797)	0	60,994
Subsidiaries	4,717	(109)	48	(143)	6,286	10,799
Contributory risks	2,671	(73)	115	(31)	(87)	2,594
Insurance deductibles	2,015	(690)	804	(15)	(3)	2,111
Other risks and funds	23,684	(10,715)	7,719	(761)	(329)	19,597
Total Risks Fund	105,745	(20,985)	26,438	(2,816)	8,796	117,178
Retirement and redundancy	2,131	(11,893)	28,052	0	(135)	18,155
VAT Variation Notes	8,829	(3)	0	0	17,893	26,719
Post mortem	23,044	0	0	0	(5,741)	17,303
Liquidation Costs Fund	0	(165)	(5)	0	393	222
Costs towards others Fund	0	0	110	0	251	361
Restoration Costs Fund	62,373	0	9,062	0	(41,754)	29,681
Total Costs Fund	96,376	(12,062)	37,218	0	(29,093)	92,441
Total Risks and Costd Funds	202,122	(33,047)	63,656	(2,816)	(20,296)	209,619

The primary variations relate to:

- the **tax risks fund** which shows an increase of € 4,983 thousand primarily due to the appropriations made by Acea Energia and Umbria Energy for excise tax risk;
- the **regulatory risks fund** which underwent a total decrease of € 3,727 thousand, due to the combined effect of assets use, for € 4,437 thousand, primarily related to risks related to the cost of a Bacino Imbrifero Montano surcharge following the settlement agreement signed in June 2017 and the € 8,961 thousand appropriation primarily ascribable to risks tied to higher fees owed to the Abruzzo Region and risks related to service continuity (€ 1,700 thousand);
- the appropriation fund to handle costs deriving from the **redundancy and retirement** plan which underwent an increase, net used assets, of € 16,024 thousand compared to 31 December 2016;
- the obligations **funds** recorded in Acea Energia, in areti, Acea Ato2 and Acea Ato5 to cover possible repayment of VAT to the State in cases of customer payment in arrears subsequent to the issuance of the variation note resulting from the modification, brought about by Law n. 208/2015, to rules governing variation notes for VAT purposes following the termination for non-performance of contracts for supplying electric energy, gas and water;

- the **post mortem** fund which refers to:
 - costs connected to management of the Orvieto landfill which underwent a decrease due to a change in the accounting estimate related to the discounting of said fund, and
 - the fund formed by Acea Produzione for decommissioning the Tor di Valle plant which was put in action during the financial year;
- the **restoration fund** which was reduced following a variation to the criteria for calculating the fund necessary to maintain in a good state infrastructure used within the scope of management of water services.

For greater detail regarding the nature of the appropriations refer to note 7.

One holds that the resolution of ongoing disputes and other possible controversies should not give rise for additional costs for Group companies, with respect to the appropriations made which represent the best possible estimate based on the elements available today.

For further details one is directed to the paragraph “*Updates on primary legal controversies*”.

28. Debts and other non-current financial liabilities - € 2,745,035 thousand

€ thousand	31/12/17	31/12/16	Change	Change %
Bonds	1,695,028	2,019,447	(324,418)	(16.1%)
Medium/Long-term financings	1,050,007	751,404	298,603	39.7%
Total	2,745,035	2,770,851	(25,815)	(0.9%)

The values in the table include the fair value, on 31 December 2017, of coverage instruments signed by Acea which in the following table are reported separately according to coverage instrument. One notes that the comparative values were subject

to reclassification with respect to published data for a better understanding of variations. In particular, for the Bonds entry one proceeded to reclassify the portion of the related accrual identified as current.

€ thousand	Coverage instrument	Derivative Fair Value	31/12/2017	Coverage instrument	Derivative Fair Value	31/12/2016
Bonds	1,656,682	38,347	1,695,028	1,995,878	23,568	2,019,447
Medium/Long-term financings	1,041,131	3,432	1,050,007	746,149	5,255	751,404
Debts and other non-current financial liabilities	2,697,813	41,778	2,745,035	2,742,028	28,823	2,770,851

BONDS

Bonds total € 1,695,028 thousand (€ 2,019,447 thousand on 31 December 2016) and refer to:

- € 594,949 thousand (including the long-term portions and costs connected to underwriting) related to the bond loan issued by Acea on July 2014, with 10-year term and fixed interest rate, under the € 1.5 billion Euro Medium Term Notes (EMTN) programme. The share of interest accrued in the period is equal to € 15,750 thousand,
- € 491,754 thousand (including the long-term portions and costs connected to underwriting) related to the bond loan issued by Acea on October 2016 under the EMTN programme. The share of interest accrued in the period is equal to € 5,000 thousand,
- € 422,251 thousand (including the long-term portions and

costs connected to underwriting) related to the bond loan issued by Acea in March 2010, with 10-year term and expiry on 16 March 2020. The share of interest accrued in the period is equal to € 19,025 thousand,

- € 148,939 thousand related to the Private Placement which, net the € 38,349 thousand negative fair value of the coverage instrument, totals € 186,075 thousand. As said Fair Value is classified as effective coverage, it is allocated to a specific asset reserve. The exchange rate difference, negative for € 17,311 thousand, of the coverage instruments calculated on 31 December 2017 is allocated to the designated exchange rate reserve. The exchange rate effect on 31 December 2017 is € 135.28 versus € 122.97 on 31 December 2016. The share of interest accrued in the period is equal to € 3,871 thousand.

The following gives a summary of the bonds including the current share:

€ thousand	Gross Debt (*)	Coverage instrument FV	Matured interest (**)	Total
Bonds:				
2010 Issuance	421,855	0	15,168	437,022
2013 Issuance	329,746	(919)	2,129	330,956
2014 Issuance	594,150	0	7,336	601,485
2014 Private Placement issuance	147,713	38,347	632	186,692
2016 Issuance	490,774	0	945	491,719
Total	1,984,237	37,428	26,210	2,047,874

(*) including amortisation cost

(**) including rates of coverage instruments

MEDIUM/LONG-TERM FINANCINGS (INCLUDING SHORT-TERM PORTIONS)

These total € 1,201,462 thousand (€ 784,678 thousand on 31 December 2016) and are comprised of:

1. € 1,044,563 thousand in debt for principal portions of instalments with expiry beyond twelve months (€ 738,857 thousand on 31 December 2016),
2. the portions related to the same financings having expiry in the next twelve months for € 156,899 thousand (on 31 December 2016 they were € 45,821 thousand) including the

fair value portion, negative for € 3,432 thousand, of the derivative instruments launched to cover interest and exchange rate risk.

The variation is attributed to the Parent Company for € 424,825 thousand related to the issuance on 2 May 2017 of an EIB financing equal to € 200,000 thousand within the scope of the Network III Efficiency Project and the opening of two lines of credit on 22 and 28 December for a total of € 250,000 thousand, these latter expiring in the first half of 2019.

The following table shows the medium/long-term bank debt situation divided according to expiry and type of interest rate:

Bank Loans:	Total Residual Debt	By 31/12/2018	from 31/12/2018 to 31/12/2022	After 31/12/2022
at fixed rate	518,720	22,315	349,916	146,489
at variable rate	645,982	126,115	184,289	335,577
variable to fixed rate	36,760	8,338	28,422	0
Total	1,201,462	156,768	562,627	482,066

The fair value of Acea's coverage instruments is negative for € 3,432 thousand and decreased compared to 31 December 2016 by € 1,823 thousand (it was negative for € 5,255 thousand).

The Group's primary medium/long-term financial debts contain obligations (covenants) charged to the debtor Company customary in international practice.

In particular, for the financing entered into by areti an express financial covenant is provided, in the contract in force, with a 0.65 quotient for the ratio between net financial indebtedness and the amount of net financial indebtedness and net worth, which must not exceed the cited quotient on the date of each financial statement. Said ratio must be complied with each financial year both by the debtor company and the Acea Group. The quotient, calculated with the same criteria as the aforesaid contract, was complied with in 2017.

Regarding financings entered into by the Parent Company, the contracts contain:

- Standard Negative Pledge and Acceleration Events clauses;
- clauses which provide for the obligation to have the credit rating monitored by at least two major agencies;
- clauses providing for maintenance of the rating above a set level;

- obligations regarding insurance coverage and maintenance of property, of possession and use of works, plants and machinery subject to the financing for the entire duration of the loan;
- periodic reporting obligations;
- clauses for the termination of the contract based on which, on the occurrence of a determined event (i.e. serious errors in the documentation issued at the time of the contract, failed payment on expiry, suspension of payments, ...), the Bank has the ability to terminate all or part of the contract.

One notes that no indications were found which could lead to failure to comply with the covenants.

Regarding the fair value of the financial debt described above, refer to the contents of the paragraph called "Supplemental Information on financial instruments and risk management policies" in the 2017 Consolidated Financial Statement.

Below one supplies indications of the fair value of financial debt distinguished by type of financing and interest rate established on 31 December 2017. Fair value of medium/long-term indebtedness is calculated based on the risk-less and risk-adjusted rate curves. Regarding the type of coverage for which fair value is determined in reference to the hierarchy required by IASB, one notes that, these being composite instruments, the level is 2.

Bank loans:	Amortised cost	RISK LESS FV	Delta	RISK ADJUSTED FV	Delta
€ thousand	(A)	(B)	(A)-(B)	(C)	(A)-(C)
Bonds	1,695,028	2,180,307	(485,278)	2,123,924	(428,896)
fixed rate	518,720	586,261	(67,541)	574,535	(55,815)
variable rate	645,982	657,147	(11,165)	655,086	(9,104)
variable to fixed rate	36,760	37,326	(566)	36,876	(116)
Total	2,896,490	3,461,041	(564,551)	3,390,421	(493,931)

29. Other non-current liabilities - € 184,270 thousand

€ thousand	31/12/17	31/12/16	Change	Change %
Accounts	116,045	113,815	2,230	2.0%
Water connection payments	19,364	23,352	(3,988)	(17.1%)
Payments on behalf of plants	19,119	19,864	(745)	(3.8%)
Payable rates and discounts	29,741	28,493	1,248	4.4%
Total other liabilities	184,270	185,524	(1,255)	(0.7%)

ACCOUNTS BY USERS AND CUSTOMERS

The Accounts item includes:

1. the sum of water companies' security deposits and consumption advances and

2. the sum of accounts related to liabilities for advances on consumption of electric energy, paid by customers of the Fixed-Rate service, beneficiaries of rates under the conditions provided by regulations issued by ARERA (resolution n. 204/99).

The following table illustrates the breakdown by area of activities.

€ thousand	31/12/17	31/12/16	Change	Change %
Environment	2	0	2	NA
Commercial and Trading	42,442	44,790	(2,347)	(5.2%)
Hydro	70,351	68,232	2,118	3.1%
Energy Infrastructure	2,782	770	2,012	NA
Engineering and Services	446	0	446	NA
Parent Company	23	23	0	0
Total	116,045	113,815	2,230	2.0%

WATER CONNECTION PAYMENTS AND PAYMENTS ON BEHALF OF PLANTS

Total € 19,364 thousand (€ 23,352 thousand 31 December 2016) and refer primarily to Acea Ato2's € 14,605 thousand in connection payments and Acea Ato5's € 4,759 thousand. They are further comprised of € 19,119 thousand (€ 19,864 thousand on 31 December 2016) related to payments on behalf of plants registered in the liabilities annually attributed by share to the profit and loss account in relation to the duration of the investment to which the issuance of the contribution is connected. The portion of the repayment is determined based on the useful life of the asset in question.

PAYABLE ACCRUALS AND DISCOUNTS

Total € 29,741 thousand and refer primarily to contributions

€ thousand	31/12/17	31/12/16	Change	Change %
Financial Debts	633,155	151,478	481,677	n/a
Debts towards Suppliers	1,237,808	1,292,590	(54,782)	(4.2%)
Tax Debts	38,841	46,361	(7,520)	(16.2%)
Other Current Liabilities	277,819	273,782	4,038	1.5%
Current Liabilities	2,187,623	1,764,211	423,413	24.0%

FINANCIAL DEBTS

€ thousand	31/12/17	31/12/16	Change	Change %
Debts towards banks for short-term credit lines	34,813	7,139	27,675	n/a
Debts towards banks for loans	156,899	45,821	111,078	n/a
Short-term Bonds	352,846	26,256	326,590	n/a
Debts towards shareholder Municipality of Rome	2,936	3,040	(104)	(3.4%)
Debts towards subsidiaries and related companies	663	596	68	11.4%
Debts towards third parties	84,997	94,882	(9,885)	(10.4%)
Total	633,155	177,734	455,421	n/a

Debts towards banks for short-term credit lines

Total € 34,813 thousand (€ 7,139 thousand on 31 December 2016) and show an increase of € 27,675 thousand, chiefly attributable to the Parent Company.

Debts towards banks for loans

Total € 156,899 thousand and refer to debts towards banks for the current portion of loans with expiry within the next twelve months. The increase is ascribable primarily to the reclassification of the current share of the Parent Company's EIB financing equal to € 100,000 thousand expiring in 2018. For greater details one should refer to the contents of note 28 of this note.

Short-term bonds

Total € 352,846 thousand. The increase is attributable to the reclassification of the Acea bond issuance at the beginning of September 2013, with expiry on 12 September 2018 for a total value of € 328,827 thousand (net the positive fair value allocated in the profit and loss statement financial management entry of € 919

received, released to the profit and loss in measure equal to the amortisation generated by the investment to which it is connected. Specifically allocated to said entry is the residual contribution received by areti for activities replacing electro-mechanical gauges with digital measurement devices (ARE-RA resolution 292/06).

30. Deferred taxes fund - € 92,835 thousand

On 31 December 2017, the fund shows a balance of € 92,835 thousand (€ 88,158 thousand on 31 December 2016).

Said fund includes in particular deferred taxes related to the difference between the portion of economic-technical amortisation applied to depreciable assets and that for tax purposes. € 4,062 thousand in used assets over the period and € 9,056 thousand in appropriations contribute to the item's composition. Refer to note 20 for details.

31. Current liabilities - € 2,187,623 thousand

thousand, and including the residual share connected to its underwriting), plus the portion of accruals on bond loans. One notes that the comparative values have been subject to reclassification compared to published data for purposes of better understanding variations. For additional information refer to note 28.

Debts towards parent company shareholder Roma Capitale

Total € 2,936 thousand and are substantially composed of the € 2,169 thousand debt for distribution of Acea Ato 2 dividends, and from a € 767 thousand account paid in relation to the LED Plan.

Debts towards subsidiaries and related companies

Total € 663 thousand and have increased € 68 thousand entirely due to the equity consolidation of Gori servizi which had previously be wholly consolidated.

Debts towards third parties

Total € 84,997 thousand (€ 94,882 thousand on 31 December 2016). The composition of said entry breaks down as follow:

€ thousand	31/12/17	31/12/16	Change	Change %
Shareholders for dividends	65	810	(745)	(92.0%)
Environment	(72)	349	(421)	(120.6%)
Foreign	104	0	104	n/a
Hydro	31	460	(429)	(93.3%)
Parent Company	2	1	1	118.3%
Debts towards third parties	84,932	94,072	(9,140)	(9.7%)
Environment	6,944	1,101	5,843	n/a
Commercial and Trading	21,006	42,996	(21,990)	(51.2%)
Foreign	0	703	(703)	(100.0%)
Hydro	20,762	16,676	4,086	24.5%
Energy Infrastructure	34,460	30,537	3,923	12.9%
Parent Company	1,760	2,058	(299)	(14.5%)
TOTAL	84,997	94,882	(9,885)	(10.4%)

Regarding debts towards third parties, one notes a decrease of € 9,140 thousand, connected primarily to the reduction of debt

exposure toward factoring companies for transfer of credits.

DEBTS TOWARDS SUPPLIERS

€ thousand	31/12/17	31/12/16	Change	Change %
Debts towards suppliers	1,106,681	1,149,172	(42,491)	(3.7%)
Debts towards Parent company	126,128	139,245	(13,117)	(9.4%)
Debts towards Subsidiaries and Related companies	4,999	4,173	826	19.8%
Debts towards suppliers	1,237,808	1,292,590	(54,782)	(4.2%)

Debts towards third-party suppliers

Debts towards suppliers total € 1,106,681 thousand. The negative change, equal to € 42,491 thousand, is due to offsetting phenomena as shown by business area:

- **Environment:** the € 22,956 thousand decrease is primarily ascribable to Acea Ambiente;
- **Commerciale and Trading:** € 15,826 thousand decrease, compared to 31 December 2016, primarily for Acea Energia. The effect is ascribable to the reduction in volume of electric energy purchased;
- **Hydro:** The € 7,672 thousand decrease, compared to 31 December 2016 is ascribable primarily to Acea Ato2 (- € 8,904 thousand), partially offset by an increase in Gesesa's debts (+ € 1,145 thousand);
- **Foreign:** increase by € 1,504 thousand primarily due to Agua de San Pedro;
- **Energy infrastructure:** € 6,903 thousand increase, compared to 31 December 2016, primarily for areti;
- **Engineering and Services:** show an increase of € 11,935 thousand due to facility management acquisition activity (€ 6,971 thousand) and the acquisition of TWS for € 4,965 thousand;
- **Parent Company:** shows a decrease of € 16,378 thousand compared to 31 December 2016.

The Group has put factoring agreements in place, typically in the technical form of reverse factoring. Based on the contractual structures in place, the supplier has the ability to transfer at its discretion credits held toward the company to a financial institution. In said cases, the timelines for payment provided in the invoice are subject to further extension agreed upon between the supplier and the Group, said delays are onerous in nature. Faced with said extensions, a quantitative analysis was performed aimed at verifying whether or not the modification of the contractual terms is substantial, through preparation of a quantitative test in accordance with the provisions of IAS39 AG62. In said context the accounts, for which the primary obligation with the supplier is maintained and any extension where granted does not bring with it a substantial modification of the terms of payment, maintain their nature and therefore remain classified among commercial liabilities.

Commercial debts towards parent company shareholder Roma Capitale
Total € 126,128 thousand and are noted together with commercial credits in paragraph n. 23 of this note.

Commercial debts towards subsidiaries and related companies

€ thousand	31/12/17	31/12/16	Change	Change %
Debts towards subsidiaries	2,592	338	2,253	n/a
Debts towards related companies	2,407	3,835	(1,427)	(37.2%)
Total	4,999	4,173	826	19.8%

Debts towards subsidiaries includes debts towards companies consolidated using the equity method including Ingegnerie Toscane (€ 2,300 thousand), while debts towards related companies refer primarily to debts registered in Acea toward the related company Citelum Napoli Pubblica Illuminazione (€ 2,364 thousand).

TAX DEBTS

Total € 38,841 thousand (€ 46.361 thousand on 31 December

€ thousand	31/12/17	31/12/16	Change	Change %
Debts towards social security and welfare institutions	19,714	17,345	2,368	13.7%
Payable accruals and discounts	466	281	185	65.8%
Other current liabilities	257,640	256,155	1,485	0.6%
Total	277,819	273,782	4,038	1.5%

Debts towards social security and welfare institutions
Total € 19,714 thousand (€ 17.345 thousand on 31 December

€ thousand	31/12/17	31/12/16	Change	Change %
Environment	1,157	822	335	40.7%
Commercial and Trading	1,828	1,563	264	16.9%
Foreign	12	12	0	(1.2%)
Hydro	5,825	5,322	504	9.5%
Energy Infrastructure	6,558	6,075	484	8.0%
Engineering and Services	1,175	679	496	73.0%
Parent Company	3,159	2,872	287	10.0%
Total	19,714	17,345	2,368	13.7%

Debts for derivatives on commodities

Said entry totals € 0 thousand and represents the fair value of some financial contracts signed by Acea Energia.

€ thousand	31/12/17	31/12/16	Change	Change %
Debts towards Cassa Conguaglio	53,914	49,066	4,848	9.9%
Debts towards Municipalities for concession fees	51,585	56,299	(4,714)	(8.4%)
Debts for collections subject to verification	60,105	60,824	(719)	(1.2%)
Debts towards Employee personnel	39,556	41,450	(1,894)	(4.6%)
Other debts towards Municipalities	16,616	8,883	7,733	87.1%
Debts towards Equitalia	4,745	7,257	(2,511)	(34.6%)
Debts for solidarity contributions	4,755	4,760	(5)	(0.1%)
Debts for environmental premium, Article 10 of AT14 Agreement of 13/08/2007	661	1,547	(886)	(57.3%)
Debts for purchase of surface rights	633	917	(283)	(30.9%)
Debts towards users for refund of Rate Components as a result of referendum	9	11	(1)	(13.8%)
Debts for acquisition of business line	5,537	7,486	(1,949)	(26.0%)
Other debts	19,523	17,655	1,868	10.6%
Other current liabilities	257,640	256,155	1,485	0.6%

The € 1,485 thousand variation refers primarily to the combined effect of the following counterbalancing phenomena:

- + € 7,733 thousand in debts towards municipalities, of which € 714 thousand is due to a change in consolidation scope and € 6,916 thousand for payment of purification and sewage fees;
- - € 1,949 thousand less in debt for purchase of business line by Acea Ato2 (€ 1,156 thousand toward the company Ac-

2016) and include the € 2,697 thousand tax burden for the period related to IRAP and IRES and € 38,601 thousand for VAT. There is a € 7,520 thousand positive variation due to the effect of taxes imposed during the period.

OTHER CURRENT LIABILITIES

Total € 277,819 thousand and are composed as shown in the following table:

2016) and are broken down by area as follows:

Other current liabilities

Total € 257,640 thousand with an increase of € 1,485 thousand compared to 31 December 2016. The entry is composed as follows:

- - € 1,894 thousand less in debts towards employee personnel;
- - € 2,511 thousand less in debts towards Equitalia especially by areti and Acea Ato2.

ACQUISITIONS FOR THE FINANCIAL YEAR

On 23 February 2017, the TWS Group (Technologies for Water Services) was acquired, held by Severn Trent Luxembourg Overseas and the 0.9% of Umbriadue held by Severn Trent (W&S)

Limited. The Group is consolidated in full. The acquisition price totals € 2,880 thousand.

Net Acquisition Activities

€ thousand	Book value of business acquired	Fair value adjustments	Eliminations	Fair value
Material Fixed Assets	1,166	0	0	1,166
Intangible Fixed Assets	1,236	0	0	1,236
Shares	9,149	974	(5,954)	4,169
Warehouse stock	8,828	0	0	8,828
Advanced Payments	4,141	0	0	4,141
Commercial Credits	15,546	0	0	15,546
Other credits	12,129	0	0	12,129
Financial credits	4,736	0	(3,726)	1,010
Cash and banks	390	0	0	390
Severance and other set benefit plans	(1,639)	(253)	0	(1,892)
Fund for deferred tax liabilities	(152)	71	0	(81)
Costs and obligations fund	(1,002)	(1,701)	0	(2,703)
Tax debts	(158)	0	0	(158)
Debts towards suppliers	(13,988)	0	0	(13,988)
Debt toward Acea parent company	(9,000)	0	0	(9,000)
Other debts	(2,917)	0	0	(2,917)
Debts towards banks	(5,067)	0	0	(5,067)
Other financial debts	(4,744)	0	3,726	(1,018)
Allocated goodwill	0	0	0	0
NET BALANCE	18,653	(909)	(5,954)	11,789
Badwill	0	0	0	(8,909)
Price of Shares	0	0	0	2,880

Amounts in € thousand

The acquisition was provisionally accounted for according to the acquisition method.

OBLIGATIONS AND POTENTIAL RISKS

SURETIES, GUARANTEES AND COMPANY GUARANTEES

On 31 December 2017, these total € 330,455 thousand (they were € 540,401 thousand on 31 December 2016) and show a € 209,945 thousand decrease.

The balance is composed as follows:

- € 65,189 thousand for guarantees in the interest of Acea Energia primarily in favour of Terna and Eni Trading & Shipping related to electric energy dispatch service contracts;
- € 68,277 thousand in favour of Acquirente Unico and in the interest of Acea Energia as counter-guarantee for the electric energy transfer contract signed by the parties;
- € 53,666 thousand as guarantee issued by Acea in favour of Cassa Depositi e Prestiti as a result of refinancing of the loan issued areti. This is a free-standing guarantee at first demand covering all obligations related to the original financing (€ 493 million). The amount of € 53,666 thousand refers to the portion of the guarantee exceeding the original debt issued (€ 439 million);
- € 10,000 thousand for the Global Guarantee issued in favour of Axpo Italia in the interest of Acea Energia as counter-guarantee for transactions in the electric energy trading field that have been or shall be signed by the parties;
- € 24,727 thousand issued by insurance institutions on behalf of Acea Ambiente (formerly ARIA): (i) in favour of the Province of Terni for management of operational and post-operational disposal activities (€ 15,492 thousand) and the removal of refuse (€ 3,157 thousand) and (ii) in favour of suppliers as guarantee for contracts (€ 6,642 thousand);
- € 30,000 thousand guarantee in favour of EDF Trading in the interest of Acea Energia as counter-guarantee for transactions in the electric energy trading field;
- € 20,000 thousand guarantee in favour of Enel Trade in the interest of Acea Energia as counter-guarantee for transactions in the electric energy trading field;
- € 15,111 thousand for guarantees issued in the interest of areti in favour of Terna related to the electric energy transmission service contract;
- € 8,000 thousand guarantee in favour of Iren Mercato SpA for an equal amount, guaranteeing timely performance under the "EFET" contract signed in July 2012 between the beneficiary company and Acea Energia;
- € 2,701 thousand related to the bank guarantee issued in favour of Roma Capitale regarding the contract for realisation of works under the "Technological Project" for the new network of mul+20ti cable duct services in Via Tiburtina and as collateral in the interest of areti;
- € 4,000 thousand related to bank guarantees issued in favour of Roma Natura related to works to upgrade the Marcigliana Reserve networks;
- € 3,712 thousand related to guarantees in favour of Italgas SpA in the interest of Acea Energia renewed in October 2014;
- € 1,295 thousand related to bank guarantees issued by the bank Bilbao Vizcaya Argentaria in favour of GSE for precise performance of Acea Ambiente (previously ARIA)'s obligations to provide restitution to GSE;
- € 6,306 thousand related to Acea Ato5 and specifically to a mandatory guarantee under Article 31 of the Technical Rules, issued by UNICREDIT in favour of AATO, calculated as 10% of the three-year average under the Financial-Rate Plan of the A.A.T.O Environment Plan.

INFORMATION ON SERVICE CONCESSIONS

The Acea Group performs services under concession in the hydro – environmental sector as well as in the public lighting sector; it further performs the service of sorting, treatment and removal of urban refuse produced by the Municipalities of Ambito Territoriale Ottimale n. 4 “Ternano – Orvietano” through Acea Ambiente (formerly ARIA) into which the company SAO was merged following the merger given effect at the end of December 2016.

Regarding the hydro – environmental sector the Acea Group performs under concession **Comprehensive Water Services** (SII) in the following regions:

- **Lazio** where Acea Ato2 SpA and Acea Ato5 SpA carry out services in the provinces of Rome and Frosinone respectively,
- **Campania** where G.O.R.I. SpA performs services in the territory of the Sorrento Peninsula and the Island of Capri, in the Vesuvius area, in the Monti Lattari area and in the Sarno river drainage basin,
- **Tuscany** where the Acea Group operates in the Province of Pisa through Acque SpA, in the Province of Florence through Publiacqua SpA, in those of Siena and Grosseto through Acquadotto del Fiora SpA, Arezzo through Nuove Acque SpA and in Lucca and its province through GEAL SpA,
- **Umbria** where the Group operates in the Province of Perugia through Umbra Acque SpA

Furthermore the Group is owner of various ex-CIPE management activities in the Province of Benevento with GESESA SpA and in the Municipalities of Termoli and Campagnano with Crea Gestioni SpA

For additional information regarding the legal and regulatory context one is directed to what is laid out in the Management Report.

ROME PUBLIC LIGHTING

The service is carried out by the Parent Company based on a concession issued by Roma Capitale with thirty-year term (beginning 1 January 1998). Said concession is free of charge and is implemented through a service contract which, given the concession nature of the agreement, has a term coinciding with that of the concession (2027).

The service contract provides, among other things, for the yearly update of payment items related to the consumption of electric energy and maintenance and the yearly increase of the lump sum payment related to new lamps installed.

Furthermore, investments related to the service can be

1. requested and financed by the Municipality or
2. financed by Acea; in the first case said activity is remunerated based on a list price established between the parties (and subject to revision every two years) and gives rise to a percentage reduction of the ordinary fee; in the second case the Municipality need not carry out any extra-fee payment; however, all or part of the energy and economic savings are assigned to Acea according to pre-established methods.

And, among other things, a new negotiation of the qualitative/quantitative parameters is planned in 2018.

Upon natural or advanced termination – even of the type provided by Law Decree 138/2011 – Acea is owed compensation corresponding to the residual accounting value, which shall be paid by the Municipality or the sub-entering management entity subject to express provision of said obligation in the tender notice for se-

lection of a new service manager.

Finally, the contract sets out a list of events representing cause for advanced revocation of the concession and/or dissolution of the contract by will of the parties; among these events, one related to sudden needs ascribable to public interest appears significant which establishes in favour of Acea the right to compensation proportional to the product, discounted, between a set percentage of the yearly contractual amount and the number of years remaining till expiry of the concession.

Based on the size of the public lighting plants on 31 December 2009, the yearly ordinary fee amount is set by the supplemental agreement at € 39.6 million and includes all costs related to supply of electric energy to run the plants, ordinary management and ordinary and extraordinary maintenance.

In June 2016, Acea and Roma Capitale signed a private contract aimed at governing the undertakings and obligations arising from launch of the LED Plan and, as a result, amending Article 2.1 of the Supplemental Agreement signed in 2011.

Specifically, the Plan provides for the installation of 186,879 frames to be carried out at 10,000 a month beginning thirty days subsequent to the signing of the agreement; payment is set at € 48 million for the entire LED Plan. 10% of the amount will be liquidated on account and the remainder based on bi-monthly Statements of Work Progress, for which 80% must be paid by Roma Capitale within thirty days subsequent to the closure of the Statement, and the remaining 15% within fifteen days after the Statements verification. The contract further provides for an incentive/penalty mechanisms for installation of more/less than what was planned for each two-month period as well as a reduction of the payment owed by Roma Capitale equal to 50% of the economic value of the Energy Efficiency Securities granted Acea for the LED Project.

As a result of the execution of the LED Plan the parties have partially amended Article 2.1 of the 2011 Supplemental Agreement in reference to the list price and the composition of payment for management of the service.

COMPREHENSIVE WATER SERVICES

Lazio – Acea Ato2 SpA (Ato2 – Central Lazio - Rome)

Acea Ato2 performs comprehensive water services based on an agreement entrusting the service with thirty-year duration signed on 6 August 2002 between the company and the Province of Rome (represented by the Environmental Authority formed by 112 Municipalities including Roma Capitale). In return for the service concession, Acea Ato2 pays a concession fee to all the Municipalities based on the effective date of acquisition of service management which is provided to occur over time: today the activity (including that related to previously acquired Municipalities) has been completed for 94 Municipalities out of a total of 112, equivalent to around 3,869,179 resident inhabitants (source ISTAT 2011).

On 31 December 2017 the territory managed has not undergone changes compared to 2016.

In reference to **rates**, as noted, ARERA – with resolution 674 of 17 November 2016 – has definitively approved the 2016-2019 rates arrangement, proposed by the Conference of Mayors and of Presidents of the Provinces of ATO2 Central Lazio; the essential contents are summarised below:

- The lack of admission of interests on the equalisation pay-

ments (equal to € 4.0 million) and of the difference for 2014 and 2015 between the amounts of the loans and other payments made to the Municipalities and those recognised in the rates calculation for said years (total equal to € 2.5 million);

- zeroing of the item for recovery of the RvVOL rate equalisation appraised in the year 2018 (reduction of 2018 equalisations equal to € 1.2 million); zeroing of the residual portion of equalisation items whose recognition was proposed by the Conference in years subsequent to 2019 (thus the entire recovery of prior equalisations up to 2019 is prescribed);
- delay until the subsequent 2018-2019 two-year update for recognition of the items equalising costs granted in systematic variation related to the management/maintenance of municipal water fountains and booths and the acquisition of new management areas (thus the proposal to consider the costs sustained for systemic variation in 2016 and 2017 as a supplement to the inherent operating costs for said years is postponed);
- transmission by EGA within thirty days of publication of the Resolution of the Services Chart as amendment by agreement with the service manager and the Consumers' Associations Based on ARERA resolution 674/2016, revenue for the period has been valued and totals € 288.5 million: including the estimate of equalisations for past entries, the FNI component (€ 26.5 million) - which, starting 2017, is partially designated for rates equalisation (€ 2 million in the period) - as well as the premium owed the Service Manager for following the improved standard compared to that operating in the territory, integrally updating the provisions related to contractual quality as per Resolution 655/2015;
- recognition of the maximum values of the rates multiplier, confirming the values for 2016 and 2017 and adjusting, downward, those for the subsequent years 2018 and 2019;
- deduction of the 2014 and 2015 asset increases of the amount deriving from application of the MALL parameters to 2012-2015 (€ 9.2 million) with a resulting positive rate impact for the user due to the lack of admission of capital costs attributable to the former;
- adoption of the motion made by STO (with the service manager in agreement) according to Article 32 of Attachment A of Resolution 664/2015 which provides for the payment of a premium for pursuing improved standards compared to those set by ARERA with Resolution 655/2015;
- delay, exclusively financial in nature, of the recovery of rate equalisations owed for 2016 and 2017 (€ 60.1 million in total) to subsequent years but regardless no later than 2010;
- establishment of the rate multiplier to be applied to rates in force in 2015, equal to:
 - 1,000 for 2016;
 - **1,048 for 2017;**
 - 1,107 for 2018;
 - 1,173 for 2019.

Thus, in conformity with the resolved rates provisions, the rate applicable to the user beginning 1 January 2017 has registered an increase of 4.8% with respect to the rates applied in both of the two previous years (in 2016 the rate remained unchanged with respect to 2015).

Provided under ARERA resolution 655/2015 (€ 30.6 million, gross reimbursement owing to customers). The amount of the premium accrued in the period represents the best estimate carried out based on the actual measurement of performance level as well as the expected level.

Lazio – Acea Ato5 SpA (Ato5 – Southern Lazio - Frosinone)

Acea Ato2 performs comprehensive water services based on an agreement entrusting the service with thirty-year duration signed on 27 June 2003 between the company and the Province of

Frosinone (represented by the Environmental Authority formed by 86 municipalities). In return for the service concession, Acea Ato2 pays a concession fee to all the Municipalities based on the effective date of acquisition of service management.

The management of integrated water services in the territory of Ato 5 – Lazio Meridionale - Frosinone regards 85 municipalities with a total population of around 490,000 inhabitants, a population served of around 481,000 inhabitants and 194,360 users. To date the completion of said process has not occurred for the Municipalities of Palliano and Atino, with the acquisition of Cassino centro having been perfected, beginning 1 July. Below is the description of the primary events occurring during the year:

- **Municipality of Cassino:** on 29 May 2017 ruling n. 2532/2017 was published with which the Council of State – granting the petition submitted by the Company – nullified mayor's ordinance n. 226 of 10 September 2016, adopted by the Municipality of Cassino, given that it was issued to dodge the previous judgment stemming from Council of State ruling n. 2086/2015, which ordered the Municipality of Cassino to take all actions necessary to transfer the management of water services to Acea Ato5. One should note that the Counsel of State transmitted the official documents to the Public Prosecutor for the competent Court as well as the Prosecutor of the Court of Audit in part to evaluate the cost liabilities charged to the administrators, in line with the actions previously taken by the Company. Therefore, following the transmission by the Company of the aforesaid sentence to the Municipality of Cassino, on 7 June 2017 the Parties met at the S.T.O. office of A.A.T.O. 5, in the presence of the Accountable Officer, to establish the activities necessary to transfer the service to the Manager which was agreed to (and effectively took place) beginning 1 July 2017. During the same meeting additional issues were addressed which to date are still pending. Among these – besides those which are chiefly technical and/or operational – of particular significance is the issue of establishing the sums owed by the Municipality of Cassino to Acea Ato5 for the purification service of which the Company has ownership; the parties determined to have a work group, composed of representatives of the STO, the Municipality of Cassino and the Service Manager, which will have the task of quantifying the aforesaid sums. The activities are still pending and the Company has repeatedly petitioned both the Municipality and the Environmental Entity to promptly resolve the issues in question.

- **Municipality of Atina:** partly as a result of the position taken in a judicial forum in reference to the Municipality of Cassino matter, as well as repeated requests – by STO, A.A.T.O. 5 and the Service Manager – on 21 June 2017, during a meeting held at STO, the Municipality of Atina showed its willingness to proceed, effective 1 September 2017, with the transfer of the works and plants relating to management of the service. The documents attesting to the decision are still in the process of being formalised. On 28 September 2017 municipal technicians and Acea Ato5 signed the record of recognition of the works and plants relating to comprehensive water service in municipal territory – without however the formal operational delivery of the service occurring – and subsequently the Service Manager acquired the list of users located in the aforesaid territory. However, when the closure of the matter seemed to have been reached, the Municipality of Atina – despite repeated attempts put in place by the Company in order to finally proceed with the delivery of the plants necessary for management of water services in the territory – has continued to merely engage in dilatory conduct, repeatedly attempting to evade, in a specious manner, the administrative judgment which declared

its obligation to proceed with transfer of water services in favour of the Service Manager. In June 2018 the meetings between the parties at Ato 5's S.T.O. continued: specifically at the 9 January 2016 meeting the Mayor of the Municipality of Atina expressed his agreement with the draft of the record drafted to conclude the procedure aimed at transferring the water service network and infrastructure, proceeding to submit it to the attention of the heads of the local Service entity so that amendments and/or supplements could be carried out. In subsequent meetings, no representative of the Municipality has appeared to sign the record of delivery of the water service in favour of the Service Manager. Therefore the S.T.O. of A.T.O. 5 Lazio Meridionale -Frosinone and Acea Ato5 SpA has decided to petition the President of the Province of Frosinone, as Commissioner *ad acta* appointed by the Lazio Regional Administrative Court – Latina section, with ruling n. 356/2013 on 21 March 2013, so he might adopt all proper initiatives, actions and legal documents proper and/or necessary to conclude the procedure of transferring to Acea Ato5 SpA the water and sewer plants and works related to comprehensive water service in Atina municipal territory. The Company immediately transmitted a formal petition to the President of the Province of Frosinone, as Commissioner *ad acta*, so he may proceed, in place of the non-performing Municipality of Atina, “with the granting in concession (...) as well as the material delivery of

works and plants belonging to the water service” in favour of Acea Ato5 SpA; furthermore, it contemporaneously petitioned ARERA to launch a procedure aimed at verifying the legitimacy of the rates applied up until now by the Municipality of Atina to users, as well as sending it to the competent control Authorities – among them the Public Prosecutor for Cassino and the Court of Audit – to ascertain the liability, including those related to costs and/or penalties, charged to the indicated parties, adopting all resulting suitable initiatives.

- **Municipality of Paliano:** regarding the petition submitted by the Company before the Latina Regional Administrative Court in order to obtain the invalidation of the provision with which the Municipality put forward its refusal to transfer the service at the public hearing of 7 December 2017, the Latina Administrative Court with ruling n. 6/2018 of 11 January 2018 granted the petition submitted by the Company against the Municipality of Paliano, which, for over 10 years. The Company therefore requested the immediate transfer of the service and the Ministry of the Environment also petitioned for said performance, including through the exercise of the Regional Administration's substitutional powers.

In reference to **rates**, as noted, the Conference of Mayors, in its 13 December 2016 meeting, among other things, approved with resolution n. 6 the 2016-2019 rate proposal and the following multipliers:

2016	2017	2018	2019
1,080	1,166	1,260	1,360

The essential contents of resolution n. 6 are the following:

- valuation of the FNI component based on the ψ parameter equal to 0.4;
- admission of an arrears rate of 3.8% in place of the 7.1% requested by the Company, based on a reasoned request;
- lack of admission of the $Opex_{qc}$ item;
- reduction of the equalisations accrued in 2012-2015, through the application of penalties for alleged non-performances related to 2014 and 2015, by around € 11 million million including the estimate for the equalisation for past entries and the FNI item of € 3.5 million.

As noted, the Company has submitted a petition for the nullification of resolution n. 6 and the public hearing for arguments on the merits has been scheduled for 8 March 2018.

Based on the rate proposal approved by the Conference of Mayors on 13 December 2016 revenue has been quantified for the financial year, which amounts to € 69.9 million including the estimate for the equalisation for past entries and the FNI item of € 3.5 million.

Regarding the rate equalisations one notes that:

- past ones related to 2006 – 2011, quantified by the Commissioner *ad acta* at € 75.2 million and confirmed by the Council of State with ruling n. 1882/2016, amount, regarding the residual amount still to be invoiced on 31 December 2017, to € 2.6 million;
- those accrued in the first regulated period (2012-2015) total € 54.7 million and, in conformity with ARERA resolution 51/2016, shall be recovered beginning 2023. The Directors, also supported by an authoritative legal opinion, believe that the € 11 million in penalties, imposed by the Conference of Mayors for alleged non-performances related to 2014 and 2015, are not owed and, for this reason following the ruling, they were subject to a petition submitted before the Latina Regional Administrative Court. Therefore they are not reflected in the balance sheet;

- those accrued in 2016 total € 17.2 million while those accrued in 2017 total € 22.1 million.

In regard to **accounts with the Operational Technical Secretary's Office (STO)** one notes that, during the financial year, the Company requested an investigation regarding sums paid beginning in 2003 being designated as concession fees; this recognition finds its basis in the need to ascertain possible coverage, even partial, of the Environmental Entities contractual debt with the Company (€ 10.7 million) in conformity with the Settlement Agreement signed in 2007 or the reduction of concession fees (and thus of the rate charged to users).

Furthermore, also in reference to concession fees, one notes that in June, the STO transmitted various invoices to the Company related to the balance of fees related to 2006-2011 for a total amount of around € 7 million (net sums already paid for said period). Said invoices were contested and rejected given the 30 May 2013 Determination of the Commissioner *ad acta* – regarding “*Determination of equalisations and levels of service in reference to management from 2006 to 2011*” – in determining the rate equalisations in favour of the Service Manager (cfr. par.3.5, pag. 17-18 of said Determination):

- identified, among the various operational costs, the cost of the concession, whose value has remained constant over the years;
- expressly classified the concession fees as “pass-through entries”;
- specified that the amount of the concession fees should be reduced in light of the weight of users served on the total users in the area (91.51%) consistent with Report 21/06/2012;
- expressly quantified the concession fees – duly reduced as specified supra – at € 5,634,000.00 per annum.

In other words, the total amount of the concession fees owed by the Company for 2006-2011 was equal to a total of € 33.8 million; net payments made for said period (€ 29.6 million), the residual amount still owed totals € 4.2 million which the Company duly paid forwarding, on 16 November 2017, a note in which at-

tested to the Service Manager's commitment to pay € 1.37 million by the end of the financial year (duly paid at the beginning of 2018) as well as the disputation of any further debt related to concession fees. Faced with this commitment, the counterparty took notice of the documents produced and declared the need, also in light of the contents of the note itself, to "consult" Acea Ato 5. In light of the above, the Judge, taking note of the counterparty's request, postponed the hearing until 27 February 2018.

Connected to said judgment 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 postponed until 11 May 2018.

The total amount claimed by the Environmental Entity with the above-cited invoices is thus (at least partially) not due given its conflict with the Commissioner ad acta's rate determination whose validity was recently recognised by the Council of State with ruling n. 1882/2016.

Regarding the petition before the Lazio Regional Administrative Court, Latina section presented by the Company opposing resolution n/ 1/2016 of 18 February 2016, with which the Conference of Mayors expressed its objection to the incorporation of Acea Ato5 into Acea Ato2, following the withdrawal by the Company of the provisional injunction, on 23 February 2017 the hearing took place arguing the merits, as a result of which the Judges reserved their right to decide, adopting interlocutory order n. 184/2017 with which it ordered a supplemental report to the legal proceeding. In particular, the Tribunal requested from the Company a report with clarifications, in addition to the production of a copy of the merger project, granting a 60-day term and setting a hearing on the merits for 22 June 2017, as a result of which the Tribunal – asking for additional clarifications regarding the preliminary question of the formal validity of the resolution as well as an explanation regarding the obligations of Acea Ato5 shareholders which will be transferred to the entity resulting from the merger – reserved their right to decide.

On 11 September 2017 ruling n. 450/2017 was published with which the Lazio Regional Administrative Court – Latina section granted the petition submitted by Acea Ato 5 SpA against Ato 5 Lazio Meridionale - Frosinone to annul the Conference of Mayors' resolution n. 1 of 18 February 2016, which rejected the petition to approve the modification of the party commissioned by the Entity to manage the water service.

Regarding the case to terminate the Management Agreement, one must note that the Latina Administrative Court, with ruling n. 638 published 27 December 2017 granted the petition submitted by the Company opposed to the Conference of Mayors' resolution which ordered its termination, invalidating the provision. The terms of the petition are currently pending before the Council of State.

In reference to additional complex cases related to legal controversies, filed or being filed, between Acea Ato5 and the Environmental Authority, one is directed to the "Update on primary legal controversies" paragraph of this document.

Campania – GORI SpA (Sarnese Vesuviano)

GORI, based on an agreement signed with the Sarnese Vesuviano Environmental Entity on 30 September 2002, is entrusted for a 30-year period with the comprehensive water services relating to 76 Municipalities in the provinces of Naples and Salerno. For the granting of the service contract, GORI pays a concession fee to the granting entity (Sarnese Vesuviano Environmental Entity) based on the effective date management areas are acquired. The management area has remained essentially unchanged compared to the previous financial year with the processes of acquir-

ing additional areas to manage having by now concluded; indeed there are 76 municipalities managed, i.e. all those falling within ATO n. 3 of the Region of Campania.

Rates: first regulated period

As noted, on 10 March 2016, the petition related to the approval of the ATO3 rates provisions by ARERA were finally positively concluded with the publication of resolution 104/2016/R/idr bearing the title: "Approval, for purposes of valuing equalisations within the rate method for the second regulation period mti-2, of the rate provisions regarding the Ambito Territoriale Ottimale Sarnese Vesuviano, for 2012-2015". Specifically, ARERA has:

- approved the rate modifiers in the maximum measure applicable for each year, specifically: 2012: $\vartheta = 1.065$; 2013: $\vartheta = 1.134$; 2014: $\vartheta = 1.236$; 2015: $\vartheta = 1.347$;
- established, as a result, the total amount of rate equalisations for years after 2015 as € 38.9 million (Group share € 14.4 million);
- directed the Entity to update the Economic-Financial Plan with the values approved within said resolution also taking into account the adjustment cost of the Owners' Loan (MTp) entry for 2013 due to erroneous valuation, to be made to the equalisations whose methods for recognised amount are provided starting on 2016;
- directed the Entity to transmit, within 30 days of the provision's publication, "the results of the verifications completed regarding the assumptions on which treatment is based for the cost item for wholesale purchase, and specifically in relation to the provisions of the Agreement – signed on 24 June 2014 – to regulate the relationships between the Campania Region, the Environmental Entity, Acqua Campania SpA and GORI SpA, which the party will take note of in quantifying the past entries related to periods prior to the transfer to the Authority of regulation and control functions for the sector, also asking for verification that the aforesaid agreement is compatible with the principle of supplementing regulatory gaps (confirmed by the aforementioned case law) in light of the instructions introduced by the Authority beginning in 2012".

In April 2016, the Entity took note of ARERA's directions showing, for 2012 a significant error of around € 4 million related to the rate reduction for wholesale water given that the 2014 regulating Agreement already included a 25% reduction for 2012.

Said error shall be recovered in the rates established for the second regulated period in which one will also see the recovery of the share of the loans not recognised in 2013.

Rates: Petition for economic-financial rebalancing and petition for arrears

As per Attachment A, Article 32.2 of resolution 643/2013/R/idr as well as resolution 122/2015/R/idr, in order to launch the financial equalising measures in advance for the rate equalisations, on 23 March 2016 the Company submitted a formal petition for rebalancing presenting a collection of measures, including the opening of a rebalancing procedure, whose favourable acceptance would bring about a final resolution of the situation of financial disequilibrium in the management of ATO3; at the same time and in connection with the aforesaid rebalancing petition, a petition was also brought for recognition of the actual cost of payment in arrears for 2014 and 2015, according to Attachment A, Article 30.3 of ARERA resolution 643/2013/R/idr.

ATO3's conclusions related to the preliminary activity regarding the petitions were formalised in the concluding Record of 18 May 2016: The Entity found the arguments put forward by the petition to be founded and therefore the conditions existed to proceed with the proposal to adopt the rebalancing measures contained in said petition with the modifications introduced with

specific reference to the scenario that provides for the transfer of the so-called Regional Works. Said rebalancing measures should thus be included and form part of the Economic Financial Plan to be prepared within the scope of the rate obligations provided by resolution 664/2015. To these conclusions ATO3 adds in reference to the petition to recognise the actual costs of arrears for 2014 and 2015. For greater details one is directed to the following paragraph.

Rates: Rates provisions for the second regulated period

As described in the 2016 Consolidated Financial Statement, the term established by ARERA with resolution 664/2015 for 2016-2019 rate provisions having past without result, on 15 June 2016 the Service Manager submitted a Petition for rates update within the scope of which it asked the Authority to contemporaneously approve the economic-financial rebalancing measures proposed in the rebalancing Petition in specific reference, among other things, to the initiation of a financial equalisation, within the method and terms specified in said Rebalancing Petition and in the Accompanying Report.

On 8 August 2016, the Extraordinary Commissioner of the Sarnese Vesuviano Environmental Entity approved, with resolution n. 19, subsequently amended with resolution n. 20 dated 1 September 2016, the ATO 3 Sarnese Vesuviano regulatory scheme according to 664/2015R/IDR with which, as explained in the accompanying methodology report "*the rate proposal submitted by the managing entity GORI Spa on 15/06/2016 is held to be superseded*". Following this, the primary assumptions underlying the rate provisions of the Extraordinary Commissioner of the Sarnese Vesuviano Environmental Entity are laid out for the second regulated period:

- transfer of the Regional Works by 2019, based on the agreement framework for governing the transfer in question, subsequently signed by the Campania Region and the Commissioner of the Sarnese Vesuviano area on 3 August 2016;
- additional costs related to the activities put in place in order to update the quality standard of the service established by ARERA with resolution 655/2015/R/idr (Opex_{QC}) in recognition of the request put forward by the Service Manager with the petition submitted to the Entity, on 23 May 2015, prepared according to Attachment A, Article 23.3 of ARERA resolution 664/2015/R/idr for recognition of said costs. In order to quantify said entry in VRG 2017, according to Article 6.3 of ARERA resolution n. 918 of 27 December 2017, the costs actually sustained by the Service Manager were quantified at € 2.8 million;
- additional costs related to arrears (10% for 2016, 9% for 2017, 8% for 2018, 7.1% for 2019, excepting equalisation) partially granting Service Manager's request;
- invoicing of past equalisations over four years, beginning in 2020;
- recovery of 2012-2019 rates equalisations, for a provided amount of € 106 million, within the growth limits of the rate multiplier and in three years beginning 2020;
- modification of the Action Plan proposed by the service manager within the rate update petition of 15 June 2016 with the elimination of a significant intervention; one clarifies that at the end of 2017 the study of the new Technical Quality regulation (Dco 748/2017) was launched in order to verify the impacts resulting from the Action Plan;
- payment in instalments over ten years of debts toward associates, confirming the suggestion formulated by Service Manager in the petition;
- payment in instalments over four years of debts for water service loans;
- extinction of debts toward the Campania Region for services

rendered, related to 2013-2016, by 2016 without any provision for payment of the debt position in instalments;

- opening equalisation funds up to € 244 million, with provisions for the repayment in eleven years beginning in 2020 at the rate applied by CSEA.

The rate proposal issued by the Extraordinary Commissioner of the Sarnese Vesuviano Environmental Authority further provided for rate increases within the limit of the multiplier for the years 2016 and 2017 (9%) and an increase of 5% for 2018 and 2019.

Opposing resolution n. 19/2016, both the Sorrento Peninsula Federation of Hoteliers and the Municipalities of Casalnuovo di Napoli (NA), Lettere (NA), Nocera Inferiore (SA), Roccapiemonte (SA), Roccarainola (NA) and Scisciano (NA) submitted a petition to the Campania Regional Administrative Court, Naples in order to obtain its nullification, deeming the rate increases it ordered and the regulation of rate equalisations to be illegitimate.

The petition submitted by the Sorrento Peninsula Federation of Hoteliers was declared inadmissible by the Administrative Court with ruling n.2437 of 8 May 2017 due to defect in the validation of the plaintiff, while, presently, for the case based on the petition of the aforesaid Municipalities a public hearing for argument on the merits has not yet been scheduled.

The Company has also challenged resolution n.19/2016 before the Campania Regional Administrative Court, Naples asking for its partial annulment, specifically, among other things, in reference to:

1. postponement, starting in 2020, of recovery from final users of the rate equalisations,
2. establishment of the rate increase to a degree less than the maximum allowed. Currently, one is awaiting the scheduling of a public hearing on the merits.

Revenue for the period was quantified based on the Extraordinary Commissioner's resolution 19/2016 and totals € 165.6 million (Group's share € 61.3 million) including the estimated equalisations for pass-through entries.

Relations with the Campania Region and with the licensee Acqua Campania

Also on 8 August 2016, the Campania Region, deemed to be a valid party, with Managerial Decree n. 4, approved the rate provisions for the second regulated period 2016-2019 for the **regional wholesale supply of water** also disbursed to ATO3.

The rate provisions adopted by the Region present various significant elements not in line with the rate provisions ordered by the Extraordinary Commissioner in the above-cited ruling n.19/2016 for the same regulated period, more specifically:

- the effects of ARERA resolution 338/2015/R/idr (with which the Authority approved the rates for wholesale suppliers issued by the Campania Region for 2012-2015), were calculated in a manner not conforming to the provision of resolution n. 19/2016 - which, on the contrary, acted in continuity with what was previously established by the Authority within the scope of rate approvals related to the Sarnese-Vesuviano Environmental District (cfr. ARERA resolution 104/2016/R/idr);
- the Campania Region rate provisions do not take into account the reduction in the managed area (due to the Regional Works and GORI's associated management costs) in conformity with the provisions of the aforementioned 3 August 2016 Framework Agreement, signed to implement Campania Regional Committee resolution 243/2016, which provides for a three-year programme for transfer of said Regional Works beginning in 2016;
- as a result of the aforesaid inconsistencies, as well as, more

generally, the fact that the wholesale rate approved by the above-cited Managerial Decree n.4 are much higher (due to a higher increase on the limit established by the rate method) than those considered within ATO 3's regulatory scheme.

The Company has challenged Managerial Decree n.4/2016 before the Campania Regional Administrative Court, Naples, believing it illegitimate, foremost due to the Campania Region's total lack of authority to determine the rate for wholesale water distribution services (given that the new Rate Method approved by ARERA regulation n. 664/2015/R/idr provides that powers on the subject of rates be exercised exclusively by the Environmental Entity in conjunction with ARERA itself), as well as, as shown, because the 2016÷2019 Regulatory Schemes adopted, respectively, by the Region and the Environmental Authority are not consistent with and even conflict with each other.

To that end, on 29 May 2017 Regional Administrative Court ruling n. 2839/2017 was published which granted the petition submitted by GORI, nullifying the regional provision. For that reason the rate for wholesale water services in the Campania Region remains that determined by the Authority in resolution 338/2015/R/idr, equal to 0.1638954 €/m³.

As noted, in 2016 orders arrived from the Campania Region to pay the amounts for **waste water collection and purification service** within its purview since 2013. Said orders were then followed, in 2017, by notice of an injunctive decree of around € 19.5 million by the Court of Naples on the Region's petition for 2015 – 3Q 2016.

Furthermore, Acqua Campania SpA (as alleged regional licensee for collection of credits) first warned and then, on 14 November 2016, gave notice of having filed suit against GORI before the Court of Naples for payment of wholesale water supply services for the remainder owed related to 01/01/2013 - 30/06/2016 of around € 103 million.

The Company contested and rejected said orders and appeared in the aforesaid cases to defend itself and dispute the opposing party's claims, asserting that the current agreement framework in place between the Region of Campania, the Environmental Authority, GORI and Acqua Campania rules out the possibility of finding GORI to be non-performing given that the current ATO3 rating regime is still unsuitable to guarantee coverage of all costs, including those that might derive from regional wholesale supply.

Furthermore, the 24 June 2013 Agreement and the associated Additional Document of 24 March 2014 dictate that the parties modify – through a specific agreement – the sums owed to GORI as payment according to changes in rates and, thus, according to the capacity guaranteed by the actual rate on water services applied by the Service Manager.

It is absolutely necessary for the Environmental Entity and the Region to perform a new investigation in order to adopt provision which are mutually consistent and useful so that ARERA can approve the 2016-2019 Regulatory Scheme and insure economic-financial equilibrium in the management of ATO3's water services.

That granted, regarding the controversy related to regional waste water collection and purification services for 2013-2016, GORI – on the assumption it is impossible to pay the Region payments accrued for wholesale supply made to ATO3 – in 2016 renewed its request to divide it into instalments, previously submitted in 2015, elaborating – to then put it in action – a proposed payment plan for the payments for waste water collection and purification, in conformity with the provisions of the ATO3 Economic Financial Plan approved with the licensee's resolution n.15/2015, and so as to guarantee the Company's financial equilibrium, also in connection with and within the scope of the Rebalancing Petition.

On 7 June 2017 a preliminary meeting was held at ARERA with the Campania Region, the Campania Water Entity, the Extraordinary Commissioners of the Naples-Volturno ("Ato 2") and Sarnese-Vesuviano ("ATO 3") Environment Districts, as well as service managers "Azienda Speciale di Napoli ABC" ("ABC"), Acqua Campania and GORI, in order to conduct verifications – "based on the criteria and procedures as per resolutions 656/2015/R/idr and 664/2015/R/idr" – regarding:

- general elements of the Campania Region / Acqua Campania joint rate proposal and the associated impact on the regional management structure;
- failure to adopt the rate provisions related to purification services rendered to the Campania Region;
- the general elements of the specific regulatory schemes proposed for GORI and ABC;
- the transfer of Regional Works to service manager GORI as per Campania Regional Commission resolution 243/2016;
- the petition for economic-financial rebalancing put forward by the Sarnese Vesuviano Environmental Entity for GORI;
- the wholesale rate applied by service manager ABC.

Within the scope of the ARERA proceeding, the Campania Water Entity prepared a timeline programme for activities to complete the investigation in order to harmonise, by 31 March 2018, the Regulatory Schemes related to the providers of comprehensive water services operating in the united regional ATO and to then allow ARERA to adopt final provisions.

Based on said itinerary launched by the Campania Water Entity, and in order to not obstruct it, at the hearing on 14 September, the pending case before the Court of Milan between Acqua Campania SpA and G.O.R.I. SpA, for the payment of around € 103 million, was postponed to 2 April 2018, as a result of instructions given by the Campania Region to licensee Acqua Campania SpA.

On the same basis, the 24 October hearing for discussion of the Campania Region's € 19.5 million injunctive decree was postponed upon joint request of the parties.

The rate equalisations owed to GORI in whole on 31 December 2017 total € 196.6 million (Group share: € 72.8 million) and are comprised of:

1. past items, accrued up to 31 December 2011, for € 122.5 million,
2. the rate equalisations accrued in the first regulation period (2012-2015) for € 63,2 million and
3. the equalisations accrued in 2016 for € 10.9 million. One notes that in FY 2017 there were no additional accrued equalisations to be recovered.

Regarding the past items, as noted, the Campania Regional Administrative Court, with its 2015 rulings, declared the resolutions made on the subject (43 and 46 of 2014) invalid on the supposition that the Extraordinary Commissioner at the moment of their adoption lacked the appropriate powers. On 16 March 2017 the Council of State, to which GORI submitted an appeal, scheduled an additional hearing for discussion of the case on 26 October 2017, ordering the Campania Water Entity in the meantime (whose Bodies are still in the process of being formed) to produce a report on the provisions which should be adopted regarding the aforesaid rate equalisations. On that occasion, in the absence of the aforesaid report, the parties requested a postponement of arguments on the merits. The scheduling of a new date is currently pending. While awaiting determination of the legal cases, the Extraordinary Commissioner, within the scope of the above-cited resolution 19/2016, confirmed the existence of said equalisations although he further postponed the possibility of invoicing the user.

Currently, dialogue continues with interested parties, the Cam-

pania Region, Campania Water Entity, Sarnese Vesuviano Environmental Entity and Authority aimed at establishing a comprehensive industrial agreement for the full implementation and government of water services in the Sarnese Vesuviano Environmental District, to be finalised within the scope of the rate update proceeding for 2018-2019 and in which they might find a definitive resolution, in part through the opening of the financial rebalancing previously requested of ARERA: 1. the transfer of the Regional Works and the associated assigned personnel according Campania Regional Commission resolution 243/2016 and the subsequent Agreement for implementation of said resolution signed between the Region and the Environmental Entity on 3 August 2016; 2. rate reconciliation for wholesale supply in favour of the ATO3 for 2012÷2019; 3. regulation between the Campania Region and Gori of the respective credit and debt entries through an appropriate repayment plan corresponding to the profile for recovery of rate equalisations; 4. regulation of recovery of the rate equalisations.

For the above-reported reasons and despite significant uncertainties (connected, primarily, to the timeline for invoicing rate equalisations for past entries dating prior to 2012 and the associated collection, the decision of the above-cited petitions for recognition of arrears and rebalancing submitted to the competent Authorities, as well reaching an agreement for payment in instalments of the debt accrued towards the region as a result of and within the scope of the rebalancing measures which may adopted), which have clear financial repercussions, one continues to assume business continuity believing that fruitful conclusion to the above-cited proceedings and agreements may occur within a reasonable time according to the methods suggested.

To that end, given the financially tense situation, it was deemed appropriate to devalue the investment in the consolidated financial statement.

Regarding the **financial profile**, on 23 April 2014 a contract was signed for rescheduling of the loan expired in June 2011 in a multi-year loan with 31 December 2021 expiry. The loan provides for an interest rate of 6-month EURIBOR plus 5.5 percentage points due on 30 June and 31 December of each year.

Campania – GESESA SpA (Ato1- Calore Irpino)

The Company operates in Optimal Territorial Area ATO no. 1 Calore Irpino which promotes and develops the initiative for the management of the Integrated Water Service (SII) in Municipalities in the Province of Avellino and Benevento. The Company manages the SII in 21 Municipalities in the Province of Benevento with a total resident population of 120,000 inhabitants served in an area of about 700 km² and 57,000 users. The drains service is supplied to approximately 83% of users, whilst purification to approximately 40%. At present, the Authority, supported by the Special Commissioner pursuant to Regional Government Decree no. 813/2012 has not yet appointed a single manager to manage the SII.

Following the approval of Regional Law 15/2015 on the reorganisation of the Campania Integrated Water Service, GESESA is currently preparing a plan of aggregation with other companies in the sector to create a subject that may be considered the sole manager of ATO1.

Whilst awaiting provisions by the competent bodies, the company has undertaken forms of aggregation with other managers of the area and, to this end, expanded its area of management in November 2015, with the acquisition of the business unit by means of conferral by Consorzio CA.B.I.B., acquiring the direct

management of the SII of 5 consortium member municipalities and the wholesale supply of another 2 consortium member municipalities, one of which (Tocco Caudio), in 2017 resolved to award the management of the S.I.I. directly to the company as from June 2017. Moreover, fostered by the mentioned rules seeking to introduce the principle of “unitary management”, i.e. a Single Manager in the AATOI, numerous municipalities, currently managed under the economy system, have expressed the desire to appoint the Company to manage the SII.

In August 2016, all the documentation containing the data and calculation tools regarding the tariff proposal for 2016-2019 useful in terms of submitting to the competent Authority the tariff adjustment request was sent to the Calore Irpino A.T.O The Tariff Preparation for 2016 - 2019, approved by the AATO I by Special Commissioner Resolution no. 8 of 29 March 2017 determines the following tariff multipliers:

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

We are awaiting approval by AAEGSI.

In October 2017, the Company was Audited by the Authority, which collected information and documentation on service management. We are currently awaiting information about the results and outcome of the audits performed.

Tuscany – Acque SpA (Ato2 – Basso Valdarno)

The management agreement, which came into force on 1 January 2002 was signed on 28 December 2001; in 2016, its initial twenty-year duration was extended to 2026. On the basis of this agreement, the Manager receives in exclusive custody the integrated water service of the ATO no. 2 made up of all the public services for the collection, supply and distribution of water for domestic uses, sewerage and waste water treatment. This region includes 57 municipalities. Given the assignment of the service, Acque is to pay a concession fee to all the Municipalities, including for previous liabilities to be paid by the management pre-existing to the assignment.

As regards the **tariffs**, on 05 October 2017, by resolution no. 32, the AIT approved the new tariffs for 2016-2019, sending them to ARERA for approval. The main change with respect to the previous situation (resolution 28 of 05 October 2016) lies in the approval of the new OPEX_{QC} request submitted by Acque in lieu of the Premio_{QC} request. The proposal confirms, for the four years 2016-2019, the tariff multipliers previously approved; for 2017, the tariff multiplier is 6.0. The lack of changes to tariffs with the introduction of the OPEX_{QC} was obtained through the postponement of the tariff recovery of balance calculations recognised to the years 2020 and 2021 as well as, in 2018 and 2019, with a cut to the FONI component. For FY 2016 and 2017, OPEX_{QC} were approved respectively for Euro1 million and Euro 2.2 million: as mentioned, the lack of variance in the approved theta was obtained only through postponing the Rc component, without cutting the FONI component. Together with the Tariff preparation and the Economic-Financial Plan, ARERA was also sent the other deeds comprising the Regulatory System, i.e. the Schedule of Interventions and Management Convention.

To date, ARERA has not yet approved the regulatory system.

Revenues for the period amounted to a total, including the adjustment of pass-through items, of € 1450.9 million (€ 67.9 million attributable to the Group) and represent the best estimate made on the basis of the tariff proposal approved by the AIT in October 2017, whilst awaiting completion of the tariff approval process for the second regulatory period.

Following the waiver to extend the concession, which required the adjustment of the computer model and budget, the criterion has not been clarified to be used to calculate the ADSCR, which considers the initial availability of cash for the year in which the waiver is issued (2016).

In these conditions, the essential application of the methods used to calculate the ADSCR parameter contained in the loan contract would, despite the presence of cash from previous years, make it impossible to use it to pay payables of previous years, or, if used, an ADSCR index that is below the minimum value envisaged by the loan contract.

This anomaly has been pointed out to the lenders and an agreement was reached with them to propose a specific waiver by which to make the calculation relative to 2016 formally coherent with the computer model approved by the waiver of 29 February 2016, an integral part of the loan.

In actual fact, by applying this correction to the calculation only for 2016, for the alignment with the computer model, the ADSCR value would be 1.43, and, therefore, in line with the loan contract. Should the ADSCR parameter certified be less than 1.1, the company can only distribute to the shareholders the dividends from equity investments in other companies.

Therefore, despite having provided a disclosure on the financial risks, the matter becomes more formally than substantively relevant.

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

- an appeal was lodged to the Council of State against the ruling issued on 22 April 2013 by the Tuscany Regional Administrative Court which dismissed the appeal filed by Acque for cancellation of Co.N.Vi.Ri. resolution No. 60 of 27 April 2011, related to the re-examination of the review for the 2005-2008 period of the Toscana – Basso Valdarno AATO 2 area plan. The judgement is currently pending, whilst awaiting scheduling of the hearing. Please note that the judgement of the regional administrative court has been challenged, not only by the Company but also, and first by the AATO:
- in November 2014, the company was served a writ of summons by CONSIAG SpA to appear before the court of Florence. Until 31 December 2001, CONSIAG was the water service operator for the consortium municipalities, all of which are part of the ATO 3, except for the municipality of Montespertoli that is included in ATO2. In addition to Acque, the summons was also notified to the Tuscan Water Authority and to all the public shareholders of Acque. With regard to Acque, CONSIAG is claiming a 0.792% interest in the company and compensation for a total amount of €2.0, as a result of the service carried out in the municipality of Montespertoli. On the other hand, the Municipality of Montespertoli already had an indirect interest in Acque, through Publiservizi (shareholder of Acque with 19.26% of the shares) of which it is a shareholder with a 0.98% stake. The Company believes these claims are groundless.

Tuscany – Publiacqua SpA (Ato3 – Medio Valdarno)

On 20 December, 2001 the management agreement was signed, entering into force on January 1, 2002, with a duration of twenty years. 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 are managed through contracts inherited from the previous management of Fiorentinagas. Given the assignment of the service, the Operator is to pay a concession fee to all the Municipalities, including for previous liabilities to be paid by the man-

agement pre-existing to the assignment. In June 2006, Acea - via the vehicle Acque Blu Fiorentina SpA - completed its acquisition of an interest in the company.

With reference to **tariffs**, on 05 October 2016, the AIT, by resolution no. 29, approved the preparation of the 2016-2019 tariffs, which envisage, for 2016 and 2017, a tariff multiplier respectively of 1.040 and 1.066. We are awaiting approval by ARERA. Furthermore, in resolution 27/2016, the AIT approved the new tariff range in which new types of utility have been introduced envisaging a variation in the consumption ranges attributed to the various utilities. The most significant of these is the breakdown of domestic use into resident and on-resident.

Revenues for the period amounted to a total, including the adjustment of pass-through items, of €237.6 million (€95.0 million attributable to the Group) and represent the best estimate made on the basis of the tariff proposal approved by the AIT in October 2016, whilst awaiting completion of the tariff approval process for the second regulatory period. Revenues also include the Fo.NI. component for Euro 32.6 million (Group share Euro 13.0 million); this component is intended to cover the tariff benefits for an annual amount of approximately Euro 2 million.

In terms of **funding sources**, on 30 April 2015, the Company signed with the EIB a loan of € 50 million maturing at the end of 2020. On 30 March 2016, a loan contract was signed maturing on 30 June 2021 for € 110 million, which had been paid out in its entirety as of the date of this document. This loan has partly been used to repay the ongoing loans and mortgages. The repayment plans agreed have been modulated on the basis of cash flow available for the reimbursement, in accordance with the Budget used for tariff purposes, and the instalments have been regularly repaid, as falling due on 30 June 2017 and 31 December 2017.

Tuscany - Acquedotto del Fiora SpA (Ato6 - Ombrone)

On the basis of this management agreement, signed on 28 December, 2001, the Manager (Acquedotto del Fiora) has been exclusively entrusted with the integrated water service of the ATO no. 6 made up of all the public services for the collection, supply and distribution of water for domestic uses, sewerage and waste water treatment. The management agreement has a duration of twenty-five years with effect from 1 January 2002.

In August 2004, Acea - via the vehicle Ombrone SpA - completed its acquisition of an interest in the company.

As regards **tariffs**, on 5 October 2016, in resolution no. 32, the AIT approved the tariff for 2016 and the remaining years of the second regulatory period in addition to the 2016-2021 Plan of Interventions, the Economic-Financial Plan and the new awarding agreement: the tariff calculations envisage the recognition of the additional costs ($Opex_{OC}$) concerning aspects linked to adjustment to the Service quality standards, for € 0.8 million in 2016 and € 1.5 million for the period 2017-2019 and the FNI component for € 8.0 million. The proposal approved by the AIT envisages a tariff multiplier of 4.5% for 2017. By resolution 687/2017/R/idr of 12 October 2017, ARERA ratified that previously approved by the AIT.

The revenues for FY 2017 were calculated on the basis of AIT resolution 32/2016 and amount to a total of €96.2 million (€38.5 million attributable to the Group), including the adjustment of pass-through items.

In terms of **funding sources**, Acquedotto del Fiora signed a loan contract in June 2015 for € 143 million maturing at the end of 2025. The loan is paid out at a variable rate and envisages guarantees on the current accounts and receivables of the Company and the pledge on the shares of Acquedotto del Fiora that are

owned by Ombrone.

In order to protect itself from an excessive market volatility, in line with that stated in the term sheet, in the light of the economic convenience and financial risk evaluations, the Company implemented among some of the Financing Entities a plain vanilla type hedge of 70% of the "Loan" until its maturity date, through the finalisation of Interest Rate Swap transactions to transform the variable rate to fixed rate. In December 2016, reimbursement began of the principal shares: at end 2017, the residual loan totals Euro 131.7 million.

Umbria – Umbra Acque SpA (Ato1 – Umbria 1)

On 26 November, 2007 Acea was finally awarded the tender called by the ATO 1 Perugia Area Authority for selecting the private minority industrial partner of Umbra Acque SpA (expiry of the concession on 31 December, 2027) The entry into the capital of the company (with 40% of the shares) took place with effect from 1 January 2008. The Company carries out its activity on all 38 Municipalities that constitute ATO 1 and 2.

The tariff calculations for the second regulatory period were carried out in the session of the Sole Assembly of ATO1 and ATO2 at the end of June and definitively approved by the ARERA in resolution 764/2016/R/idr of 15 December 2016.

The national Regulator has substantially confirmed the tariff proposal approved by the EGA which for 2017 envisages a tariff multiplier of 1.121 and the recognition of the component linked to commercial quality (so-called OPEX_{QC}) amounting to €2 thousand each year in 2017-2019.

On the basis of the calculations made by the AEEGSI, the revenues for the year were valued, amounting to a total of €71.5 million (€ 28.6 million attributable to the Group), including the adjustment of pass-through items, and also including a FoNI component of €3.1 million (€1.2 million attributable to the Group), entirely allocated to the tariff discounts for disadvantaged users.

It must be noted that the Economic-Financial Plan approved in the aforementioned resolution 764/2016 envisages a plan for the

repayment of the residual debt at 31 December 2015 (€ 12.5 million) to the Municipalities for the fee due, as per the Agreement, for the repayment of the mortgage rates contracted by the Municipalities for the realisation of the Integrated Water Service. The plan envisages the repayment of the debt in five annual payments from 2017 at constant rates.

As regards the petition brought before the regional administrative court of Umbria, by another user and by the Comitato Umbro Acqua Pubblica, following the transposition of the original Extraordinary Appeal to the Head of State brought by the appellants in FY 2015 for the cancellation after suspension of Resolution no. 6 of 28 April 2015 and related annexes, please note that at the hearing of 06 April 2016 before the regional administrative court of Umbria, the Comitato Umbro Acqua Pubblica renounced the request for suspension of the application of tariff balance adjustments of the previous items 2003-2011. By virtue of this, there has been no legal ruling for blockage of the application of said balance calculations and the events are yet to be defined on the merits. On 29 April 2016 the Company was notified, by registered letter, of the additional Extraordinary Appeal before the Head of State in which the Umbro Acque Pubbliche Committee challenged the deed of validation of ATI Umbria 1 adopted in Shareholder' Meeting Resolution no. 13 dated 30 November 2015 concerning the adjustment of the backdated items already deliberated by ATI Umbria 1 in the previous measure no. 6 of 28 April 2015, which was the subject of a previous dispute (Extraordinary Appeal transposed to the Umbria Regional Administrative Court). In following on from that already submitted by the ATI by Deed dated 10 May 2016, the Company then presented opposition and related request for transposition to court by Deed dated 27 June 2016. The Comitato Umbro Acqua Pubblica has therefore submitted an appeal to the regional administrative court with entry of appearance against the request for transposition in the court submitted both by ATI Umbria 1 and by Umbra Acque SpA, against the second Extraordinary Appeal to the Head of State.

In this case too, the Company will continue to monitor the events of the dispute between the parties, as they unfold.

PROGRESS OF THE TARIFF APPROVAL PROCESS

Company	Status
Acea Ato2	On 27 July 2016, the EGA approved the tariff including the premium pursuant to Art. 32.1 letter a) Resolution 664/2015/R/idr. Approval approved by ARERA with Resolution 674/2016/R/idr with some changes with respect to the EGA's proposal; confirmed quality award
Acea Ato5	A tariff request was presented by the Operator on 30 May 2016 with an application for recognition of the Opex _{QC} . ARERA formally notified the EGA on 16 November 2016 and the EGA approved the tariff proposal on 13 December 2016, dismissing, among other, the request for recognition of the Opex _{QC} . We are awaiting approval by ARERA
GORI	On 1 September 2016, the Extraordinary Commissioner of the EGA approved the tariff with Opex _{QC} with effect from 2017. We are awaiting approval by ARERA
Acque	On 5 October 2017, the AIT approved the tariff with recognition of the Opex _{QC} . We are awaiting approval by ARERA
Publiacqua	On 05 October 2016, the AIT approved the tariff acknowledging the premium pursuant to Art. 32.1 letter a) Resolution 664/2015/R/idr. On October 12, 2017, with resolution 687/2017/R/idr, ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT
Acquedotto del Fiora	On 05 October 2016, the AIT approved the tariff with recognition of the Opex _{QC} . On October 12, 2017, with resolution 687/2017/R/idr, ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT
Geal	On 22 July 2016, the AIT approved the tariff with recognition of the Opex _{QC} . On 26 October 2017, with resolution 726/2017/R/idr, ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT as well as the recognition of the recovery of prior year items
Crea Gestioni	Following Resolution 664/2015/R/idr, as neither the Municipalities where the service is performed nor the Reference Area Agencies, have any tariff proposals for the 2016-2019 regulatory period. The Company forwarded its tariff proposals. Currently, we are awaiting approval by ARERA
Gesesa	On 29 March 2017, the AATO1 with resolution no. 8 of the Extraordinary Commissioner approved the drawing up of tariffs for the years 2016/2019. Currently, we are awaiting approval by ARERA
Umbra Acque	On 30 June 2016, the EGA approved the tariff with recognition of the Opex _{QC} . Approval approved by ARERA with resolution 764/2016/R/idr

RELATED PARTY TRANSACTIONS

ACEA GROUP AND ROMA CAPITALE

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

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

Such relations are governed by appropriate service contracts and the supply of water and electricity is conducted on an arm's length basis. It must be pointed out that Acea and Acea Ato 2, respectively, provide

public lighting and integrated water services under the terms of two thirty-year concession agreements. Further details are provided in the section entitled "Service concession arrangements".

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

As regards economic relations, the following table shows details of revenues and costs at 31 December 2017 of the Acea Group (compared to those for the previous year) deriving from the most significant financial relations.

€ thousand	REVENUES		COSTS	
	2017	2016	2017	2016
Supply of fresh water	37,005	35,914		0
Supply of Electricity	0	0		0
Public lighting service contract	59,887	68,508		0
Public lighting contract interest	4,560	3,914		0
Water maintenance service contract	119	139		0
Monumental fountain service contract	119	139		0
Realization of water sanitation works		557		
Concession fee 0	0	0	25,765	25,646
Rental expenses 0	0	0	120	120
Taxes and duties 0	0	0	6,291	6,293

Reference should be made to note 23 for details on the impact of these transactions, while the table below summarises the changes

in receivables and payables.

€ thousand	31.12.2016	Collections/ Payments	Accruals 2017	31.12.2017
RECEIVABLES	179,636	(87,577)	100,078	192,137
PAYABLES	(142,286)	104,531	(91,309)	(129,064)

ACEA GROUP AND ROMA CAPITALE GROUP

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

The supply of services to entities owned by the Roma Capitale

Group is also conducted on an arm's length basis. The prices applied to sales of electricity to free market users are in line with the sales policies of Acea Energia.

The following table shows the most significant amounts deriving from relations between the Acea Group and entities owned by the Roma Capitale Group.

Roma Capitale Group	Trade payables	Costs	Trade receivables	Revenues
AMA SpA	218	1,402	4,905	11,162
ATAC SpA	307	698	6,380	83
ROMA MULTISERVIZI SpA	969	821	0	0
Total	1,493	2,921	11,284	11,245

ACEA GROUP AND MAIN CALTAGIRONE GROUP COMPANIES

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

The supply of services to entities owned by this company is also

conducted on an arm's length basis. The prices applied to sales of electricity to free market users are in line with the sales policies of Acea Energia.

The following table shows the most significant amounts deriving from relations between the Acea Group the main companies in the sphere of the Caltagirone Group as at 31 December 2017.

€ thousand	Revenues	Costs	Receivables	Payables
Caltagirone Group	2,584	14,025	1,341	2,499

ACEA GROUP AND SUEZ ENVIRONNEMENT COMPANY SA GROUP

As at 31 December 2017, no transactions are in place with Suez Group companies.

Please also note that the above economic-equity balances do not include transactions implemented with the companies of the Group consolidated at equity, which are instead included in the budget tables.

List of significant related party transactions

No significant non-recurring related party transactions were carried out in the period.

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

Impact on the Statement of Financial Position

€ thousand	31.12.2017	With related parties	Weight	31.12.2016	With related parties	Weight
Financial Assets	38,375	35,637	92.90%	27,745	25,638	92.40%
Trade Receivables	1,022,710	158,748	15.50%	1,097,441	129,284	11.80%
Current Financial Assets	237,671	121,137	51.00%	131,275	117,309	89.40%
Trade Payables	1,237,808	136,054	11.00%	1,292,590	148,998	11.50%
Financial payables	633,155	3,042	0.50%	151,478	4,010	2.60%

Impact on the Income Statement

€ thousand	31.12.2017	With related parties	Weight	31.12.2016	With related parties	Weight
Consolidated net revenue	2,796,983	104,081	3.7%	2,832,417	134,931	4.8%
Consolidated operating costs	1,983,853	50,023	2.5%	1,965,415	42,333	2.2%
Total Financial (Expense)/ Income	(71,955)	8,147	(11.3%)	(111,564)	4,253	(3.8%)

Impact on the Statement of Cash Flows

€ thousand	31.12.2017	With related parties	Weight	31.12.2016	With related parties	Weight
Increase in receivables included in the working capital	(70,073)	29,465	(42.0%)	(56,652)	(28,621)	50.5%
Increase/decrease in payables included in the working capital	10,752	(12,944)	(120.4%)	47,334	(8,021)	16.9%
Proceeds/payments deriving from other financial investments	(117,026)	13,827	(11.8%)	(33,328)	33,246	99.8%
Dividends received	9,626	9,626	100.0%	9,318	9,318	100.0%
Decrease/Increase in other short-term borrowings	481,614	(968)	(0.2%)	(107,609)	(31,921)	29.7%
Payment of dividends	(136,110)	(136,110)	100.0%	(110,679)	(110,679)	100.0%

UPDATE ON MAJOR DISPUTES AND LITIGATION

TAX ISSUES

SAO (now incorporated into Acea Ambiente) tax inspection

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

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

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

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

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

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

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

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

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

areti tax inspection

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

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

On the basis of the same presupposition of the notification made in the PVC, the Lazio DRE – Major Taxpayers' Office notified on 19 May 2016 two notifications of assessment concerning VAT for 2011 and 2012 for € 299 thousand plus sanctions and interest. The Company has submitted a request for a tax settlement, and after the joint questioning phase and official proceedings, the office deemed that the tax settlement proceedings be concluded unsuccessfully. On 17 October 2016, the Company filed an appeal against the notifications of assessment within the terms of the law. On 03 July 2017, the hearing was held for the discussion of the tax assessment notices relative to the years 2009, 2011 and 2012. The commission has cancelled the notices of assessment for 2011 and 2012 and partially confirmed the notice for 2009. On 20 December 2017, the Office appealed against the judgement: within the legal terms, the Company will enter an appearance.

Lastly, it should be noted that on 12 April 2016, the Company was sent a notification of assessment concerning the IRAP treatment of electricity tariff discounts to employees for the 2011 fiscal year; the dispute involves the amount of € 59 thousand. The Company has filed an appeal against the notification of assessment within the terms of the law in this case as well.

On 16 November 2017, the hearing was held relative to the assessment of IRAP deductibility of the tariff benefits granted to employees and former employees for 2011. By judgement deposited on 18 December 2017, the commission cancelled the notice and sentenced the Office to pay the costs.

On 10 January 2018, the hearing was held relative to the assessment of IRAP deductibility of the tariff benefits granted to employees and former employees for 2012; to date, the judgement has not yet been deposited.

Tax disputes/lawsuits with ARSE

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

On 07 March 2017, the beneficiaries of the ARSE – Acea spin-off, Acea Liquidation and Litigation (ex Elga Sud) and Acea Produzione, believe the notification of liquidation is groundless as regards both the obvious technicalities in terms of its form and as regards the dispute involved in the notification.

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

On 14 June 2012, the Company was delivered a Report on Findings from the Italian Financial Police - Rome Tax Police Department following its inspection to check the correct use of the tax suspension provisions under the VAT tax warehouse system pursuant to article 50-bis of Law Decree no. 331 of 30 August 1993, no. 331 (“VAT Depots”), relative to certain assets imported by the Company in the years 2009, 2010 and 2011.

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

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

The issue relating to the concepts of simulated warehouses and the introduction of goods to the country is particularly well-known and debated, and has been the subject of numerous papers on practices issued by the Customs Authority and several cases of legal intervention.

The company considers that all the factual and legal conditions envisaged in the regulation on the use of VAT Warehouses, as interpreted by the relevant administrative bodies, were fully satisfied and therefore the aforementioned Report on Findings is without grounds. With regard to VAT warehouses, please also note that, as concerns the particular case of the provision of services for the assets held at the VAT warehouses (case set forth in letter h) of art. 50-bis of Law Decree no. 331/1993), art. 34, paragraph 44 of Law Decree no. 179 of 18 October 2012 recently amended art. 16, paragraph 5-bis of Decree Law no. 185 of 29 November 2008 (on the authoritative interpretation of letter h) of art. 50-bis noted above) establishing, for that case, that VAT must be deemed definitively paid if, when the merchandise is taken from the VAT warehouse for marketing within the country, the regulations set forth in paragraph 6 of art. 50-bis of Decree Law 331/93 are correctly implemented, or the reverse charge procedures pursuant to art. 17, paragraph 2, of Presidential Decree no. 633 of 26 October 1972 are correctly applied.

That approach appears also supported by Circular no. 16/D of 20 October 2014 issued by the Customs Agency following the Court of Justice’s decision of 17 July 2014 no. C-272/13.

Customs verification of Umbria Energy SpA

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

Against this measure, the Company is preparing an appeal before the relevant Tax Commission to obtain acknowledgement of its correct conduct. On 04 October 2017, the Commission rejected the appeal submitted by the Company arguing the substantive relevance of the conduct upheld in terms of the application of the sanction and declared that in the event of any billing adjustments, the procedure to be applied is that of submitting a formal request for reimbursement to the Office in accordance with Art. 14 of the Environment Act.

OTHER ISSUES

Acea Ato5 - 2016-2019 Tariff

On 9 February 2017, the Company filed an appeal before the Lazio Regional Administrative Court of Latina for the annulment of Resolution no. 6 of 13 December 2016 in which the Conference of Mayors of Ato 5 approved the tariff proposal of the SII for the regulatory period 2016-2019, envisaging the amount of adjustments for the period less than that determined by in the Operator’s bid (e 77 million against about € 35 million). The different calculation method used by the STO is essentially due to four regulatory items: 1. the amount of the FNI (psi coefficient of 0.4 rather than the 0.8 proposed by the Company); 2. the recognition of the arrearage costs (3.8% of the returns rather than 7.1%); 3. the recognition of the quality charges (Opex_{QC}), which were actually zeroed and not recognised by the STO; 4. the fines totalling about € 11 million.

The public hearing for discussing the merits of the issue has been fixed at 08 March 2018.

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

Acea Ato5 – Injunction Order requested for credit collection on the settlement agreement of 2007 with AAT05

With regard to the €10,700,000 million receivable for higher costs incurred in the 2003-2005 period, pursuant to the Settlement agreement of 27 February 2007, on 14 March 2012, Acea Ato5 lodged an appeal for an injunction order concerning the receivables recognised by the A.ATO.

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

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

Acea Ato5 appeared before the court in the proceedings against the injunction order, challenging the adversary’s demands and in turn formulating a counterclaim for the payment of the entire amount of higher costs incurred by the Operator and originally requested, totalling € 21,481,000.00.

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

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

During the hearing on 21 November 2014, the judge withdrew its reservations on the motions for admission of evidence filed by the parties and fixed the hearing for the final statements at 15 November 2016. In the hearing, the Judge granted the terms for the closing statements and replies and withheld the decision. By

judgement 340/2017 published on 28 February 2017, the civil Judge revoked the injunction order issued in 2012, rejected the subordinate settlement request by Acea Ato5 and filed the remission of the preliminary proceedings of the case as regards the settlement request proposed by the AATO concerning the payment of the concession fees.

At the hearing of 17 November 2017, the Judge, having acknowledged the counterparty's requests, postponed the hearing to 27 February 2018. At the hearing, the case was further adjourned to 04 May 2018.

In connection with these proceedings, the appeal must be considered against the judgement of the Court of Frosinone that revoked the Court Order of Euro 10,700,000, initially issued by said Court. The first hearing was automatically postponed to 11 May 2018.

Acea Ato5 – Termination of the Management Agreement

The Company has appealed (no. 316/2016) against resolution no. 2 by the Conference of Mayors of 18 February 2016, in which the procedure was started for contractual termination and the consequent notice to fulfil was sent to the Company in March 2016. It has also challenged resolution no. 7 of 13 December 2016 in which termination was decided, submitting additional reasons for appeal no. 316 and simultaneously demanding compensation for damages. Following the public hearing for the discussion of the merits on 23 November 2017, the regional administrative court of Latina upheld the petition brought by the Company and by judgement no. 638/2017 published on 27 December 2017, cancelled the challenged orders. Terms for appeal to the Council of State are currently pending. For more details on the contents of the proceedings mentioned, see the paragraph entitled "*Information on concession arrangements*".

Acea Ato5 - Consorzio ASI

Consorzio ASI has promoted two injunction orders for the repayment of the portion of the treatment service carried out on behalf of Acea Ato5 (value €14,181,770.45). The two decrees have been challenged by the Company, which has, in turn, formulated a request for the supply of industrial use water to the Consortium. In detail:

- with reference to Petition 3895/2013 (value of proceedings Euro 7,710,946.06), at the hearing of 22 December 2017, the Judge reserved the right to deliberate, granting 30 days for the deposit of the notes. We are currently awaiting the reservation to be lifted. The proceedings are at the investigational stage, with the Judge having ordered a Court-Appointed Expert Witness;
- with reference to petition no. 3371/2016 (value of proceedings Euro 6,470,824.39), the Judge, having granted terms pursuant to Article 183, paragraph 3 of the Italian Code of Civil Procedure, has scheduled the hearing for discussion for this coming 15 May 2018;
- the Parties are currently negotiating.

GORI SpA - ARIN

Several judgements are pending concerning disputes between GORI and A.R.I.N. SpA (Now Azienda Speciale ABC) in relation to the cost of water supplies provided in favour of ATO 3.

ABC operates, obviously, in the territory of the Municipality of Naples and is the special company of that municipality that has taken the place of A.R.I.N. SpA. The Municipality of Naples belongs to the territory of Ato 2 "Naples-Volturno" of the Campania Region.

On the basis of very old concession agreements ABC uses its own sources of supply (Serino Aqueduct of ATO 1 in the Campania Region and the well field of Casalnuovo in Ato 2 in the Campania Region) and also purchases water from the Campania Region. Currently, ABC supplies water wholesale directly to several mu-

nicipalities, to GORI and even to the Region.

The matter in dispute is that the tariff ABC applies to sub-contractors is about two times higher than the regional tariff; the regional rate is equal to 0.225 €/m³ while the ABC's tariff is currently 0.56 €/m³.

ABC should instead bill the wholesale water distributed in compliance with the European Community and national standard (see, most recently, provisions on the matter by ARERA), of "cost orientation", and, therefore, with the aim of only recovering the "effective costs" incurred for the distribution of water, also in view of the fact that ABC has no entitlement to sell water wholesale.

Moreover, the assessments currently carried out by ARERA as part of the preliminary joint investigation and the recent analysis submitted by the Commissioner of the Napoli Volturno Area Authority, have established that the unit cost of the water supplied by ABC is certainly lower than that currently applied and, according to the above analysis, it amounts to 0.33748 €/cm against the value declared by ABC of 0.56 €/m³.

Obviously, this situation causes an increase of cost on the integrated water service tariff of ATO no. 3, with repercussions on end users in the municipalities of that ATO.

The above considerations were extensively reported and discussed at a Services Conference called for this purpose by the Sarnese Vesuviano Area Authority, during which it was considered - following the outcome of a special technical investigation - that the operating costs for abstraction works are considerably lower than the tariff applied by ABC to its sub-suppliers. These management costs would be much lower in consideration of the fact that the transport/vectoring of water wholesale is mainly done so that the typical and significant costs (mainly energy-related) for "raising" the water are not incurred. It does not appear to be justifiable that the municipality of Naples determines tariffs (applied by ARIN) which impact the end users of other municipalities and even of another A.T.O. (ATO 3, to be precise).

For these reasons, the dispute between ABC (former A.R.I.N. SpA) and GORI is still ongoing. For these reasons in 2013 GORI challenged (i) before the Campania Regional Administrative Court, the measures by which ABC has determined, on the basis of ARERA Resolutions no. 585/2012 and no. 88/2013, the new tariff applied to sub-distributors, and (ii) before the Lombardy Regional Administrative Court, ARERA Resolution no. 560/2013, with regard to the portion that approved the rates applied by ABC in 2013.

There are currently 10 pending judgements between ABC and GORI, including the two above-mentioned before the Campania Regional Administrative Court of Naples and the Lombardy Regional Administrative Court of Milan.

Lastly, it should be noted that the Civil Court of Naples may lean towards not recognising the claims of ABC should there not be a written utility contract in force between the two parties (ABC and GORI).

In any event, the due application of the regulatory framework concerning unbundling should as of 2017 favour the settlement of the dispute on the basis of the presupposition that the costs for each segment of the integrated water cycle must be detailed. In this regard, please note, in fact, that the Special Commissioner of Ente d'Ambito Napoli Volturno, by resolution no. 27 of 17 October 2017, defined the price of the wholesale water supplied by ABC to its sub-distributors, including GORI, quantifying it as Euro 0.3363 per m², as from 1 January 2016.

GORI SpA - Region of Campania, its concession-holder Acqua Campania SpA for payment of prices for the regional wholesale supply of water and the waste water collection and purification service

Please note the following proceedings brought against the Company before the Court of Naples:

- by Acqua Campania S.p.A.; as concession-holder for the region of Campania, with writ of summons for the payment of approximately Euro 103 million by way of price for the regional wholesale supplies of water made to GORI for the period 1 January 2013-30 June 2016;
- by the region of Campania, which on 03 March 2017 notified GORI of court order no. 1966/2017 issued by the Court of Naples in the favour of the region, for payment of the prices for the waste water purification and collection service relative to the period 2015 - quarter I and II 2016, for a total amount of approximately Euro 19.5 million.

Therefore, the Region of Campania, following the various meetings held with the parties concerned and in adhesion to the requests of the Ente Idrico Campano, has agreed on the value of requesting a deferral of the current cases, hence:

1. the proceedings relative to the payment of wholesale water suppliers were deferred to 02 April 2018 and
2. the proceedings relative to the payment of the regional waste water collection and purification service were deferred to 09 April 2018.

Accea SpA - SMECO

By means of summons notified in autumn 2011, Acea was summoned to court to respond to the alleged damage that its alleged non-compliance with unproven and non-existent obligations which are assumed to have been adopted under the shareholders' agreement relating to subsidiary A.S.A. - Acea Servizi Acqua - would have caused to minority shareholders of the latter, and their respective shareholders. The claim is worth over € 10 million.

The judge upheld SMECO's claim and appointed a court-appointed accountant to calculate the costs borne, loss of profit and any payable fees by effect of the seller's option in the shareholders' agreements.

By judgement no. 17154/15 of 17 August 2015, the Court entirely dismissed the application and ordered the parties to jointly reimburse the costs to Acea which were assessed in € 50,000.00 in addition to incidental expenses. On 1 October 2015 SMECO lodged an appeal before the 2nd Civil Section of the Rome Court of Appeal General Docket 6033/15. At the hearing of 3 February 2016, the case was adjourned for the conclusions to 11 April 2018.

Accea SpA - SASI

In ruling 6/10, the TRAP (Regional Court of Public Waters) accepted the 2006 request submitted by Acea against the Società Abruzzese per il Servizio Integrato SpA (SASI) for the compensation of damage for the illegitimate withdrawal of water from the Verde river. Acea was awarded 9,002,920 euros, plus interest accrued from 14 June 2001 until 30 July 2013 as compensation for the damage suffered.

The sentence, which is not temporarily enforceable, was appealed by SASI before the TSAP (Higher Court for Public Waters) and Acea filed a cross-appeal. In non-definitive judgement No. 117/13 on 11 June 2013 the TSAP, upholding one of the reasons for appeal, adjourned the proceedings appointing an expert to estimate the damage suffered by Acea in the period 2001/2010. The TSAP set the hearing for 23 October 2013, then adjourned the proceedings until 27 November 2013; at that point, an appointment was made on the same Court-Appointed Expert Witness as the first instance. After a series of postponements, on 1 February 2017, sentence no. 16/2017 was filed, whereby the TSAP recognised to Acea the sum of €6,063,361 plus legal interest compensating the readjusted annual amount from 2001 to 2010 and interest on arrears awaiting the decision. By appeal before the United Sections of the Court of Cassation on 05 April 2017, the counterparty challenged the ruling of the TSAP; Acea's counter appeal was notified on 12 May 2017.

After notification by Acea of the deed of precept, for the amount of Euro 7,383,398.66, on 05 March 2018, SASI notified a petition pursuant to Art. 373 of the Italian Code of Civil Procedure, aimed at obtaining suspension of enforcement of the judgement; the collegial hearing for discussion in council chambers is scheduled for this coming 11 April.

Accea SpA, Acea Ato2 SpA and AceaElectrabel Produzione SpA (today Acea Produzione SpA) - E.ON. Produzione SpA

These proceedings were launched by E.ON. Produzione SpA, as successor to ENEL regarding a number of concessions for the abstraction of public water from the Peschiera water sources for electricity production, to obtain an order against the jointly and severally liable defendants (Acea, Acea Ato2 and AceaElectrabel Produzione) for payment of the subtenion indemnity (or compensation for damage incurred due to illegitimate subtenion), which remained frozen to that set in the 1980s, amounting to € 48.8 million (plus the sums due for 2008 and later) or alternatively payment of the sum of € 36.2 million.

On 3 May 2014 the Administrative Court of Public Waters, in Ruling No. 14/14, quashed E.ON.'s applications ruling that the 1985 agreements are still valid, considering the application to be limited to the 'subtenion price', ruling however that relevant to the measurement of adjustments to be inadmissible.

E.ON was ordered to pay 32 thousand euros for court costs plus accessory charges and Court appointed expert fees.

On 23 June 2014 E.ON filed an appeal with the TSAP, the first hearing of which will be held on 1 October 2014. After subsequent automatic deferrals, at the hearing of 14 January 2015, the proceedings were postponed to the collegial hearing of 10 May 2015. The appeal was rejected in ruling no. 243/2016, and E.ON. was ordered to pay the legal costs.

By appeal before the United Sections of the Court of Cassation on 20 December 2016, the counterparty challenged the ruling of the TSAP; Acea's counter appeal was notified on 27 January 2017.

We are currently awaiting scheduling of the hearing.

ARSE SpA (today Acea Produzione SpA) - Volteo Energie

In a partially favourable ruling filed on 26 November 2016, the Court revoked the Injunction Order challenged and, acknowledging the payment of € 1,283,248.02 by Volteo Energie, as per ordinance of 6 February 2013 which had granted the provisional partial execution of the Injunction Order, declared that Volteo Energie did not owe Acea Produzione anything else. The costs were 1/3 offset and Volteo Energie has been ordered to pay the remainder, totalling € 25 thousand. The judgement has not been challenged and became final on 26 May 2017.

Accea SpA - Milano '90

This issue concerns Milano '90's failure to pay 5 million euros due for the balance of the sale price of the area in the municipality of Rome with access from via Laurentina No. 555, formalised on 28 February 2007 and with a subsequent supplementary deed of 5 November 2008. With the supplementary deed, the parties agreed to change the fee from € 18 million to € 23 million, while eliminating the earn out, setting 31 March 2009 as the payment deadline.

Given the purchaser's failure to act, the procedure to collect the amounts due was initiated by preparing a notice pay addressed to Milano '90 and through application for an injunction order which, on 28 June 2012, was granted in a temporarily enforceable form. Therefore, the aforementioned injunction order was notified on 3 September 2012 and on 23 November, it was delivered to the Judicial Officer for third-party seizures, for the coercive collection of the amounts due. Today, the objection by Milano is pending before section X of the Court of Rome. An additional pro-

ceeding within this case was established pursuant to art. 649 of the Code of Civil Procedure, aimed at suspending the temporary execution of the challenged injunction order. This suspension was approved by the Judge. The executive proceedings started after the granting of provisional executive status to the decree now suspended is also suspended.

At the hearing on 13 March 2014, the Judge reserved the decision as to the admission of evidence.

By decision dated 7 April 2014 the Judge, considering that a technical survey was needed to assess the land planning situation of the property and deciding to admit the witnesses' evidence as requested by Acea, adjourned the hearing to 18 December 2014 for the witness hearing and engagement of the Court appointed expert. In the 15 June 2017 hearing, a decision on the case was not taken. By judgement no. 3258, published on 13 February 2018, the Court of Rome rejected the opposition and confirmed the court order in full, sentencing Milano 90 to pay for the costs of the dispute.

Acea SpA - Trifoglio Srl

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

Case filed as a plaintiff: this issue concerns the breach by Trifoglio of its obligation to pay the balance of the amount due (€ 10.3 million), pursuant to the sale contract regarding the so-called Auto-park, the payment date of which should be 22 December 2011.

In consideration of Trifoglio's breach, a notice was served aimed at signing a deed to voluntarily terminate the sale agreement of 22 December 2010, and then to file a claim before the Court of Rome, pursuant to art. 702-bis of the Code of Civil Procedure. Moreover, ATAC Patrimonio filed a claim for the termination of the sale agreement of 22 December 2010 for the portion for which it is responsible.

Case appearing as defendant: Trifoglio has notified Acea and AT-AC Patrimonio a writ of summons aimed at assessing the invalidity of the deed of purchase and sale and recognition of compensation for damages in the amount of approximately Euro 20 million.

By judgement no. 11436/2017 of 06 June 2017, the Court of Rome declared the nullity of the contract of purchase and sale, substantively upholding the petition of Acea aimed at having the contract wound up with Trifoglio and recovering ownership of the area, arranging for the return to Trifoglio of the deposit-price received (Euro 4 million); it rejected the request for compensation for damages made by Trifoglio and excluded any liability of Acea with regards to the truthfulness of the contractual guarantees offered to Trifoglio. On 08 August 2017, Trifoglio notified a writ of summons on Appeal: the first hearing for discussion was scheduled for 08 February 2018. At the hearing, the case was adjourned to 13 September 2018 for conclusions.

As regards the accounting effects of said judgement, reference is made to the information given in note 13, as comments on tangible fixed assets.

Acea SpA - Kuadra Srl

Within the scope of the Kuadra Srl dispute against the subsidiary Marco Polo Srl in liquidation for alleged breach of contract related to participation in the Temporary Grouping of Companies for the CONSIP order, lawsuits were also filed against the same Kuadra Srl and the shareholders of Marco Polo (therefore: Acea, AMA and EUR) as well as Roma Capitale.

This summons was filed by the counterparty on the basis that Marco Polo was under the management and coordination of all

direct and indirect Shareholders.

Acea holds that, also in consideration of the generic nature of Kuadra Srl's reasoning attributing responsibility to the Shareholders of Marco Polo, the risk of an unfavourable ruling is considered remote, while the indirect risk as a Marco Polo Shareholder, has already been considered in the assessment of risks with the subsidiary.

The case was adjourned to 19 January 2016 for the decision on the admission of evidence. The judge reserved the decision on the matter. Annuling said reserve, the Judge rejected the claims demanded by the plaintiffs, adjourning the case to 4 October 2016 for the closing statements. As a result of the start of negotiations for the amicable settlement of the dispute, the hearing was adjourned several times.

In view of the agreement reached by the parties to abandon the case in accordance with Art. 309 of the Italian Code of Civil Procedure, on 15 December 2017, Kuadra Srl filed a request for the remittance of the case.

By ruling of 25 January 2018, the Judge therefore remitted the case, scheduling the hearing for 27 February 2018. At the hearing, a further postponement was arranged pursuant to Art. 309 of the Italian Code of Civil Procedure, to 26 March 2018.

Acea SpA – Andrea Peruzu, Maurizio Leo and Antonella Illuminati

With actions brought before the Court Employment Division, former Directors of Acea, Peruzu and Leo, summoned Acea and requested that the Company be ordered to pay in their favour the remuneration not received by them - amounting to 190 thousand and € 185 thousand respectively - due to the early termination of office, and compensation for pecuniary and non-pecuniary damage for various specified reasons, to be also quantified on an equitable basis. Acea filed its appearance and in the first place asserted the non-applicability of the employment law procedure and then the necessary transfer of the proceedings to the ordinary courts, as well as the lack of grounds of the claim. At the hearing on 25 February 2016, the Court, by order of the same date, declared the lack of jurisdiction of the specialized Section and referred the case to the President of the Court for allocation to another section. The cases have been summarised before the Business Chambers of the Court of Rome. The events were settled with the stipulation, in April 2017, of two settlement agreements; the proceedings were therefore declared as extinguished.

By petition brought before the Employment Chambers of the Court, the former Director Antonella Illuminati summonsed Acea to court and requested that the Company be ordered to pay in their favour the remuneration not received by them - amounting to approximately € 190 thousand due to the early termination of office, and compensation for pecuniary and non-pecuniary damage for various specified reasons, to be also quantified on an equitable basis. As has already been the case previously, for former directors Messrs Peruzu and Leo, the events have been defined by the stipulation, in February 2018, of a settlement agreement; the procedure has, therefore, been closed.

Acea SpA Former COS proceedings

The following cases related to the COS dispute are currently pending, concerning the ascertainment of illegality of the tender contract between ALMAVIVA Contact (formerly COS) and Acea and the consequent right of the lenders to be recognised subordinate employment relations with Acea SpA

It must be noted that the majority of the cases have been settled and that seven of them are still pending at various levels as regards the validity of the claim (the ascertainment of the bogus nature of the tender and the right to employment relations).

On the basis of the sentences concerning the validity of the

claim, the workers who won their cases (those in favour of whom subordinate employment relations with Acea were recognised) then started cases for the quantification of their claims, in which it was demanded that Acea pay the remuneration due as a result of the employment relations started. Given that there are multiple cases, and that they were undertaken by the same six workers, but referring to different periods in which the presumed receivables matured and have led to differing sentences pending at various levels of jurisdiction. Specifically, two quantification judgements are currently pending in cassation.

By contrast, with the judgement of the Court of Cassation no. 27461 of 20 November 2017, the request for emoluments made by three plaintiffs in respect of the remunerations relative to March 2007 was rejected and, therefore, this dispute is definitively closed. An additional case has been settled at the first level in sentence 5538/15 dated 3 June 2015, rejecting the demand – concerning a certain time frame – on the main basis that the six lenders had in the meantime still been employed by ALMAVIVA Contact (formerly COS) and were therefore earning income anyway.

The value of the demands totalled € 660 thousand plus supplements, but Acea has not been convicted and has not therefore paid anything out. The losing workers have, however, lodged an appeal and the hearing for discussion, scheduled for 18 September 2017, was postponed to 25 June 2018, given that the Court of Appeal deemed it appropriate to wait for the outcome of the rulings Cassation is to make on the *an debeat* of the claim.

Acea SpA and areti SpA – MP 31 Srl (formerly ARMO-SIA MP Srl)

This is a lawsuit filed against the Injunction Decree issued by the Court of Rome – RG. 58515/14 against areti for the amount of € 226,621.34, demanded by Armosia MP for the rental fees for April, May and June 2014 for the building in Rome – Via Marco Polo, 31. The Injunction Decree was declared provisionally executive by ordinance dated 8 July 2015.

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

In this latter case, MP 31 has also filed an unconventional remand for compensation for the damages incurred in consideration of the degrading condition of the building when it was released by areti. The demand made was for a total of about € 9 million. In the hearing on 17 February 2016, both Acea and areti challenged this demand. The Judge called upon the Court appointed expert, adjourning the case to 14 March 2016 for the conferment of duties. By judgement no. 22248/2017 of 27 November 2017, the Court upheld the petition of MP 31 against areti, sentencing it to pay previous charges in the amount of Euro 2,759,818.76, plus interest, as from the individual due dates, as well as to pay charges until the contract expiry and, therefore, until 29 December 2022.

Acea has submitted an appeal, notified on 02 February 2018.

By decree issued *inaudita altera parte*, on 15 January 2018, the provisional enforcement was suspended of the first instance judgement; the collegial hearing for discussion of the request to suspend the provisional enforcement of the sentence against which an appeal has been lodged, was held on 08 February 2018 and, upon its completion, the Court of Appeal rejected the request for suspension. The hearing for discussing the appeal initially scheduled for 15 March, has been deferred to 19 April 2018.

Acea SpA and Acea Ato2 SpA - Province of Rieti

The Province of Rieti served a summons to Acea and Acea Ato 2, requesting compensation (for various reasons) for the damage that it would suffer due to failure to approve the agreement on

the so-called interference between the various services.

The Province of Rome, the Area Authority ATO2 Central Lazio Rome, Roma Capitale and the Lazio Region were also summoned together with Acea and Acea Ato 2.

The value of the dispute is to date approximately € 90 million (€ 25 million until 31 December 2005 and € 8 million per year for the subsequent period), but the structure of the defensive arguments is rather fragile, especially against Acea. First the identification of the competent court appears open to challenge: the Ordinary Court in place of the Regional Court of Public Waters; second, the compensation liability for delay in approving the interference agreement is definitely not attributable to Acea, since it was not due to the conduct of the company.

The case was adjourned to 14 July 2015 for the admission of evidence requested by the parties within the established time limit and was postponed again to the hearing of 2 February 2017 for the submission of the closing statements, since the proceedings involve legal issues with relevant preliminary objections. At the hearing, the case was further adjourned to 19 September 2017. At the hearing, the case was withheld for decision and we are therefore awaiting a judgement.

Lastly, please note that by Resolution no. 30 of 25 January 2018, the Regional Council of Lazio approved the updated schedule of the compulsory convention for the management of hydraulic interference, which incorporates the recent agreements reached by the entities of AATO2 and AATO3, and that the conferences of the unions of both area entities have approved this scheduled and, on 02 February 2018, signed the agreement for the management of hydraulic interference of the aqueduct system of Peschiera - Le Capore. Please note that this agreement envisages, under Art. 16, waiver of pending proceedings, including this one.

Acea SpA and Acea Ato2 SpA - CO.LA.RI

By writ of summons notified on 23 June 2017, Consorzio Co. La.Ri. and E. Giovi Srl - respectively the manager of the Malagrotta (RM) landfill and executing consortium member - brought Acea and Acea Ato2 into the proceedings, to obtain payment by the defendant of the portion of landfill access tariffs to be used to cover the costs of thirty years of its operative management - established by Italian Legislative Decree no. 36/2003 - allegedly due in exchange for the conferral of waste during the contract term (1985 - 2009).

The main *petitum* comes to more than Euro 36 million for the entire contract term; subordinately - if the rule ordering the tariff should not be considered by the judge as of retroactive application - the plaintiff ask that the credit right be recognised for applicable Euro 8 million, for the period March 2003 - 2009 and the assessment, including through Court-Appointed Expert Witness, of the receivable relative to the previous period, 1985 - 2003.

The first hearing for appearance, initially scheduled for 23 February 2018, was deferred to 08 October 2018 to supplement the cross-examination with regards to the territorial area entity Ottimale 2 Lazio Centrale – Rome. At present, any assessment would be premature.

Acea Ato2 SpA - Hydraulic interference

On 29 July 2016, Acea Ato2 brought an appeal before the regional administrative court of Lazio - Rome against the region of Lazio, to obtain the cancellation of the Regional Council Resolution no. 263 of 17 May 2016, concerning the approval of the new compulsory agreement schedule for the management of hydraulic interference of the aqueduct system Peschiera - Le Capore.

More specifically, the Company censured the resolution in the part where it determined, in an entirely arbitrary manner, the amounts that the authority of ATO2 would be required to pay to ATO3.

The proceedings also involved, *ad adiuvandum*, the metropolitan

city of Rome, whilst the defendants and counter-parties concerned were the region of Lazio and the province of Rieti, as entity responsible for the coordination of local entities coming under the scope of ATO3.

Also as a consequence of the bringing of these proceedings, the region of Lazio has started proceedings to review said resolution, issuing, upon completion, resolution no. 360 of 20 June 2017, which, substantively, confirmed the contents of the previous measure.

An appeal has been lodged against this Resolution for the added reasons. Thereafter, on 09 January 2018, the Company deposited a second deed of added grounds, concerning the annulment of note prot. 038786 of the Director of the Regional Directorate of Water Resources, the protection of soil and waste, setting out the report concerning the assets and calculation of the ATO-ATO3 contribution and the note of the Committee for Legislation of the region of Lazio, prot. 306024 of 15 June 2017 (both learned of following the granting of the petition to access the deeds on 17 October 2017). By this deed of additional grounds, the requests of Lazio was also asked to annul the Resolution of the Regional Council no. 661 of 17 October 2017, concerning the exercise of powers of substitution by means of the appointment of a special Commissioner, thereafter appointed on 05 December 2017.

Lastly, please note that by Resolution no. 30 of 25 January 2018, the Regional Council of Lazio approved the updated schedule of the compulsory convention for the management of hydraulic interference, which incorporates the recent agreements reached by the entities of ATO2 and ATO3, and that the conferences of the unions of both area entities have approved this scheduled and, on 02 February 2018, signed the agreement for the management of hydraulic interference of the aqueduct system of Peschiera - Le Capore.

Acea Ato2 SpA - Regulation of the hydrometric level of the Lake of Bracciano

The Orders issued by the Director of the Regional Directorate of Water Resources, the protection of the soil and waste, no. 0375916 of 20 July 2017 and no. 0392583 of 28 July 2017, concerning the Regulation of the hydrometric level of the Lake of Bracciano, both were challenged by Acea Ato2 before the TSAP with separate petitions, then united by ruling no. 44/2017.

At the hearing before the Investigating Judge, held on 24 January 2018, it was asked that the cessation of the matter disputed be ascertained, in consideration of the subsequent regional measures adopted by Resolution of the Regional Director of Water Resources and the protection of the soil, no. G18901 of 29 December 2017 concerning the "Procurement of the basin of the Lake of Bracciano as strategic water reserve and seasonal compensation for use as drinking water". Acknowledgement of the desire of Acea Ato2 to not activate the derivation of the Lake of Bracciano".

An appeal has been lodged against this measure before the TSAP.

areti SpA - GALA SpA

In November 2015, areti SpA (formerly Acea Distribuzione), as electricity distribution grid manager, has stipulated a transmission contract with the company GALA, which operates on the market of electricity sales to end customers.

Starting March 2017, GALA has suspended all payment of prices billed and due to areti and, the following 3 April, submitted a request for Agreements with Creditors pursuant to Art. 161, 6th paragraph of the Bankruptcy Law (termed agreements "with reservation" or "blank") entered with Companies House on 11 April 2017. To protect its credit rights, on 07 April 2017, areti launched enforcement of part of the guarantees given by GALA. On 12 April, GALA appealed against this enforcement with an interim peti-

tion pursuant to Art. 700 of the Italian Code of Civil Procedure lodged with the Court of Rome, obtaining a decree *inaudita altera parte*, which initially prevented areti from exercising its faculty to enforce. This decree was thereafter revoked by court order of 30 May 2017, which fully recognised the rights of areti.

On 1 June 2017, given the continued serious breach, areti notified the termination of the transmission contract and the enforcement of the additional contractual guarantees.

The following 6 June, GALA appealed against the interim ruling of 30 May and, again, on 9 June submitted a second, autonomous petition for an urgent measure to the Court of Rome, asking for a declaration of invalidity of the resolution filed on 1 June 2017 and initially obtaining the issue of a decree *inaudita altera parte* in its favour.

Upon completion of both interim proceedings, the rights of areti were once again recognised in full, with the issue, on 12 July, of a collegial order to reject the claim, after which the interim court, called to decide on the second petition pursuant to Art. 700 of the Italian Code of Civil Procedure, asked the parties not to enter an appearance at the hearing, thereafter declaring that the petition could not be pursued, by order of 13 July 2017.

Thereafter, GSE SpA, after having ordered areti to pay the general system costs due by Gala, even if not paid by it, asked and obtained a court order from the Court of Rome, not immediately enforceable, against areti, for payment of part of these charges: the court order was promptly challenged by areti in writ of summons notified to GSE and registered in December 2017, with simultaneous summons, by way of guarantee, of GALA and its guarantors (China Taiping Insurance (UK) Co. Ltd and Insurance Company Nadejda), and with the first hearing scheduled for June 2018.

In July 2017, Euroins Insurance p.l.c., guarantor of GALA, autonomously brought proceedings for assessment in order to declare the non-existence of its obligation to offer a guarantee; having entered an appearance, areti asked, at the first hearing for the entry of appearance of 28 December 2017, that said proceedings be joined to the ordinary opposition proceedings brought against the court order of GSE for connection; a decision is awaited from the President of the Court of Rome on whether or not to join these latter two proceedings.

GALA, which entered an appearance in the proceedings brought by the guarantor Euroins Insurance p.l.c. reserved the right to carry out its own, autonomous proceedings on the merits of the matters introduced by said interim petitions.

By judgement no. 5619/2017, the Council of State ruled on the general system costs, general regulation of the ARERA and obligations of traders; this judgement was challenged by areti by petition to the United Chambers of the Court of Cassation in January 2018, in accordance with Articles 111, paragraph 8 of the Constitution, 362 and 382 of the Italian Code of Civil Procedure and 110 of the Code of Administrative Procedure, for the overstepping of the jurisdictional function.

areti has kept the competent governance bodies, the sector regulatory authorities and the bodies of the bankruptcy procedure, promptly informed as to the GALA events.

For more information on regulatory and assessment aspects, please refer to the information given in the paragraph on "Energy Infrastructures Area".

The Directors believe that the settlement of ongoing disputes and other potential disputes should not create any additional charges for Group companies, with respect to the amounts set aside, (note no. 27 commenting on the Provisions for risks and charges).

The provisions reflect the best estimate possible on the basis of the information available today.

ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

CLASSES OF FINANCIAL INSTRUMENTS

and liabilities required by IFRS 7 based on the categories defined by IAS 39.

The following table shows the breakdown of financial assets

€ thousand	Held for trading financial instruments at fair value	Liabilities at Fair Value	Available-for-sale financial instruments	Carrying amount	Notes
Non-current fixed assets	0	27,745	2,579	30,324	
Other investments			2,579	2,579	15
Financial assets due from Parent Company, subsidiaries and associates		25,671		25,671	17
Financial assets due from third parties		2,074		2,074	17
Current assets	0	1,913,155	0	1,913,155	
Receivables (commercial loans to) customers		1,023,560		1,023,560	19
Trade receivables from related parties 49,449		49,449		49,449	19
Other current assets: fair value evaluation of differential and swap contracts on commodities with effect on the shareholders' equity (*)		1,944		1,944	19
Other current assets: energy equalisation and specific		16,961		16,961	19
Other current assets: subsidiaries		24,433		24,433	19
Financial assets due from Parent Company, subsidiaries and associates		114,424		114,424	19
Financial assets due from third parties		16,851		16,851	19
Cash available		665,533		665,533	19
TOTAL FINANCIAL ASSETS	0	1,940,900	2,579	1,943,479	

€ thousand	Financial instruments held for trading	Liabilities at Fair Value	Liabilities at amortised cost	Balance sheet value	Notes
Non-current liabilities	0	4,034	2,780,525	2,760,991	
Bonds			2,022,134	2,022,134	23
Bonds valued at FVH		(1,221)			
Bonds valued at CFH			24,789		
Bank borrowings (non-current portion)			733,602	733,602	23
Bank borrowings (non-current portion) measured at CFH		5,255		5,255	23
Current liabilities	0	0	1,444,068	1,444,068	
Amounts due to banks			52,960	52,960	26
Payables to third parties			9,524	9,524	26
Financial liabilities due to factor			85,357	85,357	26
Financial liabilities due to subsidiaries and associates			3,636	3,636	26
Trade payables			1,149,172	1,149,172	26
Trade payables due to Parent Company, subsidiaries and associates			143,418	143,418	26
TOTAL FINANCIAL LIABILITIES	0	4,034	4,224,593	4,205,059	

(*) This is the fair value evaluation of contracts for the purchase and sale of commodities in the scope of IAS 39, the differences in which are recognised in the income statement or shareholders' equity.

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of securities not listed on an active market is determined using the valuation models and techniques prevailing on the market or using the price provided by several independent counterparties. The fair value of medium/long-term financial assets and liabilities is calculated on the basis of the risk less and the risk less adjusted interest rate curves.

The fair value of trade receivables and payables falling due within twelve months was not calculated as their carrying amount approximates to fair value.

In addition, fair value is not calculated when the fair value of financial assets and liabilities cannot be objectively determined.

TYPES OF FINANCIAL RISKS AND RELATED HEDGING ACTIVITIES

Exchange rate risk

The Group is not particularly exposed to this type of risk which is concentrated on the conversion of the financial statements of foreign subsidiaries. With regard to the Private Placement of 20 billion yen, the exchange risk is hedged by a cross currency described with respect to the interest rate risk.

Market risk

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

Acea SpA, through the activities carried out by the Risk and Compliance Management, ensures the measurement of exposure to market risks, interacting with Acea Energia SpA in line with the limits and general criteria for Risk Management in the Commercial and Trading Operating Segment according to the Guidelines of the Acea SpA Internal Control and Risk Management System.

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

In particular:

- on an annual basis, risk indicator measurements, i.e. limits in force, must be re-examined, and these must be observed in risk management, fixed in 2017 by the CFO;
- on a daily basis, the Risk Management Unit is responsible for controlling the exposure to market risks of the companies in the Commercial and Trading Industrial Area and for verifying compliance with limits defined in 2017 by the CFO.

Reporting relative to the *Top Management* has daily and monthly frequency. When required by the Internal Control System, Risk Management ensures the sending to the Internal Audit Unit of Acea SpA of the information+ required, as available from the system.

The risk limits of the Energy Segment are defined in such a way as to:

- minimise the overall risk of the entire segment,
- guarantee the necessary operating flexibility in the provisioning of commodities and hedging activities,
- reduce the possibility of over-hedging deriving from the variation in expected volumes for the definition of hedges.

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

The aims of the risk management and analysis are, generally, to ensure that the financial objectives of the Acea Group are achieved. In particular:

- safeguard the First Margin, including by reducing volatility;
- 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 risk exposure;
- to reduce risks through the preparation and application of adequate internal controls, procedures, information systems and skills;
- delegate the job of defining the necessary strategies for hedging individual risks to Risk Owners, in respect of pre-established minimum and maximum levels.

The assessment of exposure to risk involves the following activities:

- aggregation of the commodities and structure of the risk books;
- detailed analysis of the time pattern of purchases and sales and limiting open positions, namely the exposure from physical purchases and sales of individual commodities, within set volume limits;
- creation of reference scenarios (prices, indices);
- calculation of risk indicators / metrics (Volumetric exposure, VAR, PAR of portfolio, price range);
- verification of compliance with current risk limits.

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

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

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

The objectives and policies for market risk, counterparty credit risk and regulatory risk management are detailed in the relevant section of the Report on Operations, to which reference is made. It should be noted that the hedges effected on the purchases and sales portfolio were conducted with leading operators in the electricity market and the financial sector. Below, in accordance with former article 2427-bis of the Italian Civil Code, is the information necessary for the description of transactions carried out, aggregated by hedged index, effective as of 1 January 2017:

Swaps	Purpose	Purchases/Sales	Fair Value in € thousand	Amount recognised to shareholders' equity	Amount recognised in the income statement
GM_PUN_c	Hedge power portfolio	Electricity Purchases and Sales	1,821	1,821	0
FE_PWT_u	Hedge power portfolio	Electricity Purchases and Sales	213	213	0
FE_IT_CONSIP_9_1_1_u	Hedge power portfolio	Electricity Purchases and Sales	1	(1)	0
FE_PSV_u	Hedge power portfolio	Electricity Purchases and Sales	208	208	0
			2,241	2,241	0

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

- Level 1: prices listed (not adjusted) on a market for identical assets and liabilities;
- level 2: inputs other than listed prices pursuant to level 1, which can be observed for the asset or liability, both directly and indirectly;
- Level 3 – inputs not based on observable market data.

This note provides some detailed information on the valuation techniques and inputs used to prepare these valuations.

It should be noted that, as regards the types of commodities for which fair value is calculated,

- for derivatives on individual commodities (PUN - single national price - standard base load products, Peak/Off Peak) the fair value level is 1 given they are listed on active markets,
- for complex indexes (ITRemix, PUN profiled products,) the fair value level is 2 given these derivatives are the result of formulas containing a mix of commodities listed on active markets.

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

Liquidity risk

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

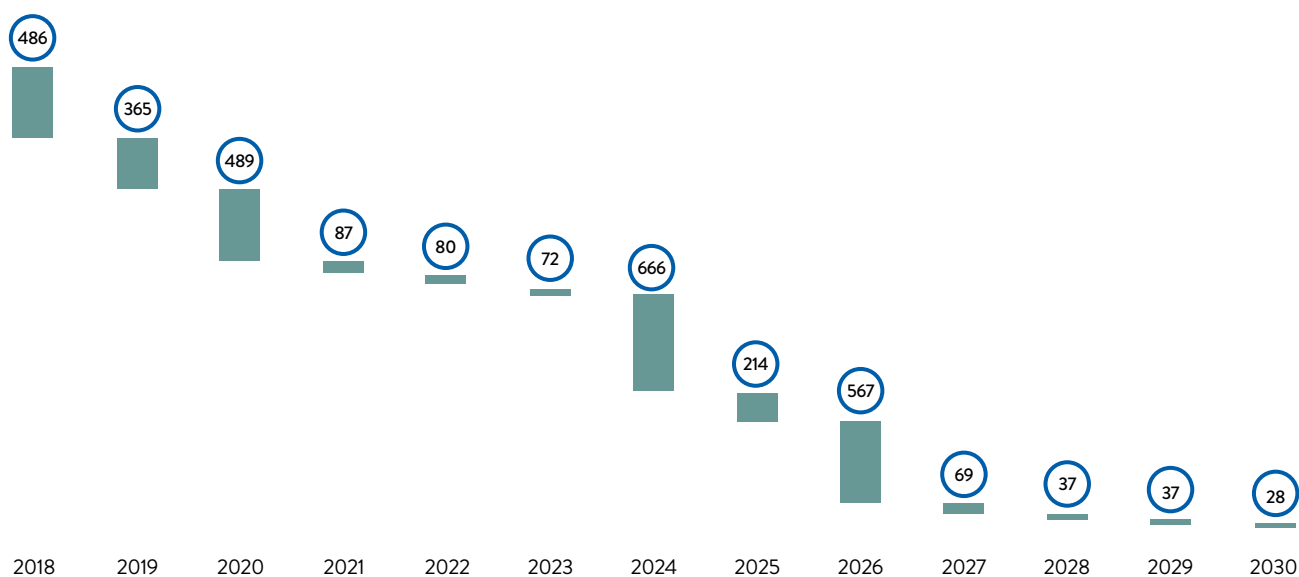
At 31 December 2017 the Parent Company held uncommitted credit lines totalling €769 million, of which €739 million is not used. No guarantees were issued to obtain these credit lines. In the event of the drawdown of these types of facilities, Acea would pay an interest rate equal to the Euribor at one, two, three or six months (depending on the chosen period of use), in addition to a spread that, in some cases, may vary according to the rating assigned to the parent company.

At the end of the year, Acea has commitments in short-term deposit transactions, for an amount of Euro 100 million.

Please note that as part of the EMTN programme resolve in 2014 for an amount of Euro 1.5 billion and updated in 2017, an adjustment to a total amount of Euro 3 billion has been posted at start 2018. Acea can place bond issues up to the total residual amount of Euro 1.9 billion.

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

€/million



Regarding the trade payables (€1,106.7 million) it should be noted that the portion which is due to expire in the next twelve months amounted to €879.4 million. The amount already expired of €227.3 million will be paid by the first quarter of 2017.

Interest rate risk

The Acea Group's approach to managing interest rate risk, which takes the structure of assets and the stability of the Group's cash flows into account, has essentially been targeted, up to now, at hedging funding costs and stabilising cash flows, in such a way as

to safeguard margins and ensure the certainty of cash flows deriving from ordinary activities.

The Group's approach to managing interest rate risk is, therefore, prudent and the methods used tend to be static in nature.

In particular, for static management (to be opposed to the dynamic one) we mean a type of management of interest rate risk that does not provide for daily operations on the markets but an analysis and control of the position carried out periodically on the basis of specific needs. This type of management therefore envisages operations on the markets not for trading purposes but rather oriented towards medium / long-term management with the objective of hedging the exposure identified.

Acea has, up to now, opted to minimise the interest rate risk by choosing a mixed range of fixed and floating rate funding instruments.

As previously noted, fixed rate funding protects a borrower from cash flow risk in that it stabilises financial outflows, whilst heightening exposure to fair value risk in terms of changes in the market value of the stock of debt.

An analysis of the consolidated debt position shows that the risk Acea is exposed to is mainly in the form of fair value risk, being composed of hedged fixed rate borrowings (70.8%) as at 31 December 2017, and to a lesser extent to the risk of fluctuations in future cash flows.

Acea is consistent with its decisions regarding interest rate risk management that essentially aims to both control and manage this risk and optimise borrowing costs, taking account of Stakeholders' interests and the nature of the Group's activities, and based on the prudence principle and best market practices. The main objectives of these guidelines are as follows:

- to identify, from time to time, the optimum mix of fixed and floating rate debt,
- to pursue a potential optimisation of borrowing costs within the risk limits established by governance bodies and in ac-

cordance with the specific nature of the business,

- to manage derivatives transactions solely for hedging purposes, should Acea decide to use them, in respect of the decisions of the Board of Directors and, therefore, the approved strategies and taking into account (in advance) the impact on the income statement and Statement of Financial Position of said transactions, giving preference to instruments that qualify for hedge accounting (typically cash flow hedges and, under given conditions, fair value hedges).

The Group currently uses derivative instruments to hedge interest rate risk exposure for Acea which:

- swapped to floating rate € 300 million of the 5-year € 330 million fixed rate bond placed on the market in September 2013;
- swapped the 100 million euros loan obtained on 27 December 2007 to a fixed rate. The plain vanilla IRS, was entered into on 24 April 2008, effective as of 31 March 2008 (date of drawdown of the underlying loan) and expires on 21 December 2021; a cross currency transaction to transform to euro – through a plain vanilla DCS swap – the currency of the private placement (yen) and the yen rate applied to a fixed euro rate through a plain vanilla IRS swap.

All the derivative instruments taken out by Acea and listed above are non-speculative and the fair values, calculated according to the bilateral method, of the same are respectively:

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

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

Bank Borrowings:	Amortised cost	RISK-FREE FV	Delta	RISK ADJUSTED FV	Delta
€ thousand	(A)	(B)	(A)-(B)	(C)	(A)-(C)
Bonds	2,047,874	2,180,307	(132,432)	2,123,924	(76,050)
fixed rate	518,720	586,261	(67,541)	574,535	(55,815)
floating rate	645,982	657,147	(11,165)	655,086	(9,104)
floating rate to fixed rate	36,760	37,326	(566)	36,876	(116)
Total	3,249,336	3,461,041	(211,705)	3,390,421	(141,085)

This analysis was also carried out using the "risk-adjusted" yield curve, i.e. a curve adjusted to take account of the level of risk and of Acea's sector of activity. A curve populated with fixed rate bonds denominated in EUR, issued by domestic companies in the public utilities sector with a composite rating ranging from BBB+ and BBB- was used.

A sensitivity analysis has been carried out on medium/long-term financial liabilities using stress testing, thus applying a constant

spread over the term structure of the risk-free interest rate curve. This makes it possible to evaluate the impact on fair value and on future Cash Flows for both the individual instruments in the portfolio and the overall portfolio.

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

Constant spread applied	Changes in Present Value (€ million)
(1.50%)	(212.3)
(1.00%)	(138.8)
(0.50%)	(68.1)
(0.25%)	(33.7)
0.00%	0.0
0.25%	30.1
0.50%	65.6
1.00%	128.8
1.50%	189.7

As regards the type of hedges for which the fair value is calculated and with reference to the hierarchies required by the IASB, given they are composite instruments, they are categorised as level 2 in the fair value hierarchy.

Credit risk

Acea drew up the guidelines of the credit policy which established different credit management strategies depending on the various types of customers and receivables. Through flexibility criteria and on the strength of the activities managed, as well as customer segmentation, credit risk is managed by taking into account both the customer type (public and private) and the non-uniform behaviour of individual customers (behavioural scores).

The key principles on which the risk management strategies are based are as follows:

- definition of the customer cluster categories through the above mentioned segmentation criteria;
- standard cluster management in Acea Group companies, based on the same risks and commercial characteristics, of defaulting end users;
- collection methods and instruments used;
- uniformity of standard criteria regarding the application of default interest;
- receivables payable by instalments;
- definition of the necessary responsibilities/authorisations for any exceptions;
- adequate reporting and training of dedicated staff.

Corporate Credit Unit was set up within the Administration, Finance and Control function of Acea; the main responsibilities of the new unit are to develop credit management policies, provide guidance on actions to be taken and analyse and continuously monitor the progress of loan related activities for any corrective action.

The Corporate Credit Unit monitors the performance of receivables on an ongoing basis and provides periodic management reports (monthly) by segment and by company.

As for the **distribution of electricity** activities, credit risk is associated with relations with wholesalers: billing to them relates to the transport of energy in the distribution network and the services rendered to the end customers. The services are strictly regulated by ARERA resolutions.

The key principles on which the credit risk management strategies are based are as follows:

- homogeneous management of sellers' receivables, deemed of equal risk,
- uniformity of standard criteria for the application of default interest;
- credit risk mitigation through guarantees provided by the sellers; on this aspect of the new network code, Resolution 268/2015 and annexes A, B and C, allows sellers to submit a public rating, in place of the guarantee, provided it exceeds certain thresholds and is issued by certified bodies;
- adequate monitoring through credit ageing reports;
- training of dedicated staff.

Credit management starts with the "behavioural score" or knowledge of the individual reseller through the constant analysis of payment attitudes/habits and is subsequently broken down into a series of targeted actions ranging from phone collection activities carried out in-house, reminders sent electronically, sending of notice letters via registered post, as provided under Resolution ARG/elt 4/08 and subsequent resolution 258/2015/R/COM (TIMOE), to termination of the transportation contract.

As regards the **supply of electricity and gas on the deregulated market**, preventive credit risk assessment is performed using the

credit scoring system (business decisions), with automatic results for mass market and small business customers and with a timely analysis with reference to sales of gas and electricity made to industrial and business customers. The integration is currently underway between the BD system and the SAS platform and with the Siebel system.

With regards to the **water sector**, the implementation of credit risk management strategies starts with a macro-distinction between public sector end users (municipalities, public administrations, etc.) and private sector end users (industrial, commercial, condominium, etc.), given that said categories present different levels of risk, in particular:

- low risk of insolvency and high risk of late payment for public sector end users,
- variable risk of insolvency and late payment risk for private sector end users.

As regards credits due from public sector end users, which account for over 30% of the past due trade receivables, they are converted to cash through without-recourse factoring to financial partners, while a residual portion is managed directly through the offsetting of receivables/payables or by means of settlement agreements, where applicable.

Credit management for private sector end users, which represent approximately 70% of past due receivables, starts with behavioural scores or "knowledge in terms of the probability of default of each individual customer through the constant analysis of payment attitudes/habits", and is subsequently implemented through a series of targeted actions ranging from reminder letters, assignment to specialised companies for credit recovery via phone collection, to disconnection of defaulting end users and receivable factoring transactions.

Finally, by decree of the Minister of Economy and Finance of 16 September 2015, published in the Official Gazette of 30 September 2015, no. 227, Acea Ato 2 was authorized to make collections through enforcement procedures (through Equitalia) and to preliminary rely on tax injunctions, which replace the injunction orders pursuant to art. 17, paragraphs 3-bis and 3-ter of Legislative Decree no. 46/1999. On one hand, the public relevance of receivables arising from the integrated water service was acknowledged; on the other hand this will enable the company to be even more effective in the recovery of payments from delinquent customers, as it is now able to rely on a tool typically used for the collection of taxes. Thereafter, Acea Ato 5 and GORI were also authorised to collect by means of roll, respectively by Decree of the Minister for the Economy and Finance of 22 February 2016, published in Official Journal no. 58 of 10 March 2016 and Decree of 22 September 2016, published in Official Journal no. 235 of 07 October 2016.

Customer evaluation

In Acea Energia, the first step in credit management is the prior assessment of the client. *Corporate Credit* has the task, amongst others, of implementing and managing the preventive scoring system, which enables real time assessment of the credit rating of the potential customer, when acquiring it. The system is directly usable by Acea Energia and by the commercial agencies mandated by Acea Energia. Specific scorecards were defined to refine the prior assessment of small business and retail customers; in parallel, also the preliminary analysis of *large business* customers was implemented as of September 2015 on the same platform; in this respect, specific workflows were defined that support the timely analysis of prospective customers, also using updated accounting and commercial information.

To support credit management activities, as early as April 2014, the parent company issued guidelines: “*Scoring and credit to customers*”, “*Payments by instalment*”, “*Repayment plans and Settlement agreements*” and “*Cancellations*”.

Acea Energia uses the SAP module “Collection Strategy” to manage credit relating to utilities operative on the protected market and “Credit Care” for the management of credit of customers operating on the deregulated market and ceased customers. In recent years, in-court and out-of-court recovery was strengthened, with specific reference to legal litigation activities and using the services offered by market operators for the bulk recovery of receivables.

On the management side, activities successfully continued for the collection matching process, acting both on the collection channels and the application systems, and with regard to the number of dedicated employees.

The ageing of the Trade Receivables is as follows, gross of the allowance for doubtful accounts, detailed in Note 23.

- Total trade receivables, gross of Provision for Impairment of Receivables: €1,542 million
- Trade receivables to expire: €687 million
- Outstanding trade receivables: €855 million, of which:
 - Within twelve months: €255 million
 - Over twelve months: €600 million

ANNEXES

A. LIST OF CONSOLIDATED COMPANIES

B. RECONCILIATION OF SHAREHOLDERS' EQUITY AND STATUTORY PROFIT – CONSOLIDATED

C. REMUNERATION OF DIRECTORS, STATUTORY AUDITORS, KEY MANAGERS AND INDEPENDENT AUDITORS

D. SEGMENT INFORMATION: STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT

A. LIST OF CONSOLIDATED COMPANIES

Name	Location	Share Capital (in €)	Shareholding	Group consolidation quota	Method of Consolidation
Environment Sector					
Acea Ambiente Srl	Via G. Bruno 7- Terni	2,224,992	100.00%	100.00%	Full
Aquaser Srl	P.le Ostiense, 2 - Roma	3,900,000	93.06%	100.00%	Full
Iseco SpA	Loc. Surpian n. 10 - 11020 Saint-Marcel (AO)	110,000	80.00%	100.00%	Full
Acque Industriali Srl	Via Bellatalla, 1 - Ospedaletto (Pisa)	100,000	67.91%	100.00%	Full
Commercial and Trading Sector					
Acea Energia SpA	P.le Ostiense, 2 - Roma	10,000,000	100.00%	100.00%	Full
Acea8cento Srl	P.le Ostiense, 2 - Roma	10,000	100.00%	100.00%	Full
Cesap Vendita Gas Srl	Via del Teatro, 9 - Bastia Umbra (PG)	10,000	100.00%	100.00%	Full
Acea Liquidation and Litigation Srl	P.le Ostiense, 2 - Roma	10,000	100.00%	100.00%	Full
Umbria Energy SpA	Via B. Capponi, 100 - Terni	1,000,000	50.00%	100.00%	Full
Acea Energy Management Srl	P.le Ostiense, 2 Roma	50,000	100.00%	100.00%	Full
Parco della Mistica Srl	P.le Ostiense, 2 Roma	10,000	100.00%	100.00%	Full
Overseas Sector					
Acea Dominicana SA	Avenida Las Americas - Esquina Mazoneria, Ensanche Ozama - Santo Domingo	644,937	100.00%	100.00%	Full
Aguas de San Pedro SA	Las Palmas, 3 Avenida, 20y 27 calle - 21104 San Pedro, Honduras	6,457,345	60.65%	100.00%	Full
Acea International SA	Avenida Las Americas - Esquina Mazoneria, Ensanche Ozama - 11501 Santo Domingo	5,020,430	99.99%	100.00%	Full
Consortio Acea - Acea Dominicana	Av. Las Americas - Esq. Mazoneria - Ens. Ozama	67,253	100.00%	100.00%	Full
Water Sector					
Acea Ato 2 SpA	P.le Ostiense, 2 - Roma	362,834,320	96.46%	100.00%	Full
Acea Ato 5 SpA	Viale Roma snc - Frosinone	10,330,000	98.45%	100.00%	Full
Acque Blu Arno Basso SpA	P.le Ostiense, 2 - Roma	8,000,000	76.67%	100.00%	Full
Acque Blu Fiorentine SpA	P.le Ostiense, 2 - Roma	15,153,400	75.01%	100.00%	Full
Crea Gestioni Srl	P.le Ostiense, 2 - Roma	100,000	100.00%	100.00%	Full
CREA SpA (in liquidation)	P.le Ostiense, 2 - Roma	2,678,958	100.00%	100.00%	Full
Gesesa SpA	Corso Garibaldi, 8 - Benevento	534,991	57.93%	100.00%	Full
Lunigiana SpA (in liquidation)	Via Nazionale 173/175 - Massa Carrara	750,000	95.79%	100.00%	Full
Ombrone SpA	P.le Ostiense, 2 - Roma	6,500,000	99.51%	100.00%	Full
Sarnese Vesuviano Srl	P.le Ostiense, 2 - Roma	100,000	99.16%	100.00%	Full
Umbriadue Servizi Idrici Scarl	Strada Sabbione zona ind. A72 - Terni	100,000	99.20%	100.00%	Full
Energy Infrastructure Sector					
areti SpA	P.le Ostiense, 2 - Roma	345,000,000	100.00%	100.00%	Full
Acea Illuminazione Pubblica SpA	P.le Ostiense, 2 - Roma	1,120,000	100.00%	100.00%	Full
Acea Produzione SpA	P.le Ostiense, 2 - Roma	5,000,000	100.00%	100.00%	Full
Ecogena Srl	P.le Ostiense, 2 Roma	1,669,457	100.00%	100.00%	Full
Engineering and Services Sector					
Acea Elabori SpA	Via Vitorchiano - Roma	2,444,000	100.00%	100.00%	Full
Technologies For Water Services SPA	Via Ticino, 9 -25015 Desenzano Del Garda (BS)	11,164,000	100.00%	100.00%	Full

Companies accounted for using the equity method as from 1 January 2014 in accordance IFRS11

Name	Location	Share Capital (in €)	Shareholding	Group consolidation quota	Method of Consolidation
Environment Sector					
Ecomed Srl	P.le Ostiense, 2 - Roma	10,000	50.00%	50.00%	Shareholders' Equity
Overseas Sector					
Consorcio Agua Azul SA	Calle Amador Merino Reina 307 - Lima - Perù	17,379,190	25.50%	25.50%	Shareholders' Equity
Water Sector					
Acque SpA	Via Garigliano, 1- Empoli	9,953,116	45.00%	45.00%	Shareholders' Equity
Acque Servizi Srl	Via Bellatalla, 1 - Ospedaletto (Pisa)	400,000	100.00%	34.50%	Shareholders' Equity
Acquedotto del Fiora SpA	Via Mameli, 10 Grosseto	1,730,520	40.00%	40.00%	Shareholders' Equity
GORI SpA	Via Trentola, 211 - Ercolano (NA)	44,999,971	37.05%	37.05%	Shareholders' Equity
Gori Servizi Srl	Via Trentola, 211 - Ercolano (NA)	1,000,000	37.05%	37.05%	Shareholders' Equity
Geal SpA	Viale Luporini, 1348 - Lucca	1,450,000	48.00%	48.00%	Shareholders' Equity
Intesa Aretina Scarl	Via B. Crespi, 57 - Milano	18,112,000	35.00%	35.00%	Shareholders' Equity
Nuove Acque SpA	Patrignone Loc. Cuculo - Arezzo	34,450,389	46.16%	16.16%	Shareholders' Equity
Publiacqua SpA	Via Villamagna - Firenze	150,280,057	40.00%	40.00%	Shareholders' Equity
Umbra Acque SpA	Via G. Benucci, 162 - Ponte San Giovanni (PG)	15,549,889	40.00%	40.00%	Shareholders' Equity
Engineering and Services Sector					
Ingegnerie Toscane Srl	Via Francesco de Sanctis, 49 - Firenze	100,000	42.52%	42.52%	Shareholders' Equity
Visano Scarl	Via Lamarmora, 230 -25124 Brescia	25,000	40.00%	40.00%	Shareholders' Equity

The following companies are also consolidated using the equity method:

Name	Location	Share Capital (in €)	Shareholding	Group consolidation quota	Method of Consolidation
Environment Sector					
Amea SpA	Via San Francesco d'Assisi 15C - Paliano (FR)	1,689,000	33.00%	33.00%	Shareholders' Equity
Arkesia SpA (in liquidation)	Via S. Francesco D'Assisi, 17 - Paliano (FR)	170,827	33.00%	33.00%	Shareholders' Equity
Coema	P.le Ostiense, 2 - Roma	10,000	67.00%	33.50%	Shareholders' Equity
Overseas Sector					
Aguaazul Bogotà SA	Calle 82 n. 19°-34 - Bogotà- Colombia	1,482,921	51.00%	51.00%	Shareholders' Equity
Water Sector					
Azga Nord SpA (in liquidation)	Piazza Repubblica Palazzo Comunale - Pontremoli (MS)	217,500	49.00%	49.00%	Shareholders' Equity
Sogea SpA	Via Mercatanti, 8 - Rieti	260,000	49.00%	49.00%	Shareholders' Equity
Le Soluzioni	Via Garigliano, 1 - Empoli	250,678	75.65%	24.62%	Shareholders' Equity
Servizi idrici Integrati ScPA	Via I Maggio, 65 Terni	19,536,000	25.00%	24.80%	Shareholders' Equity
Energy Infrastructure Sector					
Citelum Napoli Pubblica Illuminazione Scarl	Via Monteverdi Claudio, 11 - Milano	90,000	32.18%	32.18%	Shareholders' Equity
Sienergia SpA (in liquidation)	Via Fratelli Cairoli, 24 - Perugia	132,000	42.08%	42.08%	Shareholders' Equity
Umbria Distribuzione Gas SpA	Via Bruno Capponi 100 - Terni	2,120,000	15.00%	15.00%	Shareholders' Equity
Other					
Marco Polo Srl (in liquidation)	Via delle Cave Ardeatine, 40 - Roma	10,000	33.00%	33.00%	Shareholders' Equity

B. RECONCILIATION OF SHAREHOLDERS' EQUITY AND STATUTORY PROFIT – CONSOLIDATED

€ thousand	Profit for the year		Shareholders' Equity	
	2017	2016	31/12/2017	31/12/2016
Balances in statutory financial statements (Acea)	226,579	108,610	1,554,961	1,456,505
Excess of shareholders' equity and net profit measured at fair value compared to book value	152,692	271,027	(44,126)	37,816
Goodwill	(5,520)	(3,089)	174,967	180,341
Elimination of tax effects, including those from previous years	(7,031)	(7,873)	19,886	26,917
Accounted for using the equity method	27,123	31,052	146,556	119,434
Elimination of dividends	(228,420)	(152,227)	0	0
Elimination of goodwill (infra-group transaction)	24,987	25,366	(132,974)	(157,961)
Other changes	(9,728)	(10,519)	(1,644)	8,084
Balances in consolidated financial statements	180,682	262,347	1,717,626	1,671,136

C. FEES DUE TO DIRECTORS, AUDITORS AND KEY MANAGERS

Board of Directors and Board of Statutory Auditors

€ thousand	Remuneration for the office	Non-monetary benefits	Remuneration due		Total
			Bonuses and other incentives	Other compensation	
Board of Directors in In office until 27 April 2017	59	34	0	173	266
Board of Directors meeting of 28 April 2017	141	44	230	255	670
Board of Statutory Auditors	378	0	0	0	378

Key Managers

Fees due to executives with strategic responsibilities for 2017 amounted to:

- salaries and bonuses € 1,810 thousand,
- non-monetary benefits € 177 thousand.

Remuneration paid to key managers is established by the Remuneration Committee based on average levels of pay in the labour market.

Independent Auditors

In accordance with Article 149 duodecies of CONSOB Issuers'

Regulations, the fees accrued by the independent auditors PWC in 2017 are provided in the table below. Moreover, in accordance with Art. 10 of Regulation (EU) 537/2014, please note the services other than auditing, provided for the parent company or its subsidiaries during FY 23017:

1. assistance with tests 262/05 identified by the Acea Group;
2. benchmark analysis of some services provided between related parties; and
3. assistance in implementing and maintaining non economic-financial systems (SAP Hcm e SAP Jam).

€ thousand	Audit Related Service	Audit Services	Non Audit Services post conferral of appointment	Non Audit Services pre conferral of appointment	Total
Acea SpA	67	272	418	573	1,330
Acea Group	78	859	104	0	1,041
Total Acea SpA and Group	145	1,131	522	573	2,372

D. SEGMENT INFORMATION: STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT

Please note the following for a better understanding of the breakdown provided in this section:

- sales refer to the Commercial and Trading Area which, from an organizational standpoint, is responsible for the companies Acea Energia, Acea8cento, AEMa Umbria Energy, Acea Liquidation and Litigation (formerly Elga Sud), Parco della Mistica and Cesap Vendita Gas,
- generation, distribution and public lighting (Rome and Naples) refer to the Energy Infrastructures segment which, from an organisational standpoint, is responsible for areti and Acea Illuminazione Pubblica,
- analysis and research services refer to the Engineering and Services Department, which, from an organizational standpoint, is responsible for Acea Elabori, and TWS,
- Overseas refers to the Environment segment which, from an organizational standpoint, is responsible for the business carried out abroad,
- Water Services refers to the Water segment which, from an organizational standpoint, is responsible for the water companies operating in Italy in Lazio, Campania, Tuscany and Umbria, and for Gori Servizi and Umbriadue,
- environment refers to the Environment segment which, from an organizational standpoint, is responsible for the Acea Ambiente, Aquaser, Acque Industriali and Iseco.

The sector reporting considers the organisational changes that took place in May 2017, and which are summarised in the table below.

Operating segment	Former reference industrial area	Current reference industrial area
Environment	Environment	Environment
Generation	Energy	Energy Infrastructure
Sales	Energy	Commercial and Trading
Water	Water	Water
Overseas	Water	Overseas
Distribution	Networks	Energy Infrastructure
Engineering and services	Water	Engineering and services
Public Lighting	Networks	Energy Infrastructure

These organisational changes entailed the revision of comparative data given in the paragraph on “Performance of operating segments”.

2016 STATEMENT OF FINANCIAL POSITION

€ thousand	Environment	Commercial and Trading	Overseas	Water	Generation	Distribution
Capex	33,956	27,404	1,520	230,416	27,862	196,559
Property, plant and equipment	252,179	6,943	35,873	65,462	200,837	1,555,232
Intangible fixed assets	22,651	140,941	14,670	2,063,334	8,168	99,112
Non-current financial assets measured at equity						
Financial assets						
Other non-current trading assets						
Other non-current financial assets						
Inventory	4,980	-	1,311	6,122	1,790	9,066
Trade receivables from third parties	63,236	390,425	8,736	472,387	19,794	195,167
Trade receivables from Parent Company	192	24,356	105	28,209	2,758	6,143
Trade receivables from subsidiaries and associates	538	1,880	4	9,639	-	-
Other current trading assets						
Other current financial assets						
Cash and cash equivalents						
Non-current assets held for sale	-	-	-	-	497	-
Total assets						

€ thousand	Environment	Commercial and Trading	Overseas	Water	Purchase of electricity	Distribution
Segment liabilities						
Trade payables to third parties	72,476	424,280	806	310,853	27,903	322,565
Trade payables to Parent Company	1,751	20,586	504	136,539	343	14,494
Trade payables due to subsidiaries and associates	-	2,185	220	552	-	115
Other current trading liabilities						
Other current financial liabilities						
Staff termination benefits and other defined benefit plans	4,279	4,824	264	29,040	2,496	35,691
Other provisions	26,799	24,421	-	79,811	13,146	6,769
Provision for deferred taxes						
Other non-current trading liabilities						
Other non-current financial liabilities						
Liabilities directly associated with assets held for sale						
Shareholders' equity						
Total liabilities and shareholders' equity						

Amounts in € thousand

€ thousand	Public lighting	Engineering and Services	Corporate	Consolidated total	Consolidation adjustments	Consolidated total
Capex	1,349	1,756	13,182	534,005	(3,298)	530,707
Property, plant and equipment	2,224	3,029	97,806	2,219,586	(6,652)	2,212,933
Intangible fixed assets	4,397	715	13,236	2,367,224	(396,580)	1,970,643
Non-current financial assets measured at equity						260,877
Financial assets						2,579
Other non-current trading assets						296,458
Other non-current financial assets						27,745
Inventory	8,456	-	-	31,726	-	31,726
Trade receivables from third parties	7,824	23,510	850	1,181,929	(158,370)	1,023,560
Trade receivables from Parent Company	5,792	604	372	68,532	(94,210)	45,611
Trade receivables from subsidiaries and associates	-	-	57,071	69,133	(40,862)	28,271
Other current trading assets						207,005
Other current financial assets						131,275
Cash and cash equivalents						665,533
Non-current assets held for sale	-	-	-	497	-	497
Total assets						6,904,713

€ thousand	Public lighting	Engineering and Services	Corporate	Group total	Adjustments	Consolidated total
Segment liabilities						
Trade payables to third parties	21,299	5,850	109,530	1,295,562	(146,390)	1,149,172
Trade payables to Parent Company	3,419	988	60	178,684	(39,438)	139,245
Trade payables due to subsidiaries and associates	11,689	-	7,691	22,452	(18,278)	4,173
Other current trading liabilities						320,142
Other current financial liabilities						151,478
Staff termination benefits and other defined benefit plans	2,074	4,449	26,444	109,562	-	109,550
Other provisions	671	797	25,808	178,223	23,899	202,122
Provision for deferred taxes						88,158
Other non-current trading liabilities						185,524
Other non-current financial liabilities						2,797,106
Liabilities directly associated with assets held for sale						99
Shareholders' equity						1,757,943
Total liabilities and shareholders' equity						6,904,713

INCOME STATEMENT AS AT 31 DECEMBER 2016

€ thousand	Environment	Commercial and Trading	Overseas	Water	Purchase of electricity	Distribution
Revenues	136,810	1,676,242	11,942	672,217	56,233	571,193
Costs	79,570	1,578,261	8,571	362,736	24,227	217,904
Income/(Costs) from equity investments of a non-financial nature	(10)	-	1,053	26,489	-	-
EBITDA	57,230	97,980	4,424	335,970	32,005	353,289
Depreciation	27,367	73,714	1,013	117,849	26,431	94,943
Operating income	29,862	24,266	3,411	218,122	5,575	258,346
Financial (Costs)/income						
(Costs)/Income from investments	(460)		2,144	167		(144)
Earnings before taxes						
Taxes						
Net Profit						

Amounts in € thousand

€ thousand	Public Lighting	Engineering and Services	Corporate	Consolidated total	Consolidation adjustments	Consolidated total
Revenues	77,628	37,540	112,218	3,352,023	(519,606)	2,832,417
Costs	74,643	24,756	114,257	2,484,926	(519,511)	1,965,415
Income/(Costs) from equity investments of a non-financial nature	-	1,812	-	29,345	-	29,345
EBITDA	2,985	14,596	(2,038)	896,442	(95)	896,347
Depreciation	5,842	3,068	19,943	370,170	233	370,403
Operating income	(2,857)	11,528	(21,981)	526,271	(328)	525,944
Financial (Costs)/income						(111,564)
(Costs)/Income from investments						1,707
Earnings before taxes						416,087
Taxes						143,548
Net Profit						272,539

INCOME STATEMENT AS AT 31 DECEMBER 2017

€ thousand	Environment	Commercial and Trading	Overseas	Water	Purchase of electricity	Distribution
Capex	15,366	19,367	5,183	271,435	23,106	185,665
Property, plant and equipment	226,750	4,932	32,097	62,530	208,030	1,623,324
Intangible fixed assets	14,524	143,941	13,497	2,184,695	460	104,490
Non-current financial assets measured at equity	-	-	-	-	-	-
Financial assets	-	-	-	-	-	-
Other non-current trading assets	-	-	-	-	-	-
Other non-current financial assets	-	-	-	-	-	-
Inventory	5,639	-	777	7,016	1,775	20,248
Trade receivables from third parties	74,524	367,424	7,961	373,466	18,753	181,385
Trade receivables from Parent Company	268	17,232	-	44,877	3,891	4,908
Trade receivables from subsidiaries and associates	14	365	4	11,776	-	-
Other current trading assets	-	-	-	-	-	-
Other current financial assets	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-
Non-current assets held for sale	-	-	-	-	183	-
Total assets						

€ thousand	Environment	Commercial and Trading	Overseas	Water	Purchase of electricity	Distribution
Segment liabilities						
Trade payables to third parties	47,032	391,485	2,319	312,309	23,345	343,229
Trade payables to Parent Company	914	26,063	285	156,089	576	22,706
Trade payables due to subsidiaries and associates	-	3,331	539	70	-	-
Other current trading liabilities	-	-	-	-	-	-
Other current financial liabilities	-	-	-	-	-	-
Staff termination benefits and other defined benefit plans	6,478	4,861	258	28,262	2,445	36,501
Other provisions	19,747	25,812	-	60,423	12,285	23,568
Provision for deferred taxes						
Other non-current trading liabilities						
Other non-current financial liabilities						
Liabilities directly associated with assets held for sale	-	-	-	-	37	-
Shareholders' equity						
Total liabilities and shareholders' equity						

Amounts in € thousand

€ thousand	Public lighting	Engineering and Services	Corporate	Consolidated total	Consolidated total	Consolidated total
Capex	641	826	10,663	532,252	-	532,252
Property, plant and equipment	1,682	2,937	99,827	2,262,110	(6,652)	2,255,457
Intangible fixed assets	1,126	1,060	11,748	2,524,077	(410,578)	2,064,964
Non-current financial assets measured at equity	-	-	-	-	-	280,853
Financial assets	-	-	-	-	-	2,614
Other non-current trading assets	-	-	-	-	-	505,301
Other non-current financial assets	-	-	-	-	-	38,375
Inventory	-	4,747	-	40,201	-	40,201
Trade receivables from third parties	1,547	44,409	312	1,069,781	(136,072)	933,709
Trade receivables from Parent Company	5,754	5,477	93	82,499	(30,001)	52,498
Trade receivables from subsidiaries and associates	767	11,023	92,923	116,871	(80,368)	36,503
Other current trading assets	-	-	-	-	-	210,085
Other current financial assets	-	-	-	-	-	237,671
Cash and cash equivalents	-	-	-	-	-	680,641
Non-current assets held for sale	-	-	-	183	-	183
Total assets						7,339,055

€ thousand	Public lighting	Engineering and Services	Corporate	Group total	Consolidated total	Consolidated total
Segment liabilities						
Trade payables to third parties	12,245	18,043	93,297	1,243,305	(136,623)	1,106,681
Trade payables to Parent Company	1,306	475	24	208,438	(82,310)	126,128
Trade payables due to subsidiaries and associates	13,840	80	14,340	32,199	(27,201)	4,999
Other current trading liabilities	-	-	-	-	-	316,660
Other current financial liabilities	-	-	-	-	-	633,155
Staff termination benefits and other defined benefit plans	-	5,160	24,464	108,430	-	108,430
Other provisions	-	12,011	31,955	234,336	23,818	209,619
Provision for deferred taxes	-	-	-	-	-	92,835
Other non-current trading liabilities	-	-	-	-	-	184,270
Other non-current financial liabilities	-	-	-	-	-	2,745,035
Liabilities directly associated with assets held for sale	-	-	-	37	-	37
Shareholders' equity						1,811,206
Total liabilities and shareholders' equity						7,339,055

INCOME STATEMENT AS AT 31 DECEMBER 2017

€ thousand	Environment	Commercial and Trading	Overseas	Water	Purchase of electricity	Distribution
Revenues	161,149	1,578,399	35,154	707,038	68,483	528,335
Costs	96,665	1,500,345	21,722	381,528	27,643	241,026
Income/(Costs) from equity investments of a non-financial nature	(32)	-	1,002	24,108	-	-
EBITDA	64,452	78,054	14,433	349,619	40,840	287,309
Depreciation	39,375	60,619	6,172	158,364	22,944	140,713
Operating income	25,077	17,435	8,261	191,255	17,896	146,596
Financial (Costs)/income						
(Costs)/Income from investments	(1)	(55)	(263)	1,552		
Earnings before taxes						
Taxes						
Net Profit						

Amounts in € thousand

€ thousand	Public Lighting	Engineering	Corporate	Consolidated total	Consolidation adjustments	Consolidated total
Revenues	61,880	82,604	120,457	3,343,500	(546,518)	2,796,983
Costs	57,439	69,849	134,153	2,530,370	(546,518)	1,983,853
Income/(Costs) from equity investments of a non-financial nature	-	1,786	-	26,864	-	26,864
EBITDA	4,442	14,541	(13,696)	839,994	-	839,994
Depreciation	972	3,064	47,878	480,102	-	480,102
Operating income	3,470	11,477	(61,575)	359,892	-	359,892
Financial (Costs)/ income						71,955
(Costs)/Income from investments		(974)		259		259
Earnings before taxes						288,196
Taxes						95,992
Net Profit						192,203



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

ACEA SPA

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017



Independent auditor's report

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

To the shareholders of Acea SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Acea Group, (the Group), which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position as of 31 December 2017, consolidated statement of cash flows and statement of changes in consolidated equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

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

Emphasis of matter

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

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhler 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311



- The uncertainties regarding the subsidiary Acea Ato 5 SpA related to the complex legal matter concerning the ongoing disputes with the Local Regulator which are mainly related to the termination of the concession agreement, the approval of the 2016-2019 tariffs, the contractual penalties charged to the company for alleged instances of non-compliance, the recognition of receivables related to higher operating costs incurred in the 2003-2005 period and the determination of the concession fees;
- The uncertainties related to the associate Gori SpA mainly concerning the approval of the petition for economic and financial rebalancing submitted to the relevant authorities, and to the entering into of an arrangement with the Campania Region about the set-off of the respective credit and debt entries through an appropriate repayment plan commensurate with the expected recovery of tariff adjustments due to the Company;
- The complex regulatory measures, with particular reference to matters underlying the approval process of water tariffs.

Our conclusions are not qualified for these matters.

Key Audit Matters

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

<i>Key Audit Matters</i>	<i>Auditing procedures performed in response to key audit matters</i>
First year of audit On 27 April 2017, the shareholders meeting of Acea SpA appointed us to perform the statutory audit of the consolidated financial statements of the Acea Group. As this has been the first year of the audit engagement on the Group, within our activities the comprehension of the Acea Group and of its operating context were of particular importance, specifically as regards the special regulations governing the sectors in which the Group operates, the related risks and the corporate processes and policies covering such risks.	 In performing our audit procedures, we held several meetings with the key Group representatives person, focusing in particular on understanding the organisation and the relevant regulatory framework, as specifically defined by the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA, formerly AEEGSI). We focused our audit procedures on understanding the accounting policies adopted by the Acea Group by reading the accounting manual and discussion with the

main corporate representatives in relation to sector-specific matters, in addition to acquiring the supporting documentation and analysing the rationale behind the main accounting choices adopted within the consolidated financial statements for the year ended 31 December 2016. In this regard, for our in-depth examinations we involved PwC network experts who, within their different competences, deal with the Energy&Utilities sector.

In compliance with ISA Italia 510 – *Initial Audit Engagement- Opening Balances*, we performed specific tests on the opening balances in order to establish whether these contained significant errors that could affect the consolidated financial statements as of 31 December 2017.

For this purpose, we gained access to and analysed the working papers of the former auditors related to the consolidated financial statements as of 31 December 2016. In particular, we discussed with the former auditors the audit method used, the materiality applied, the analyses carried out in relation to the accounting choices adopted by the Acea Group, as well as the findings that emerged from the audit performed.

Determination of revenue from sales and services and receivables for invoices to be issued

Note 1 “Revenue from sales and services” and note 23.b “Commercial credits” to the consolidated financial statements

In the consolidated financial statements as of 31 December 2017 the Group recognised receivables from customers for invoices to be issued for an amount equal to Euro 301,480 thousand

We planned our audit procedures in order to understand, evaluate and validate the internal control system with reference to the revenue cycle. In particular, we understood and verified the relevant controls, both manual and automatic, underlying the billing system with particular, but not exclusive, reference to the customer database, the recognition of

compared to revenue from sales and services amounting to Euro 2,669,876 thousand.

The Group recognises revenue from sales and services when the actual transfer of the risks of ownership occurs or when a service is rendered and is measured at the fair value of the consideration received or receivable. In particular:

- i) Revenues from the sale and transport of electricity and gas are recognized at the time the service is supplied or provided, even if they are not billed, and are determined by adding estimates of volumes supplied/transported to revenues that are calculated on the basis of pre-established meter reading calendars.
- ii) Revenues from distribution of electricity take into account the tariffs and the restriction on revenue established by the Italian Regulatory Authority for Electricity Gas and Water (“AEEGSI”). Moreover, if the inclusion of investments in the calculation of tariffs, which establishes the operator’s right to payment, is virtually certain, the corresponding revenues are recognised as determined by AEEGSI Resolution 654/2015 (“regulatory lag”).
- iii) Revenues from integrated water service are determined on the basis of the Water Pricing Method applied for the calculation of the 2016-2019 tariffs and of the estimated consumption for the period. Furthermore, the Group recognises in revenues for the year the adjustments related to the so-called pass-through entries, as well as the adjustments, if any, related to costs for the Integrated Water Service incurred

meter readings, consumption estimates, the calculation of tariffs and the valuation of invoices and receipts.

Moreover, our audit focused on analysing the “mass balances – sources and uses” (i.e. the document which describes the relationship, for a specific period of time, between the inflows and outflows of a physical magnitude under analysis, including the related quantities generated, destroyed or accumulated) concerning the electricity and gas volumes managed by the Group, in order to verify the consistency of the quantitative data with the values of costs and revenues recognised in the financial statements, as well as on verifying the reasonableness of the basic assumptions used by the Group in order to determine the portion of revenues for the year that were not billed at the reporting date.

In addition to the above, we performed the following specific procedures for each type of revenue.

- 1) *For revenues from the sale and transport of electricity and gas*
 - Reconciliation of the electricity and gas quantities used by the Group to determine receivables for invoices to be issued with data communicated by the distributor, i.e. the subject that deals with the local distribution of electricity and gas, or by the dispatcher, i.e. the subject that, among other things, deals with electricity dispatching at a national level;
 - Verification of the correct valuation of unbilled electricity and gas quantities on the basis of the tariffs in force in the period under analysis.

due to the occurrence of exceptional events (i.e. water and environmental emergencies), if the application for their recognition has been successful.

The methods to determine accruals for invoices to be issued are based on the use of complex algorithms and include a significant estimation component. Therefore, we paid particular attention to the risk of inaccurate calculation of revenues from sales and services and of the related receivables from customers for invoices to be issued.

2) *For revenues from electricity distribution*

- Reconciliation of the quantity of electricity used by the Group to determine receivables for invoices to be issued with the data communicated by the dispatcher;
- Verification of the correct valuation of unbilled quantities of electricity on the basis of the tariffs in force in the period under analysis;
- Verification of the consistency of the methods applied by the Company for the calculation of accruals related to the so-called “regulatory lag” with the AEEGSI Resolution 654/2015.

3) *For revenues from integrated water service*

- Reconciliation of sales revenue with the guaranteed revenue restriction limits (*vincolo dei ricavi garantiti*, “VRG”) envisaged by the tariff plan related to the second regulatory period 2016-2019 approved by the relevant authorities;
 - Verification of the correct determination of receivables for invoices to be issued through comparison between bills issued and the VRG limits;
 - Verification of the correct determination of the bills issued reported through the validation of the invoicing system on the basis of the verification on a sample basis carried out on the recording of meter readings and on the correct entry of tariffs.
-

Investments and disinvestments of non-current assets

Note 13 “Property, plant and equipment”, note 16 “Concessions and rights on infrastructure” and note 17 “Other intangible fixed assets” to the consolidated financial statements

In the consolidated financial statements as of 31 December 2017 the Group recognised non-current assets equal to Euro 4,216,431 thousand, of which Euro 2,252,910 thousand related to property, plant and equipment and Euro 1,963,521 thousand related to intangible assets.

The Group’s investments in the period amounted to Euro 532,253 thousand, of which Euro 210,119 thousand related to property, plant and equipment and Euro 322,134 thousand related to intangible assets (including concessions).

In this respect, we highlight that for regulated activities (in particular the integrated water service and electricity distribution), the tariffs and, accordingly, the Group’s revenues are directly influenced by the amount of invested capital and therefore by changes in non-current assets. As a result, an overestimate or underestimate of the abovementioned non-current assets could increase or decrease the tariffs applied to customers in connection with the integrated water service and the transport of electricity. For this reason and due to the complexity related to the numerous maintenance works, in our audit we paid particular attention to the changes in non-current assets related to the regulated sectors.

We planned our audit procedures in order to understand, evaluate and validate the internal control system with reference to the business processes related to the management of non-current assets.

We focused our activities on verifying (on a sample basis) investments and disinvestments in non-current tangible and intangible assets of the water and electricity distribution segments. In particular, we carried out the reconciliation of the asset book with changes in non-current assets in the year, and on the basis of the significance of the amounts and of our professional judgement, we examined the changes selected paying special attention to the increases recognised. With reference to the latter, we verified (on a sample basis) if the requirements pursuant to the provisions of IAS 16 and IAS 38 for the capitalization of the internal and external costs had been complied with and also the existence of the services capitalised, i.e. if the service or asset being verified had actually been rendered or delivered/installed and correctly recognised.

Recoverability of non-current assets

Note 13 “Property, plant and equipment”, note 15 “Goodwill”, note 16 “Concessions and rights on infrastructure” and note 18 “Investments in subsidiaries and affiliate companies” to the consolidated financial statements

In the consolidated financial statements as of 31 December 2017 the Group recognised non-current assets for an amount equal to Euro 5,196,099 thousand, of which property, plant and equipment of Euro 2,252,910 thousand, goodwill of Euro 149,978 thousand, concessions and rights on infrastructure of Euro 1,819,400 thousand and equity investments in unconsolidated subsidiaries and associates of Euro 280,853 thousand. Annually, the Group, on the basis of its internal procedures, performs the impairment test pursuant to IAS 36, structured on a rationale based on two levels. A first level concerns the estimate of the recoverable amount of indefinite-lived intangible assets (goodwill) and a second level relates to the estimate of the recoverable amount of both equity investments in associates and other non-current assets. In particular, the impairment test of goodwill is performed at least annually, and with the same frequency the impairment test of the main equity investments in unconsolidated subsidiaries and associates is carried out, also without any impairment indicators, while the verification of the recoverability of the value of other non-current assets is performed solely when the Group identifies specific impairment indicators.

As part of our audit activities, we paid particular attention to the risk of the existence of any impairment losses related to non-current assets (and to the existence of any impairment indicators, when applicable) as the estimate of the recoverable amount of the abovementioned assets is particularly complex and based on valuation

We planned our audit procedures in order to:

- evaluate the consistency of the estimation method used by the Group with what envisaged by IAS 36 and valuation practice (analysis of valuation model used);
- evaluate the methods to identify the Cash Generating Units (CGU) underlying the impairment test;
- verify if the cash flows used were appropriate and if these were consistent with the 2018-2022 Industrial Plan approved by the Board of Directors on 28 November 2017; and
- verify the correct quantification of the recoverable amounts (mathematical accuracy) and of the carrying amounts.

In particular, our audit activities focused on verifying the reasonableness of the main assumptions underlying the estimated future cash flows and the discounting rates used to perform the impairment test (also through comparison with the budget data deriving from external information sources). We compared the forecasts of the prior years with the corresponding actual figures and, finally, we verified the sensitivity analyses performed by the Company and carried out independent sensitivity analyses changing the main evaluation assumptions used.

As part of our audit activities, we availed ourselves, where necessary, of the support of valuation experts belonging to the PwC network.

assumptions affected by economic, financial and market conditions which are hard to forecast.

Determination of allowance for doubtful accounts – trade receivables

Note 23.b to the consolidated financial statements “Commercial credits”

In the consolidated financial statements as of 31 December 2017 the Group recognised an allowance for doubtful accounts referred to trade receivables for an amount equal to Euro 403,604 thousand.

Periodically, the Group estimates the irrecoverable value of trade receivables applying calculation models based on: type of customer, receivable aging, historical collection performance of receivables and other specific information, if any, on the receivables to be valued.

The estimate of the recoverability of trade receivables is characterised by a specific complexity related to the high number of customers and to the fragmentary nature of the amounts. Furthermore, valuations are affected by different socioeconomic variables related to the different categories of customers. Therefore, as part of our audit activities we paid particular attention to the risk of inaccurate quantification of the estimate in question.

We planned our audit procedures in order to verify the accuracy of the reports generated by the information systems and used to determine the amount of the allowance for doubtful accounts (with particular reference to customer groups and to the breakdown of the related balances by maturity date). Subsequently, through interviews with the credit managers of the Group or of the single entities, we analysed lawyers’ replies to requests for information, we verified on a sample basis the guarantees given by the different customers and we evaluated any other information gathered after the reporting date (i.e. subsequent collections). We verified the reasonableness of the assumptions underlying the calculation model.

Finally, we validated the consistency of the method used by the Company with the provisions of IAS 39 and the accuracy of the mathematical calculation for the determination of the expected losses.

Other matters

The consolidated financial statements of the Acea Group for the year ended 31 December 2016 were audited by another independent auditor that, on 4 April 2017, expressed an unqualified opinion thereon.



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

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

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

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

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

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

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

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;



- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

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

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



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

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

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

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

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

The directors of Acea SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Acea Group as of 31 December 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Acea Group as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Acea Group as of 31 December 2017 and are prepared in compliance with the law.

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



***Statement in accordance with article 4 of Consob's Regulation implementing
Legislative Decree No. 254 of 30 December 2016***

Management of Acea SpA is responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016. We have verified that management approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Rome, 29 March 2018

PricewaterhouseCoopers SpA

Signed by

Massimo Rota
(Partner)

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



Certification of consolidated financial statements in accordance with art.154-bis of Legislative Decree 58/98

(Translation from the original Italian text)

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

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

of the administrative and accounting procedures for preparing the consolidated financial statements at 31 December 2017.

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

3. It is also certified that:

3.1 the consolidated financial statements:

- a) were drawn up in compliance the applicable international accounting standards recognised in European Community in accordance with EC regulation 1606/2002 of the European Parliament and the Council, of 19 July 2002,
- b) are consistent with the underlying accounting books and records,
- c) provide a true and correct view of the operating results and financial position of the issuer and the overall of companies included in the consolidation,

3.2 the report on operations includes a reliable analysis of the operational performance and result, as well as the situation of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Rome, 29 March 2018

signed by: Stefano Donnarumma, The CEO

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

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





REPORT ON CORPORATE
GOVERNANCE AND ON THE
OWNERSHIP STRUCTURE

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1. THE ISSUER'S PROFILE

Acea, a company listed on the online stock market organised and managed by Borsa Italiana Spa since 1999, is a leading Italian multi-utility company that has been operating for more than a century in the sectors of energy (from the generation, distribution and sale of electricity and gas to the management of public lighting), integrated water services (from capture and distribution to purification) and environmental services (the treatment and economic management of waste).

Always sensitive to the principles of corporate social responsibility, Acea conceives its economic activities in the context of the principle of sustainable development, a development idea according to which the requirements of economic efficiency and legitimate profit must be consistent with environmental protection and social development.

In adopting the choice of sustainability, Acea integrates the goal of customer satisfaction with that of creating value for the shareholders, at the same time paying attention to the needs of society and respecting the environment; it takes avail of the professional skills of its employees and enhances management responsibility in the achievement of the Company's objectives.

According to the most recent data, to date the Acea Group is the leading national operator in the water sector for inhabitants served, the second Italian operator for the distribution of electricity to users (the third for volumes distributed), the third operator for energy volumes sold to end users, and the sixth national operator in Waste-to-Energy in the environmental sector.

This report illustrates the corporate governance system adopted by Acea SpA which is based on a series of principles, rules and procedures, in line with the criteria indicated in the Self-Regulatory Code of listed companies promoted by Borsa Italiana, and inspired

by the applicable recommendations issued by CONSOB and, more in general, according to international best practice.

The corporate governance system adopted by Acea is essentially aimed at creating value for the shareholders over the medium-long term, in the awareness of the social relevance of the activities in which the Group is engaged and of the consequent need to adequately consider, in the exercise of the governance system, all the interests involved.

Acea's corporate governance structure is based on the traditional organisational model, and comprises the following bodies: the Shareholders' Meeting, the Board of Directors (assisted by the Board's internal committees), the Board of Statutory Auditors and the external Auditing Firm.

Without prejudice to the competence of the Shareholders' Meeting, the strategic management of the Company is entrusted to the Board of Directors, the hub of the organisational system, and the supervisory duties are entrusted to the Board of Statutory Auditors, a body vested with autonomous authority and powers and appointed on the basis of requisites of professional skill, integrity and independence, as defined by law.

The statutory audit of the accounts is assigned, pursuant to law, to a specialist auditing firm listed on the specific register of qualified auditors, appointed by the Shareholders' Meeting by proposal of the Board of Directors subject to a Recommendation drawn up by the Board of Auditors.

The information contained herein refers to financial year 2017 and, in relation to specific subjects, it is updated as at 14/03/2018, the date of the Board of Directors' meeting which approved this Report, the text of which is published at www.acea.it, in the "Corporate Governance" section.

2. INFORMATION ON THE OWNERSHIP STRUCTURE (art. 123 bis TUF, para. 1)

a) Structure of the share capital (as per art. 123 bis TUF, para. 1 letter a)

The Company's capital, equal to € 1,098,898,884.00, entirely underwritten and paid up, is divided into 212,964,900 ordinary shares with a par value of € 5.16 each, listed on the online stock market organised and managed by Borsa Italiana (see Table 1). There are no shares with limited voting rights or without voting rights, except 416,993 treasury shares for which the voting right is suspended in accordance with art. 2357-ter of the Civil Code.

b) Restrictions on share transfers (as per art. 123 bis TUF, para. 1 letter b)

There are no restrictions on share transfers except for individual constraints of the single shareholders.

c) Relevant stakes (as per art. 123 bis TUF, para. 1 letter c)

Relevant stakes, held directly or indirectly, pursuant to art. 120 of the TUF, according to the information published on 14/03/2018 on the CONSOB website and the communications made in compliance with the same article, are listed in Table 1.

d) Shares bearing special rights (as per art. 123 bis TUF, para. 1 letter d)

No shares bearing special controlling rights have been issued.

e) Stakes held by employees: the voting rights exercise mechanism (art. 123 bis TUF, para. 1 letter e)

In compliance with the aforementioned art. 13 of the Articles of Association, to facilitate the collection of proxies from shareholders employees of the Company, its subsidiaries and affiliates and shareholders' associations, with the requisites contemplated by the related provisions in force, specific spaces are made available for the communication and collection of the proxies.

f) Voting right restrictions (as per art. 123 bis TUF, para. 1 letter f)

Under art. 6 of the Articles of Association, with the sole exception of Roma Capitale, any shareholder whose stake exceeds 8% of the share capital must be disclosed to the Company. This limit is considered as reached, in both direct and indirect terms, as specified in more detail in paragraphs 2 and 3 of the said article and as described in the chapter "Shareholders' Meetings" of this Report. In the case of breach of this rule, the exercise of the vote for the shares exceeding the said limit will be forbidden and, in the case of a resolution by a determining vote deriving from the shares exceeding said limit, the resolution may be challenged.

g) Shareholders' agreements (as per art. 123 bis TUF, para. 1 letter g)

The Company is not aware of any shareholders' agreements of any kind, as contemplated under art. 122 of the TUF, or of any special powers of veto or of any other extraordinary influence on the decisions that are not direct expressions of the shares held.

h) Change of control clauses (as per art. 123 bis TUF, para. 1 letter h) and statutory provisions on takeover bids (as per articles 104, comma 1-ter, e 104-bis, comma 1)

Acea has entered into important agreements that take effect or

which are nullified in the case of a change of control of the contracting company. The following are the significant ongoing agreements in which change of control implies a negotiation:

- Loan totalling an initial € 100 million from the CDP;
- Long term loan totalling an initial € 200 million from the European Investment Bank (water segment);
- Long term loan totalling € 100 million from the European Investment Bank in favour of Acea SpA (Network Efficiency);
- Long term loan totalling an initial € 200 million from the European Investment Bank in favour of Acea SpA (Water II segment);
- Long term loan totalling an initial € 200 million from the European Investment Bank in favour of Acea SpA (Network Efficiency III).

With regard to takeovers, the Company's Articles of Association do not waive the provisions of art. 104, paragraphs 1 and 1-bis, of the TUF, nor are neutralisation rules, provided under art. 104-bis of the TUF.

i) Delegations for capital increases pursuant to art. 2443 of the Civil Code or the directors' power to issue financial instruments and authorisation for the purchase of treasury shares (art. 123 bis TUF, para. 1 letter m)

As at 31/12/2017 and also at the date of this Report, the Board of Directors has not been delegated to increase the share capital or to buy treasury shares.

In fact, as mentioned above, the Company currently holds 416,993 treasury shares for which the voting right is suspended in accordance with art. 2357-ter of the Civil Code, which are the remaining treasury shares authorised by an Ordinary Shareholders' Meeting resolution of 23 October 1999, amended by an Ordinary Shareholders' Meeting resolution of 29 April 2000, renewed by an Ordinary Shareholders' Meeting resolution of 31 October 2001 and with the additions inserted by an Ordinary Shareholders' Meeting resolution of 30 April 2002.

l) Management and coordination (as per art. 2497 et seq. civil code)

Arts. 2497 and following of the Civil Code are not applicable inasmuch as Acea autonomously defines its strategic policies and has full organisational, managerial and negotiating independence, not being subject to the governance and coordination of another subject.

We point out that:

- the information required by art. 123-bis, paragraph 1, letter i) ("agreements between the Company and the directors ... which provide for indemnity in the case of resignation or unfair dismissal or if their professional relationship ceases subsequent to a takeover") is contained in the remuneration report published in accordance with art. 123-ter of the TUF;
- the information requested by article 123-bis, paragraph 1, letter l) ("rules applicable to the replacement of directors ... and to amendments to the articles of association, if different from and additional to the applicable legislative and regulatory provisions") are illustrated in the section of this Report on the Board of Directors (Par. 4.1).

3. COMPLIANCE (as per art. 123 bis, paragraph 2, letter a), TUF)

Acea constantly applies the prescriptions of the Self-Regulatory Code (hereinafter the “Code”), which contains an articulated series of recommendations relating to the methods and rules for the governance and control of listed companies.

Notwithstanding the fact that the adoption of the principles contained in the Code does not imply any legal obligation, Acea has adhered to the Code since 2001 and to all the amendments and additions subsequently approved, up to the most recent of July 2015, by the Corporate Governance Committee of Borsa Italiana. The complete text of the Self-Regulatory Code is available to the public at <http://www.borsaitaliana.it/comitato-corporate-govern->

[ance/codice/2015clean.pdf](http://www.borsaitaliana.it/comitato-corporate-govern-ance/codice/2015clean.pdf), the website of Borsa Italiana.

The company provides information annually on its governance system and on its adhesion to the Code by means of a Report, drawn up also pursuant to art. 123-bis of the TUF, which shows the degree of adhesion to the principles and application criteria established by the Code itself and to international best practices.

The yearly Report is made available to the Shareholders, together with the documentation required for the Shareholders’ Meeting called to approve the financial statements, and it is also immediately published on the Company’s Internet site (www.acea.it) in the “Corporate Governance” section.

4. BOARD OF DIRECTORS

4.1 APPOINTMENT AND REPLACEMENT (art. 123 bis, para.1, letter I), TUF)

Directors are appointed and replaced in compliance with the laws in force, as adopted and integrated, within the limits allowed, by the provisions of the Articles of Association, drawn up in adherence and conformity to the provisions of the listed companies' Self-Regulatory Code. According to the provisions of the Company's Articles of Association, the Board of Directors is composed of no less than five and no more than nine members, appointed by the Ordinary Shareholders' Meeting (which determines the number within those limits) for a term no longer than three financial years and they may be re-elected on expiry of their mandate.

Directorships can only be held by those with the requisites laid down by law and by the regulatory provisions.

Directors are elected as described in art. 15.1 of the Articles of Association, which establishes that:

- there must be a gender balance in the composition of the Board of Directors, as disciplined by law;
- the directors are elected on the basis of lists, each of which contains as many candidates, each indicated by a progressive number, as the number of directors to be elected, and each list must have at least two candidates qualified as independent as contemplated by law, one of which must be first or second on the list and the other must be within the first four on the list;
- the election is carried out as follows:

A. from the list that has obtained the majority of votes (hereinafter, for brevity, the "Majority List"), half plus one of the directors to be elected, rounded down to the nearest whole number in the case of a fractioned number, will be chosen in the progressive order in which they are placed on the said list;

B. without prejudice to the rulings of law and the provisions of the Articles of Association on the limits to the connection with the Majority List, the remaining directors will be taken from the other lists. For this purpose, the votes obtained by the said lists will be divided, within the sphere of each list, by 1, 2, 4 and 8 and so on, up to the number of directors to be elected. The ratios thus obtained will be progressively assigned to the candidates of said lists, according to progressive order by which they are indicated. The ratios thus attributed to the candidates of the various lists will be placed in a single classification in decreasing order. Those with the highest ratios will be elected.

If several candidates have obtained the same ratio, the candidate elected will be that on the list of which no director is otherwise elected or the list with the lowest number of elected directors.

If no director is elected from such lists or if the same number of directors is elected from such lists, the candidate elected will be the one that has obtained the highest number of votes. In the case of parity between the list votes and of parity of ratios, the entire Shareholders' Meeting will vote again and the candidate with the simple majority of votes will be elected.

In any case, if a correctly drawn up list is presented in addition to the Majority List, the candidates of such a list will be elected according to the order of presentation".

The adopted election mechanism guarantees that at least one director represents the minorities and that the legally required minimum number of independent directors is elected (one in the case of a Board of Directors with no more than seven members, two if there are more than seven members) in compliance with art. 147-ter, paragraph 4, of the TUF.

The lists must be presented twenty-five days before the date

scheduled for the first meeting, by shareholders that, alone or with other shareholders, represent the minimum participation in the share capital established by CONSOB resolution, which corresponds to that established by the Articles of Association (in the light of the market capitalisation of the Acea shares, on the date of this Report the required minimum is 1% of the share capital).

No candidate may be on more than one list and no shareholder may vote for more than one list. The lists of candidates are filed at the Company's head office and they are also disclosed by publication, by the Company and at this latter's expense, in three national daily newspapers.

Director termination of office:

Pursuant to art. 15.3 of the Articles of Association: *"If a director appointed on the basis of the above-mentioned list vote leaves office, the Board of Directors will provide for his replacement by the co-option, in accordance with art. 2386 of the Civil Code, with the first candidate not elected on the list on which the outgoing director was a candidate, in respect of the legal provisions on gender balance, or, if that list has no more candidates, with the first of the non-elected candidates regardless of the relative list; however, if the outgoing director is not on the Majority List, the absence of connection with the Majority List must be respected. If the outgoing director had the requisites of independence and/or belonged to the less represented gender and the number of independent directors and/or those of the less represented gender consequently fall below the minimum number required by law, the first non-elected candidate of the list of the outgoing director with the requisites of independence required by law and/or of the less represented gender will be appointed. Directors thus appointed will remain in office until the next Shareholders' Meeting."*

Director replacement:

Pursuant to art. 15.4 of the Articles of Association: *"If a director leaves office during the financial period, the Shareholders' Meeting, by a relative majority vote, will elect his replacement, as far as possible in respect of the rules in force on independence and gender balance, from the non-elected candidates on the same list as that of the outgoing director. The newly appointed director must have provided, at least ten days before the date scheduled for the Meeting, written confirmation of his candidature as well as the declarations that no reasons exist for his ineligibility or incompatibility and that he holds the requisites prescribed for the office by the laws in force and the Articles of Association.*

If this replacement procedure is not possible, a resolution must be passed by a relative majority vote, always in respect of the representation of the minorities and the minimum number of independent directors.

A director thus appointed will remain in office until the expiry of the term of office of the other directors.

If, for any reason, the number of Board Directors falls below half the established number, the entire Board of Directors will fall from office and the Shareholders' Meeting must be summoned immediately for its reconstitution. However the Board of Directors will remain in office for the execution of acts of ordinary administration until the Shareholders' Meeting has resolved on its renewal and until at least half of the new directors have accepted their appointment."

Majorities required for statutory amendments

With reference to amendments to the Articles of Association, the Extraordinary Shareholders' Meeting, in compliance with art. 12 of the Articles of Association, will adopt the necessary resolutions with the majorities required by law.

4.2 COMPOSITION (as per art. 123 bis, paragraph 2, letter d, TUF)

Pursuant to art. 15.1 of the Articles of Association, the Company is governed by a Board of Directors composed of at least five and no more than nine members appointed by the Ordinary Shareholders' Meeting which determines the number within those limits.

The Shareholders' Meeting held on 27 April 2017 resolved that the number of Directors should be nine, it appointed the Board of Directors and the Chairman and it resolved that the term of office should be three financial periods and, in any case, until the Shareholders' Meeting that shall be called to approve the Financial Statements relating to financial year 2019.

Therefore as of 31 December 2017 and to date, the Board of Directors is formed as follows: Luca Alfredo Lanzalone (Chairman), Stefano Antonio Donnarumma (Managing Director), Michaela Castelli, Gabriella Chiellino, Liliana Godino, Alessandro Caltagirone, Massimiliano Capece Minutolo Del Sasso, Fabrice Rossignol and Giovanni Giani.

Of the above directors in office, 2 are executive directors (the Chairman and the Managing Director), to whom the Board of Directors has delegated individual managerial powers, whereas the remaining 7 are non-executive directors without individual management powers.

Some information of a personal and professional nature on the directors in office is given below:

Luca Alfredo Lanzalone: born in Genoa on 11 August 1969, he graduated in Law "summa cum laude" and worthy of publication at Genoa University on 3 November 1992 with the thesis "Chapter 11 - The Reorganization in the United States Bankruptcy Act". Authorised to exercise the profession of lawyer, he is registered in the Register of Lawyers of the Court of Genoa as well as the Register of legal representatives in the Court of Cassation and before the High Courts. He is one of the founding partners of the Lanzalone & Partners law firm (having its head office in Genoa and secondary offices in Lodi, Milan, Miami and New York), in which his main activity is as an advisor and legal assistance for companies and public entities on corporate matters, the organisation of local public services, privatisation and extraordinary merger, demerger and acquisition transactions, as well as relations with the regulation and control Authorities for the energy, banking and financial market. He taught Bankruptcy Law and European Commercial Law at Genoa University and is the author of several publications on the matter. It was a member of the board of directors of various companies operating in the energy, financial intermediation, port infrastructures and mechanical sectors.

Appointed on the basis of list no. 1 presented by Roma Capitale (containing: no. 1 Luca Alfredo Lanzalone, no. 2 Michaela Castelli, no. 3 Stefano Antonio Donnarumma, no. 4 Gabriella Chiellino, no. 5 Liliana Godino, no. 6 Marco Di Gregorio, no. 7 Maria Verbena Sterpetti, no. 8 Annaluce Licheri); the related proposal for appointment obtained the favourable vote of 73.2743% of the voters.

Stefano Antonio Donnarumma: born in Milan on 29/10/1967, graduated in Mechanical Engineering with top marks. Considerable experience in the sector of vehicle and rail component production, he has worked for important international groups such as TMD Friction, Bombardier Transportation and Alstom. From 2007 he moved to the public service management infrastructure management sector, joining the Acea group for which he covered the position of operational Chairman of Acea Distribuzione (electricity networks) and director of ATO2 (water networks) until August 2012. He then moved to Gruppo Aeroporti di Roma (later incorporated into the ATLANTIA group) with the role of Airport Management and Accountable Manager of Fiumicino and Ciampino Air-

ports and Chairman of the ADR Assistance company. In May 2015 he joined the A2A group in Milan, taking the position of Networks and Heat Director (managing all the companies in the group interested in the distribution of gas, electricity, water, remote heating, public lighting); in the period he is Chairman of Unareti SpA, A2A Calore e Servizi Srl, A2A Ciclo Idrico SpA and director of Gruppo LGH SpA.

Appointed on the basis of list no. 1 presented by the aforementioned Roma Capitale.

Michaela Castelli: born in Rome on 07/09/1970, she graduated in Law, a lawyer specialised in financial Law at the "L. Bocconi" University in Milan.

She worked at Borsa Italiana SpA where he was engaged, in close collaboration with the Supervisory Authority (CONSOB), in assisting listed issuers regarding extraordinary transactions and price sensitive, compliance and corporate governance disclosure.

She is an expert in matters of organisation and corporate compliance, internal controls and normative 231/01. He currently holds positions governing and control bodies of listed and unlisted companies.

Appointed on the basis of list no. 1 presented by the aforementioned Roma Capitale.

Gabriella Chiellino: born in Pordenone on 21/03/1970, she graduated in Environmental Science at Cà Foscari University in Venice in 1994. She has worked in the field of sustainability for over 20 years, covering various roles in the university context, teaching scientific subjects regarding environmental and energy management in companies. She was a member of various scientific technical committees in the public and private sector, also coordinating international events on matters linked to sustainability (water, waste, smart city). 15 years ago she founded an environmental and energy engineering company, of which she now chairs the BoD, which operates in Italy and overseas. As an expert of corporate Sustainability Governance, she steers and coordinates various Corporate Sustainability Committees. She is the author of various publications and articles on environmental and ethical matters and is a lecturer in various university courses.

Appointed on the basis of list no. 1 presented by the aforementioned Roma Capitale.

Liliana Godino: born in Genoa on 8/4/1962, she completed her education at l'Haute Ecole du Commerce in Paris, specialising in "Corporate Economy and Marketing". She is the General Affairs and Organisation Director of Baglietto Srl, which produces certified steel for global ship building sites. She was the Purchases and Logistics Director of Grandi Navi veloci SpA. She spent 18 years in Danone SA, a global agro-foodstuff company, first in consumer marketing with experience and national and international level and then in procurement, her last role being the Worldwide Sourcing Director for Packaging at the Headquarters. She was a member of the Board of Directors of the International School in Genoa.

Appointed on the basis of list no. 1 presented by the aforementioned Roma Capitale.

Alessandro Caltagirone: born in Rome on 27/12/1969, he graduated in Economics and Commerce at La Sapienza University in Rome. He is current a Board Member in many companies amongst which: Unicredit SpA, Il Messaggero SpA, Cementir Holding SpA, Caltagirone SpA as well as Vice Chairman of the Board of Directors of Alborg Portland Holding A/S.

Appointed on the basis of list no. 2 presented by Fincal SpA, as at the date of the Shareholders' Meeting of appointment, he held 2.676% of the share capital (containing no. 1 Alessandro Caltagirone, no. 2 Massimiliano Capece Minutolo Del Sasso, no. 3 Azzur-

ra Caltagirone, no. 4 Mario Delfini, no. 5 Tatiana Caltagirone, no. 6 Albino Majore, no. 7 Annalisa Mariani) he obtained the favourable vote of 12.8175% of the voters.

Massimiliano Capece Minutolo Del Sasso: born on 07/04/1968, registered in the register of Engineers of Rome since 1992. Vast experience in the real estate and infrastructure sector with competencies in design, development and management of large urban and construction projects. Currently Manager of Vianini Lavori SpA, and Board Member in several companies, including G.S. Immobiliare SpA, Vianini SpA and Fincal SpA. Appointed on the basis of list no. 2 presented by the aforementioned Fincal SpA.

Fabrice Rossignol: born in Boulogne-Billancourt on 02/08/1964. He was Additional General Manager of Suez Central Europe, Mediterranean, Africa, Middle East, general Manager of Suez *Recyclage et Valorisation* France. Since January 2017, the General Manager of Suez Italy, Central and Eastern Europe and CEI, as well as Chairman of Suez Italy since March 2017. Appointed on the basis of list no. 3 presented by Suez Italia SpA, as at the date of the Shareholders' Meeting of appointment, he held 12.483% of the share capital (containing no. 1 Fabrice Rossignol, no. 2 Giovanni Giani, no. 3 Diane Galbe, no. 4 Mauro Alfieri, no. 5 Massimo Lamperti, no. 6 Francesca Menabuoni, no. 7 Marica Lazzarin, no. 8 Diego Colmegna, no. 9 Susanna Mancini) and obtained the favourable vote of 13.7804% of the voters.

Giovanni Giani: born in Lecco on 14 January 1950, engineer, manager with vast international experience in business development and the management of companies in the sector of services for society as a whole and in the industrial sector, and expert in international industrial relations. At present he holds the office of Managing Director of Suez Italia SpA, the Italian holding company of the Suez Group. He was appointed on the basis of list no. 3 presented by the aforementioned Suez Italia SpA.

Diversity Policy

The Acea SpA Shareholders' Meeting punctually implemented law 120/2011 regarding equal access to governing and control bodies of companies listed in regulated markets, appointing board members of different genders (currently one third woman and two thirds men). In the subsidiary companies, Acea SpA also ensures the appointments of governing and control bodies again in respect of gender numbers. Moreover, in compliance with the principles expressed in the Code of Ethics, Acea promoted a culture of equal opportunities and management and valorisation of diversity by means of implementing a Charter for Diversity Management and the establishment of a dedicated Diversity Committee, pursuing a diversified approach to the management of human resources, aimed at creating an inclusive working environment able to favour the expression of individual potential and to use it as strategic leverage for the purposes of the company. The Diversity Committee is chaired by the Chairman of the BoD who delegated such function to the Chairman of the Ethics and Sustainability Committee.

Maximum number of offices simultaneously held in other companies

The Board of Directors, at its meeting of 23 March 2011, with the favourable opinion of the Internal Control Committee, resolved that Board Directors could not hold more than 10 offices in listed companies, including that held in Acea, to assure maximum possibility of fulfilling their mandates. The nature of the office held by the Directors is such as to require them to be able to dedicate all the time necessary, and the type

and number of the other offices held by the Directors at present in office makes it possible for them to perform their duties in the best possible manner.

All the Directors in office, already when the lists were filed and, later, on their acceptance of their mandate, specified the offices that they held in other companies listed on regulated markets (also abroad), in financial, banking and insurance companies and in companies of relevant dimensions.

On the basis of the updated communications received by the Company in implementation of the resolutions passed, all the Directors, at 14/03/2018, cover a number of roles compatible with the guidelines laid down by the Board itself.

Schedule 1, at the foot of this Report, lists the offices held by the Directors and Statutory Auditors in other companies listed on regulated markets, also abroad, in financial, banking and insurance companies and companies of relevant dimensions.

Induction Programme

Acea deemed it appropriate to organise initiatives aimed at providing the Directors and Auditors with adequate knowledge of the sector in which the Company operates, corporate dynamics and their evolution, as well as the regulatory and self-regulatory framework, as provided under art. 2 paragraph 2 of the Self-Governance Code.

By initiative of the Chairman, in agreement with the Managing Director, after the appointment, the Acea Directors, also during internal board Committee meetings, participated in meetings with the Corporate management, which were also attended by the members of the Board of Auditors. In particular, during 2017 the Company organised presentations of the activities and organisation of Acea by the top management in relation to presenting the new Macrostructure and introducing the first line managers.

In July 2017 the Company also organised a meeting dedicated to an in-depth examination of the topics of corporate responsibility pursuant to Legislative Decree no. 231/2001.

Lastly, in October an induction session was dedicated to further exploration of the most recent development in the main topics of sustainability (ESG). The activity was managed by an expert lecturer on the matter.

The Directors are kept constantly informed by the competent corporate functions regarding the main legislative and regulatory novelties concerning the Company and the exercise of their functions.

Succession plans

The Board of Directors, in consideration of the procedures for the appointment of the executive directors, who represent the major shareholder, and the assessments expressed by the latter, has deemed it unnecessary to develop a succession plan for the said directors. If an executive director leaves office, the Board of Directors may co-opt a new director in their place and determine the powers to be vested on the latter. The first appropriate Shareholders' Meeting will then provide for their successive inclusion on the Board of Directors.

4.3 THE ROLE OF THE BoD

The Company's Board of Directors holds a central role in the sphere of the Company's governance, and all the departments and the managers of the Company and of the Group with strategic and organisational responsibilities (Key Managers) report to the Board of Directors.

Taking its role into account, the Board of Directors meets regularly, to guarantee the effective performance of its duties.

More specifically, reserved to the Board of Directors, pursuant to law, the Articles of Association and the guidelines of the Internal Control and Risk Management System (hereinafter "Guidelines")

approved on 20 December 2012 and updated on 15 February 2018, are the duties listed below:

- define strategic and general management guidelines and steer the Company's development; economic-financial coordination of the Group's activities by approving medium-term strategic plans which incorporate the Group's development guidelines, the investment plan, the financial plan and the annual budgets; the acquisition and disposal of stakes, excluding infra-group operations;
- by proposal of the Control and Risks Committee, define the guidelines of the SCIGR so that the main risks concerning Acea and its subsidiaries - including the various risks that can become relevant in the light of sustainability over the medium-long term period - are correctly identified and adequately measured, managed and monitored, also determining the degree of compatibility of such risks with a business management consistent with the strategic targets identified;
- define, furthermore, the nature and level of risk compatible with the identified strategic objectives;
- approve and amend the internal regulations as far as concerning the general organisational structure of the Company and of the Group, and any amendments to the same that have a significant influence on the Group's organisation;
- appoint the General Manager, where applicable;
- define the corporate governance system and provide for the constitution, within the Board of Directors itself, of specific Committees, appointing the relative members and attributing powers to the same on the occasion of the approval of their respective functioning regulations;
- adopt an Organisational and Management Model as per Legislative Decree no. 231/2001, appoint the Supervisory Body and examine the half-yearly reports drawn up by the Supervisory Body concerning the implementation of the Model;
- designate the directors and statutory auditors for Acea representation on the relative boards of its most significant subsidiaries and investee companies, understood as those listed on regulated markets and those that require the commitment of capital, shareholders' loans or guarantees exceeding 10 million Euros;
- attribute and revoke delegations to the delegated directors, defining the limits and procedures of their exercise;
- reserve and exercise powers for amounts exceeding 7.5 million Euros for Acea and its subsidiaries, if in line with the budget, and above 1 million Euros for off-budget expenditure;
- determine, by proposal of the specific Committee and after consulting the Board of Auditors, the remuneration for the Chairman, Managing Director and other directors vested with special roles, with the exception of cases in which the latter has been approved by the Appointments and remuneration Committee;
- define the Guidelines, after consultation with the Control and Risks Committee (hereinafter also CRC), whose duties are illustrated in Chapter 10, so that the main risks to which Acea and the major companies of the Group are correctly identified and adequately measured, managed and monitored;
- assess the adequacy of the organisational, administrative and accounting framework of Acea and of its subsidiaries with strategic relevance, especially as regards the Internal Control and Risk Management System (hereinafter also the "SCIGR");
- assess the general business performance (art. 2381 of the Civil Code) taking into consideration, in particular, the information received from the delegated bodies, periodically comparing the results achieved with those programmed;
- appoint and revoke:
 - the Internal Audit Function Manager, subject to the favourable opinion of the CRC and by proposal of the Di-

rector responsible for the Internal Control and Risk Management System, and having consulted with the Board of Auditors, making sure that said Department is provided with adequate resources for the performance of its duties and defining the remuneration consistent with Company policies;

- a Financial Reporting Officer, unless already provided for by the Shareholders' Meeting, by the favourable opinion of the Board of Statutory Auditors (pursuant to art. 22-ter of the Articles of Association), ensuring the adequacy of his powers and means for the performance of his duties;
- approve the Audit Department Manager's work plan on an annual basis, having consulted with the Board of Auditors and the SCIGR appointed Director;
- having consulted with the Board of Statutory Auditors, assess the results illustrated by the independent auditor in the case of suggestions, that said Board may express in a letter or in its report, on fundamental issues that have come to light during the audit of the accounts;
- assess, at least once every year, the adequacy of the SCIGR in consideration of the Company's characteristics and risk profile and describe the main characteristics thereof in the Report on Corporate Governance, expressing its own assessment of the adequacy of the same, after hearing the opinion of the Control and Risks Committee;
- establish corporate measures of protection for the processing of personal or sensitive data by third parties (as per Legislative Decree 196/2003);
- adopt the procedures necessary to protect workers' health and appoint the subjects responsible for ensuring safety in the workplace;
- make all efforts to establish continuous dialogue with the shareholders based on the comprehension of the reciprocal roles;
- promote initiatives aimed at fostering shareholders' maximum participation at the Shareholders' Meetings and to facilitate the shareholders in the exercise of their rights;
- adopt, by proposal of the Managing Director, the procedures for the internal management and the external disclosure of documents and information regarding the company, especially "price sensitive" information and those relating to transactions in financial instruments carried out by persons who, due to their office, have access to relevant information;
- carry out self-assessment at least once a year on the functioning of the Board itself and of its Committees, and on their size and composition;
- assess, at least once a year, the independence of its non-executive members.

The Board of Directors has fulfilled the aforesaid duties, amongst others:

- during financial year 2017, it assessed the general business trend on the occasion of the financial reporting (the draft financial statements of the period as at 31/12/16; the six-monthly interim financial report; the interim management reports on the 1st and 3rd quarters of the period), taking into consideration, in particular, the information received from the delegated bodies, and periodically comparing the results achieved with those programmed;
- in compliance with the recommendations of the Self-Governance Code and in view of the renewals of the corporate bodies, subject to the opinion of the Appointments and remuneration Committee and having considered the outcomes of the self-assessment, it elaborated its orientation regarding the qualitative-quantitative dimension of the governing body, also with particular reference to the figure of the Chairman and

Managing Director, which it submitted to the Shareholders' Meeting of 27 April 2017;

- resolved on the organisational amendments to the Macro-structure of Acea Spa;
- initiated a comprehensive review of the Internal Control and Risk Management System, having the purpose of strengthening efficacy and efficiency also by means of identifying new subjects and coordination procedures between the various players and control levels;
- approved the new Regulations for the Control and Risks Committee and the Ethics and Sustainability Committee in December 2017;
- in November, approved the Gruppo Acea Business Plan 2018-2022, a plan of notable discontinuity which envisages a decisive enhancement of the infrastructural investments, both in the water segment and the electricity segment;
- approved, during February 2018, the new Guidelines for the Internal Control and Risk Management System of Gruppo Acea.

On 14/03/2018, the Board of Directors:

- assessed the adequacy of the Internal Control and Risks Management System and the adequacy of the Company's organisational, administrative and accounting framework and that of its strategically relevant subsidiaries, deeming the Acea Control System, as a whole, to be suitable for the pursuit of the Company's objectives;
- as an integral part of the aforesaid assessment process, carried out self-evaluation of the composition and functioning of the Board of Directors itself and of its internal Committees. Said evaluation regarded the Board of Directors' independence, structure and composition, the functioning of the Board and of its Committees, and the information flows received by the Board and its Committees in the performance of their duties. For the execution of the assessment tasks, the Board of Directors took avail of a company specialised in the sector, as explained below.

Operation

The Board of Directors meets regularly, in compliance with the terms of law and a works calendar, organising itself and operating in order to guarantee the effective and efficient execution of its functions.

In 2017 the Board of Directors held 14 meetings, lasting on average approximately 2 hours 4 minutes each, regularly attended by the Board Directors and the Statutory Auditors.

The attendance of each Directors at the Board of Directors' meetings is detailed in Table no. 2.

For the year 2018, 4 Board of Directors' meetings have been scheduled, and disclosed to the market, for the approval of the financial reports of the period. So far, 3 meetings have been held, including today's meeting.

The Board of Directors has operated according to Works Regulations in force since 22 April 2003 which regulate the procedures for guaranteeing the timeliness and completeness of the pre-meeting information; they require that resolution proposals and information are received, together with all the useful documentation approved by the Managers responsible for the specific issues, at least 10 calendar days before the date of the meeting, to the Company's administrative office which will submit them, without delay, to the Managing Director for his approval, for the purpose of defining the draft Agenda.

The corporate secretariat submits the resolution proposals and the related information, together with the draft agenda approved by the Managing Director to the Chairman of the Board at least 6 days before the Board meeting.

The Chairman finalises the Agenda, also inserting proposals and items of his competence, which is then transmitted, at least 3 days

before that of the meeting, to the single Directors and Statutory Auditors, together with all the documentation prepared by the Company's departments.

The meetings have been regularly attended by the Directors and by the Statutory Auditors.

During 2017 the managers of the Company and of its subsidiaries with responsibility for the various items on the agendas were regularly invited to the Board of Directors meetings and, on the Managing Director's invitation, they gave the necessary information on the topics under discussion, leaving the meeting when the Board of Directors was about to vote on the relative resolutions.

Operational assessment of the Board of Directors and its Committees

The Board of Directors, according to the application criterion of 1.C. 1 letter g) of the Self-Regulatory Code, must assess its own dimension, composition and functioning and those of its Committees ("board review") at least once a year, autonomously or with the assistance of an independent external advisor.

Acea has entrusted the execution of the Board Review, for a three-year term, to the advisor Eric Salmon & Partners, a leading consultancy company with years of expertise in the field, which holds the necessary requisites of independence and which has no other Acea mandates.

The activity carried out by the advisor consisted in assessing the Board of Directors according to international best practices; in particular, all the areas of the Board of Directors' competence have been assessed.

The evaluation of the Board of Directors regarded, in addition to the level of its adhesion to the principles and conduct defined by the Board of Directors' Regulations and by the Self-Regulatory Code, benchmarking in respect of the best practices found on the Italian and foreign markets.

The process followed for the assessment is fundamentally based on hearing the various individual opinions, through interviews carried out both with the aid of a questionnaire and with open discussions with the single Directors and with the Chairman of the Board of Statutory Auditors, subsequently processed by the advisor.

The questions of the questionnaire and the interviews with the Directors focused on the various aspects of the functioning of the Board of Directors and of the Committees, such as:

- The efficacy of the Board;
- The working method, cohesion and interaction of the Board;
- The organisation of the Board's work;
- The role and responsibilities of the Directors;
- The function of the Committees;
- The composition of the Board;
- The dimension and composition of the Committees
- The Board of Director's Committees;
- The dynamics of the Board.

In the meeting of the Appointments and remuneration Committee held on 9/3/2018, Eric Salmon & Partners presented the results of the assessment carried out for the first year of the mandate of the Board in office; in particular, the advisor reached the following conclusions on the basis of the collected comments and completed comparative analysis:

"On the basis of the collected comments and the comparative analysis, we express a positive opinion of compliance on the part of Acea with the indications of the Self-Governance Code during the first year of the mandate of the said Board in office.

In its first year of mandate, the Board has shown a solid governance base and has benefitted from the effective collaboration of the supporting structures.

Emerging from the work carried out, in brief, are, amongst others, homogenous opinions and positive appraisals between the Directors and

the Board of Auditors with regard to:

- The well balanced structure of the Board and its excellent mix in terms of competence, experience, diversity and seniority;
- The positive assessment, also in terms of homogeneity, as regards commitment, dedication and participation of all the Directors to the Board's work;
- The operational dynamics of the Board which are good as a whole, particularly in consideration of its very recent establishment;
- The good operation of the Committees and effective contribution of their Chairmen in performing the Board's work;
- The appraisal of solid business competencies and managerial ability of the MD, great professionalism of the Chairman and good harmony established between MD and Chairman;

whereas pointed out among the issues brought to the attention by some Directors, are:

- The need for more induction initiatives;
- A more articulated discussion on business matters;
- The need to tackle/explore a series of issues such as cyber security, ERM, Succession Planning in continuity and in contingency”.

4.4 DELEGATED BODIES

Managing Director

The Board of Directors appointed Stefano Antonio Donnarumma as Managing Director in May 2017, conferring on him all powers for the governance of the Company except those otherwise attributed pursuant to law and regulations, the Articles of Association or the power structure approved in May 2017 (with reference to the issues that, according to said structure, are reserved to the Board of Directors, see paragraph 4.3), and in particular the Managing Director:

- operates on the basis of medium-long term plans and the annual budgets approved by the Board, and guarantees respect for the managerial guidelines deriving from the same. In this context, the Managing Director's powers are exercised, for Acea and its subsidiaries, for transactions up to Euro 7.5 million (works contracts, purchases, rentals, disposals, participation in calls for tender, etc.) if in line with the budget, and for transactions up to Euro 1 million for off-budget transactions; for the Group's subsidiaries operating on the energy - electricity and gas - market, the powers vested on the Managing Director include: i) the issue of sureties and other guarantees up to Euro 12 million if in line with the budget and up to Euro 2 million for off-budget operations; ii) the issue of all the sureties and other obligatory guarantees in favour of AEEGSI [the Italian electricity, gas and water authority], GSE [the energy services provider], GME [manager of the energy markets], Terna SpA, the Single Buyer and other public subjects and the distribution concessionaires;
- signs the works agreements of any amount awarded according to Legislative Decree 50/2016 as amended;
- implements the organisational and procedural changes in the Parent Company's activities according to the guidelines approved by Board of Directors' resolution;
- chairs and coordinates the Management Committee, which is an advisory committee composed of Company managers, with the task of verifying the Group's operational economic situation and that of the single business units and any gaps compared to the planned targets;
- ensures correct management of corporate information. To this regard, we refer you to Chapter 5 “Corporate Information Processing”.

The Managing Director informs the Board of Directors and the Board of Statutory Auditors at least every quarter and, in any case, on the occasion of the Board of Directors' meetings, on the activ-

ity performed and the Company's business trend, on the business outlook and on transactions of major relevance for their dimensions or features, carried out by the Company or its subsidiaries, in compliance with art. 20.1 of the Articles of Association. At present, the Managing Director also covers the role of General Manager.

In compliance with art. 20 of the Articles of Association, the ordinary management of the Company, the Company's signature and legal representation before third parties and in court are delegated to the Managing Director, as well as all powers within the scope of the delegations conferred and within set commitment limits.

The Managing Director is also the Director responsible for the Internal Control and Risks Management System, according to the indications of the Self-Regulatory Code (for a detailed description of the duties attributed to the same in that capacity, please refer to paragraph 10.1 of this Report).

Chairman

The Shareholders' Meeting appointed Luca Alfredo Lanzalone as Chairman of the Acea Board of Directors in April 2017.

The Chairman, according to art. 20 of the Articles of Association, is the Company's legal representative with power of signature, and also has the power to summon and chair Board of Directors' meetings and Shareholders' Meetings.

By resolution of 3 May 2017, the Board of Directors also assigned to the Chairman the institutional duties of steering and control, conferring on her corresponding managerial delegations, in particular: the duty of supervising the Group's activities and of verifying the implementation of the Board of Directors' resolutions and the corporate governance rules, also in implementation of the powers reserved to the Board of Directors; verification of the Company's activities and processes relating to the aspects of the quality provided and perceived, environmental impact and the Company's sustainability; supervision of the Board of Directors secretariat and all the connected activities; chairmanship of the tender supervision Committee, formed and operational according to procedures established by the regulation approved by the BoD; the power to carry out all the activities contemplated by the laws in force relating to disclosures and the media, also through the publication of newspapers and websites, including the appointment of the Financial Reporting Officer from among the employees of the Group holding the legal requirements; the power to manage Group sponsorships consistently with the budget.

The Board of Directors' activities are coordinated by the Chairman, who calls the Board meetings, establishes the agenda and directs the works, ensuring that the Directors are promptly given - except in the case of need or urgency - the documentation and information necessary to allow the Board to give a conscious opinion on the matters submitted to its examination.

Chairman and Managing Director, Joint Powers

By BoD resolution of 3 May 2017, moreover, joint powers were delegated to the Chairman and the Managing Director who, in the case of proven urgency and need, are thus authorised to exercise the powers normally reserved to the Board in relation to contracts, purchases, company transformation, participation in tender procedures, the issue of sureties and, when the urgency does not allow for calling a meeting of the Board of Directors (which must be informed at the next meeting to check on the existence of the need and urgency), the designation of members of the Boards of Statutory Auditors and the Boards of Directors of the most important subsidiaries and partly held companies, these being understood as:

- a. those listed on regulated markets or with securities on issue as contemplated by art. 116 of Legislative Decree 58/98, Testo Unico della Finanza [Consolidated Finance Act];
- b. those requiring capital commitments, shareholders' loans or guarantees exceeding 10 million Euros.

In addition, the Chairman and the Managing Director designate the members of the Boards of Statutory Auditors and the Boards of Directors of the companies of the Acea SpA Group other than those considered of “more importance”.

Informing the Board

The BoD, as also the Board of Statutory Auditors, in compliance with art. 20 of the Articles of Association and the provisions of law, receives from the Chairman and the Managing Director constant and full information on the activities performed, summed up at least quarterly in a report on the general business trend and the relative outlook. More specifically, with reference to transactions of major relevance carried out within the sphere of their powers, including any non-typical transactions and those with related parties, providing the approval of which is not reserved to the Board of Directors, the Managing Director and the Chairman report to the Board on the features of said transactions, the subjects involved and their connection, if any, with the Group, the determination methods and the relative economic and financial effects.

4.5 OTHER EXECUTIVE DIRECTORS

No other executive Directors are envisaged.

4.6 INDEPENDENT DIRECTORS

As at 31/12/2017, and to date, the Board has 7 independent non-executive directors, namely: Alessandro Caltagirone, Michaela Castelli, Fabrice Rossignol, Gabriella Chiellino, Giovanni Giani, Liliana Godino and Massimiliano Capece Minutolo Del Sasso (see table 2).

The procedure followed by the Board to verify their independence involves the declaration of the existence of the requisite on the

part of the director on presentation of the list and at the moment of acceptance of the appointment, and verification by the Board of Directors at the first meeting after the appointment. The independent directors also promise to immediately inform the Board of Directors of any situation which entails their loss of this requisite.

The Independent Directors are considered such in accordance with the provisions of law and art. 3 of the Self-Governance Code.

A meeting was held in 2017 which only involved independent directors; in any event, we stress that the board's internal Committees are only formed of independent directors, therefore the indication referring to meetings solely of independents is also to be considered as actuated and absorbed by the meetings of said Committees.

We point out that in the assessment of the requisites of independence, no parameters other than those set out in the Self-Governance Code have been used.

According to the information provided by the persons concerned or, at any rate, available to the Company, immediately after the appointment, and most recently in March 2018, the Board of Directors ascertained the existence of the requisites of independence prescribed by the Self-Governance Code.

The Board of Auditors, in compliance with the provisions of art. 3 of the said Code, checked on the correct application of the verification criteria and procedures adopted by the Board of Directors to assess the independence of its members.

4.7 LEAD INDEPENDENT DIRECTOR

On 14/03/2018 the Board of Directors confirmed that, as in the previous years, the conditions for the institution of a lead independent director do not exist, considering that the current Chairman of the Board of Directors does not hold the role of the main subject responsible for the company (chief executive officer), and does not hold a controlling stake in the Company.

5. CORPORATE INFORMATION PROCESSING

The Acea Board of Directors, as long ago as September 2006, on a proposal of the Managing Director, adopted Regulations for internal governance and for the external disclosure of the Company's documents and information. Said Regulations are available for consultation at www.acea.it (in the Corporate Governance section). The Regulations:

- establish the methods for the processing and disclosure of Company information within the Group;
- rule that Company representatives who gain knowledge of information of which the early disclosure could be prejudicial to the Company's equity and/or that of the Shareholders must treat the same with maximum reserve, and that the Company, in the case of specific circumstances, must give immediate and full information to the market;
- prescribes that a procedure must be established for the drafting of press releases relating to price sensitive information, to prevent possible distortions or irregularities in the communication of such information.

In the same year, in accordance with art. 115-bis of the TUF, a List was drawn up, now also governed by art. 18, paragraph 1, letter a) of EU Regulation no. 596/2014 (the Market Abuse Regulation, or MAR), containing the list of all persons with access to inside information who have a professional collaboration relationship with the Company, whether they are employees or not, and who, in the performance of certain duties, have access to inside information such as, for example, advisors, accountants or credit rating agencies (List of Persons with Inside Information Access).

Art. 7 of the MAR Regulation provides that inside information is “*information of a precise nature, which has not been made public, relating, directly or indirectly, to one or more issuers or to one or more fi-*

nancial instruments, and which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments”; and that “*information shall be deemed to be of a precise nature if it indicates a set of circumstances which exists or which may reasonably be expected to come into existence, or an event which has occurred or which may reasonably be expected to occur, where it is specific enough to enable a conclusion to be drawn as to the possible effect of that set of circumstances or event on the prices of the financial instruments or the related derivative financial instrument [...]. In this respect in the case of a protracted process that is intended to bring about, or that results in, particular circumstances or a particular event, those future circumstances or that future event, and also the intermediate steps of that process which are connected with bringing about or resulting in those future circumstances or that future event, may be deemed to be precise information.*”

Rules have also been adopted on Internal Dealing in compliance with the provisions of art. 114, paragraph 7 of the TUF, and today also the provisions of art. 19 of the MAR which rules that transactions in financial instruments carried out by Relevant Subjects and by persons closely linked to the same must be communicated to Acea and to CONSOB immediately and, in any case, within three working days from the transaction, at the request of the Relevant Subjects. Relevant Subjects and persons closely linked to Relevant Subjects must notify the Company, in compliance with the aforementioned provision, of all transactions carried out on their behalf once the aggregate amount of such transactions reaches the threshold of 20,000 Euros (or the greater amount contemplated by the provision applicable in the future) over one calendar year.

6. THE BOARD'S INTERNAL COMMITTEES (as per art. 123-bis, paragraph 2, letter d) TUF)

Preamble:

As mentioned in paragraph 4.3, in December the Board of Directors approved the new Regulations for the Control and Risks Committee and the Ethics and Sustainability Committee (see paragraph 16) downstream of an updating project steered and supervised by the Control and Risks Committee and the board's internal Committees. Apart from the tasks recommended by the Self-Governance Code, the new Regulations, which are inter-coordinated, include the activities supporting the Board as regards the new obligations introduced by Legislative Decree 254/2016 concerning non-financial Disclosure and prerogatives on the matter of supervising matters of sustainability associated to corporate exercise. In the context of such project, preliminary analyses were executed on the applicable normative and practices adopted by listed companies regarding appointments and remuneration and a draft regulation was drawn up for the Appointments and remuneration Committee, to be examined by the body for subsequent proposal to the Board.

Appointments and remuneration Committee and Control and Risks Committee

The Board of Directors has formed two committees from among its members, to make proposals and to give advice: the Control and Risks Committee and the Appointments and remuneration Committee. Thus, the powers and duties relating to appointments and remuneration are aggregated and vested on a single committee. This aggregation, in line with the recommendations of the Self-Governance Code, respects the composition requirements contemplated by said Code for both the Committees and ensures correct execution of the relative powers and duties.

Said Committees are composed of at least three non-executive directors appointed by the Board of Directors itself, the majority of whom must be independent directors and one of which independent directors will be the Chairman of the Committee.

The composition, duties and functioning of the Committees are disciplined by the Board of Directors, in specific regulations, consistent with the criteria laid down by the Self-Governance Code.

In particular, pursuant to the Control and Risks Committee Regulations, updated in December 2017, said Committee must be formed of at least three non-executive directors, the majority of whom must also be independent directors. The Committee Chairman is chosen from the independent directors. At least one member of the Committee must hold adequate experience in accounting, finance and risk management, which the Board of Directors assesses at the moment of the appointment.

Pursuant to the Appointments and remuneration Committee Regulations, said Committee must be formed of at least three non-executive directors, the majority of whom must also be independent directors. The Committee Chairman is chosen from the independ-

ent directors. At least one member of the Committee must hold adequate experience in finance and remuneration policies, which the Board of Directors assesses at the moment of the appointment.

In the performance of their duties, said Committees have access to Company information and activities, necessary for performing their respective duties, and the assistance of the Company's departments according to their sphere of competence; they may also avail of external consultants at the Company's expense, within the limits of the annual budget approved for each Committee by the Board of Directors.

The consultants, for both Committees, must be chosen avoiding possible conflicts of interests and the conferment of mandates on subjects that provide services to companies of significance such as to compromise in practice the independent judgement of said consultants.

The Chairman of the Board of Auditors attends the meetings of each Committee, or another auditor designated by the Committee (having established the entitlement to intervene of the other statutory auditors), and the Board of Directors' members or representatives of Company departments may also take part, as well as third parties, on specific invitation of the respective Chairman, whose assistance may contribute to the efficient performance of the Committee's duties.

The Director delegated with responsibility for the Internal Control and Risk Management System, the Chairman of Board of Directors and the Chairman of the Board of Auditors may attend the Control and Risk Committee meetings, as well as other Statutory Auditors and, by invitation of the Committee Chairman, other members of the Board of Directors or of the Company's structure, in order to provide information and express assessments of their competence.

The meetings of the Appointments and remuneration Committee may be attended by the Managing Director and, by invitation of such Committee, also other subjects in reference to the single items on the agenda, to give information or to express assessments of their competence. As a rule the Human Resources Management and Human Capital Development Function Manager is invited to attend, whereas the director or manager whose position the Committee is examining may not attend.

The BoD also formed a Related-Party Transactions Committee (OPC), as a body assigned to carry out the required role by CONSOB Resolution no. 17221 of 12 March 2010 as amended, according to the provisions of the "Related-Party Transactions Procedure" adopted by the Company and briefly described in paragraph 11 of this Report.

The OPC Committee, formed of at least three Independent Directors, is vested with duties and powers to make inquiries, to submit proposals and to provide advice for assessing and deciding on transactions with Related Parties, of both minor and major relevance.

7. APPOINTMENTS AND REMUNERATION COMMITTEE

On 31 December 2017, the Appointments and Remuneration Committee was created, composed of four non-executive directors, three of whom are independent, namely: Liliana Godino (Chairman), Giovanni Giani, Gabriela Chiellino and Massimiliano Capece Minutolo del Sasso.

The Board of Directors recognised that Giovanni Giani holds the requisite of adequate knowledge and experience in accounting and financial matters and retributive policies.

The Committee's secretariat duties are performed by the Board of Director's secretary or by another subject chosen by the Committee itself.

The Committee held 14 meetings in 2017, duly recorded in minutes and regularly attended by all the members (as well as the members of the Board of Statutory Auditors), with an average duration of approximately 1 hour 10 minutes each.

The Appointments and Remuneration Committee, within the scope of its duties, must make proposals and give advice to the Board of Directors and monitor the application of the criteria and decisions adopted by the Board.

Its duties also include submitting proposals and offering advice on the fees for directors holding special roles and those holding positions of strategic relevance for the organisation.

The Committee also expresses an opinion on the remuneration and retention policies related to Group Personnel presented by the Managing Director.

In particular:

1. it proposes to the Board of Directors the remuneration policy for Directors and Key Managers, promoting medium-long term sustainability and taking into account, for executive directors and directors vested with special duties and, as far as compatible, also for key managers, that the fixed part and the variable part must be adequately balanced according to the strategic targets and the risk management policy;
2. it periodically assesses the adequacy, the overall congruence and the concrete application of the remuneration policy relating to directors and key managers, on the basis of information provided by the Managing Director, and it presents proposals regarding said remuneration to the Board of Directors;
3. it proposes to the Board of Directors candidates for directorships, taking into account any reports received from the shareholders in the case of co-optation if an independent director must be replaced;
4. it presents proposals to the Board of Directors on the fees of the executive directors and the other directors that hold special offices, and on the performance targets linked to the variable part of said fees;
5. it submits to the Board of Directors an opinion on the remuneration policies for key managers;
6. it monitors the application of the decisions adopted by the Board, checking, in particular, on the effective achievement of the performance targets;
7. it submits to the Board a Remuneration Report that the directors must present to the annual Shareholders' Meeting;
8. it draws up opinions for the Board of Directors on the size and composition of the same and it expresses recommendations regarding the professional figures that it deems should sit on the Board, the maximum number of offices that directors or

statutory auditors can hold without prejudice to the directors' effective participation in the Board's committees, and the existence and importance of any activities performed by each director in competition with the Company.

At least once a year the Committee assesses its own size, composition, functioning and independence in relation to its duties as indicated by these Regulations.

The Directors must refrain from participating in Committee meetings when the Committee discusses proposals to be submitted to the Board of Directors relating to their own fees.

The Committee may have access to the information necessary for the performance of its duties, also from the Company's departments, and it may also take avail of external advisors, in the terms defined by the Board of Directors.

In particular, in 2017 the Committee:

1. defined the profile of Managing Director of Acea and submitted it to the Board of Directors;
2. drew up, in view of renewing corporate bodies, its guideline on the future dimension and composition of the governing body to be submitted to the shareholders for the forthcoming Shareholders' Meeting of 27 April 2017 in compliance with the recommendations of the Self-Governance Code;
3. examined and approved the Annual Report on the activity performed by the Remuneration Committee;
4. examined and approved the Remuneration Report pursuant to art. 123-ter of Legislative Decree no. 58 of 24 February 1998;
5. acknowledged that the economic-financial targets had been reached and authorised the payment of the Variable Incentive Programme MBO 2016 to the entitled parties;
6. assessed the proposed termination agreement of the working relationship with Alberto Irace;
7. having acknowledged that the Group Objectives 2017 to be inserted into the MBO are in line with the budget approved by the Board of Directors on 14 December 2016, it agreed with the proposal to assign the objectives explained by the Managing Director and described in the document filed in the records;
8. proposed to the Board of Directors to recognise, as remuneration as per art. 2389 paragraph three, civil code: for the Chairman, Mr. Lanzalone, confirmation of the annual remuneration perceived by the Chairman of the previous Board of Directors and for the Managing Director, Mr. Donnarumma, treatment that is substantially and comprehensively aligned with that perceived by the previous Managing Director;
9. gave its favourable opinion regarding the identification of the professional profile of Mr. Gola to cover the office of CFO, as well as the economic treatment and contractual conditions offered to the latter;
10. examined the proposal to amend the Regulations for the Appointments and Remuneration Committee.

In 2018, as at the date of this Report, the Committee has met 3 times, with an average duration of two hours and 43 minutes each. The BoD has confirmed the allocation of an annual budget for 2018 of 25,000.00 Euros (twenty-five thousand point zero zero) for the Committee so as to permit, should it be deemed necessary, to confer external mandates instrumental to the performance of its duties.

8. DIRECTORS' REMUNERATION

GENERAL REMUNERATION POLICY

The Remuneration Policy for Directors and Key Managers, defined by the Board of Directors, is detailed in the document "Remuneration Report", approved by the Board of Directors in the meeting of 14/03/2018, pursuant to art. 123-ter, paragraph 2, of the TUF, to which we invite you to refer for in-depth information. Said document will also be available at the Internet site www.acea.it and it will be subjected to the approval of the meeting of the Board of Directors, acting in an advisory role, which will be held in April 2018 for the approval of the financial statements relating to financial year 2017. During the Shareholders' Meeting of 27 April 2017, the all-inclusive fixed gross annual consideration was confirmed for the members of the BoD, as established in the minutes of the Shareholders' Meeting of 5 June 2014.

On 27 April 2017, the Shareholders' Meeting resolved to defer the faculty to define the considerations pursuant to art. 2389, paragraph 3 of the Civil Code to the Board of Directors, regarding Directors vested with special offices with reference, relating to the economic conditions, to the fees recognised in listed companies of similar sector and dimensions, without prejudice to the limits imposed by art 84-ter of Law Decree 69/2013, converted by Law 98/2013 (see *Remuneration Report 2018 - Financial Year 2017, Section 1*).

Said Remuneration Policy - the current remuneration system of which is detailed in the "Remuneration Report" - defines the guidelines that are consistent with the topics listed below:

- an important part of the remuneration of the Company's Executive Directors and Key Managers, as expressly required by the Self-Governance Code, is linked to the economic results achieved by the Company and, possibly, to the achievement of specific performance targets - pre-set and measurable - indicated in advance by the Board of Directors itself, as detailed in Section 1 of the "Remuneration Report";
- a system of medium-long term variable incentives (Long Term Incentive Plan) is contemplated, to be renewed every three years. The aim of the Plan lies in encouraging the management to pursue the Group's economic-financial results in the interests of the shareholders;
- as of 2015, in line with a growing need for transparency expressed by the Self-Governance Code and in view of an increasingly responsible remuneration policy, the claw back clause, already adopted for Executives and Key Managers, has been extended also to the managerial roles which have greater impact on the Group's business. According to this clause, the Company is entitled to request the return of the variable remuneration (relating to both the short and the medium-long term periods) if it is found to have been paid in the case of results ob-

tained consequent to intentional misconduct and/or gross negligence, such as the intentional alteration of the data used to indicate the achievement of the targets or obtaining the same results by behaviour contrary to corporate or legal provisions.

REMUNERATION OF EXECUTIVE DIRECTORS AND KEY MANAGERS

For details of the fixed fees of the Chairman and of the fixed and short term (annual) variable remuneration of the Managing Director and of the General Manager, and of the Key Managers, please refer to Section II of the 2017 Remuneration Report, pursuant to art. 123-ter of the TUF.

INCENTIVE MECHANISMS FOR THE INTERNAL AUDIT DEPARTMENT MANAGER AND THE FINANCIAL REPORTING OFFICER

As regards the incentive mechanisms for the Internal Audit Function Manager and the Financial Reporting Officer, they are subject to annual assessment on the basis of qualitative and efficiency criteria; on the basis of these criteria, in fact, individual targets are assigned to the persons in question and, therefore, they are not linked to targets of an economic-financial nature except for the part represented by the so-called gates.

NON-EXECUTIVE DIRECTORS' REMUNERATION

The remuneration of non-executive directors is not linked to the economic results achieved by the Company, but to the commitment requested of them and their possible membership of one or more Committees. No share incentive plans involve non-executive directors.

INDEMNITY FOR DIRECTORS IN THE CASE OF REVOCATION, RESIGNATION, DISMISSAL OR DISCONTINUED OFFICE SUBSEQUENT TO A TAKEOVER BID (art. 123-bis, par. 1, letter i, of the TUF)

No agreements have been stipulated between Acea and the directors in office which contemplate non-competition agreements or indemnity in the case of their dismissal or resignation/revocation without just cause.

9. CONTROL AND RISKS COMMITTEE

The Control and Risks Committee was established to assist the Board of Directors, ensuring the latter adequate preliminary investigation and support in the assessments and the decisions related to the Internal Control and Risks Management System, as well as related to the approval of the periodic financial disclosures and declaration of a non-financial nature.

The Committee members and the Chairman are appointed by the Board of Directors.

The term of office of the Committee members coincides with that of the Board of Directors that has appointed them. Committee members can be revoked by the Board of Directors if they no longer hold the requisites of independence and integrity and if they are no longer non-executive directors.

The Committee may request the Internal Audit Function to carry out audits on specific operational areas, simultaneously informing the Chairman of the Board of Auditors, the Chairman of the Board of Directors and the Internal Control and Risks Management Director, unless the verifications specifically concern the activity of said subjects.

The Committee carries out its inquiries and issues opinions to the Board of Directors regarding:

1. the definition of the Guidelines for the internal control and risk management system, so that the main risks to which ACEA SpA and its subsidiaries - including the various risks which may become significant with a view to medium-long term sustainability - are correctly identified, and adequately measured, managed and monitored;
2. the determination of the degree of compatibility of the main risks with a management consistent with the strategic objectives identified;
3. the assessment, at least once a year, of the adequacy of the internal control and risk management system in respect of the Company's characteristics and the risk profile assumed, as well as the effectiveness of the said system;
4. the approval, at least once a year, of the work plan drawn up by the Internal Audit Function Manager;
5. a description, within the annual report on corporate governance, of the main features of internal control and risk management system and coordination processes regarding the persons involved therein, expressing its opinion on the overall adequacy of the same;
6. the assessment, having consulted with the Board of Auditors, of the results explained by the statutory audit in a letter of suggestions, where applicable, and in the report on fundamental issues that have come to light during the audit of the accounts;
7. the proposals of the Internal Control and Risks System Director, formulated in accordance with the Board of Directors' Chairman, and after hearing the Board of Statutory Auditors' opinion, regarding the appointment and revocation of the Internal Audit Function Manager and the definition of the latter's salary consistent with the Company's policies, as well as the adequacy of the resources allocated to the Department for the performance of its duties. Such opinion will be binding.

The Committee also assists the Board of Directors by:

- assessing, together with the Financial Reporting Officer and after consultation with the external auditor and the Board of Auditors, the correct use of the accounting principles and their uniformity for the purposes of drafting the consolidated Financial Statements;
- assessing, together with the competent Acea function, having

consulted with the statutory auditor and Board of Auditors, the correct use of accounting standards implemented in order to draw up the declaration of a non-financial nature as per Legislative Decree 254/2016;

- supporting, with adequate investigative activity, the assessments and decisions of the Board of Directors related to managing risks deriving from prejudicial facts of which the Board of Directors has become aware;
- providing the Board of Directors with opinions on specific aspects involved in the identification of the Company's main risks or risks deriving from possible prejudicial facts of which the Board of Directors has gained knowledge;
- examining the periodic reports on the assessment of the Internal Control and Risk Management System, and those of particular importance drawn up by the Internal Audit Function;
- monitoring the autonomy, adequacy, effectiveness and efficiency of the Internal Audit Function;
- requesting, as may be the case, the Internal Audit Function to carry out audits in specific operational areas, contextually notifying the Chairman of the Board of Auditors, Chairman of the Board of Directors and the Director assigned to the internal control and risk management system thereof, with the exception of cases in which the subject matter of the audit request specifically concerns the activity of such subjects.

The Committee reports to the Board, at least every six months, during the annual and half-yearly financial report, about the activity performed as well as the adequacy of the internal control and risk management system and, at least once a year, assesses its own size, composition, function and independence respect to the duties provided under this regulation.

On 31 December 2017, the Committee was formed of four non-executive independent directors, to be precise: Michaela Castelli (Chairman), Liliana Godino, Massimiliano Capece Minutolo Del Sasso and Giovanni Gianì.

The Director Michaela Castelli has experience in accounting and financial matters and was deemed suitable by the Board of Directors at the moment of her appointment.

In 2017, the Committee held 11 meetings of an average duration of approximately 2 hours and 13 minutes each, characterised by the regular attendance of all its members and the Chairman of the Board of Auditors or another auditor. Of these meetings, 4 were held jointly with the Appointments and Remuneration Committee and 4 with the Board of Auditors.

The meetings, which were regularly recorded in minutes, were also attended by other subjects, invited by the Committee, for the illustration of single points on the agenda.

The Chairman provides the Board of Directors with punctual information on the Committee's works.

In 2017 the Committee performed the tasks reserved to the same by the Self-Governance Code, and in particular:

- it assisted, carrying out the necessary enquiries, the Board of Directors in its decisions and assessments related to the control system, and those related to the approval of the periodic financial reports;
- together with the Financial Reporting Officer and having consulted with the statutory auditor and the Board of Auditors, it assessed the correct use of the accounting standards and their uniformity for the purposes of drafting the consolidated financial statements;
- it expressed a favourable opinion on the Internal Audit Functions' Activities Plan prior to its presentation to the Board of

- Directors for approval;
- it examined the Internal Audit Function's periodic reports;
- it expressed opinions on specific aspects regarding the identification of the Company's main risks and, at the periodic meetings, it invited the managers of the Company's departments concerned to report on the methods for managing such risks;
- it monitored the autonomy, adequacy, effectiveness and efficiency of the Internal Audit Function;
- it reported to the Board of Directors, at least once every six months, upon approval of the annual financial statements and of the interim financial report, on the activity carried out and on the

adequacy of the internal control and risk management system. The Committee had access to the information and to the Company departments necessary for the performance of its duties. In 2018, as at the date of this Report, the Committee has met 3 times, with an average duration of the meetings of one hour and 43 minutes, of which one held jointly with the Board of Auditors.

The BoD confirmed the allocation of an annual budget for 2018 of 25,000.00 Euros (twenty-five thousand point zero zero) for the Committee so as to allow it, should it be deemed necessary, to confer external mandates instrumental to the performance of its duties.

10. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Acea's Internal Control and Risk Management System, an essential element of the Group's Corporate Governance system, is a process based on the best practices of reference and on the principles of the Self-Governance Code, and it comprises an organic series of rules, policies, procedures and organisational structures aimed at allowing the identification, measuring, managing and monitoring of the main risks, in order to identify any potential events that could influence the achievement of the Company's objectives, and at limiting such risks within acceptable levels. The system is integrated within the more general organisational framework and corporate governance system adopted by Acea SpA.

The Board of Directors defined the "Internal Control and Risk Management System Guidelines", updated in February 2018, in order to:

- provide guidelines for the various subjects in the SCIGR, so as to ensure that the main risks pertaining to Gruppo Acea are correctly identified as well as adequately measured, managed and monitored;
- identify the principles and responsibilities of the governance, management and monitoring of the risks connected to the Company's activities;
- provide for activities of control at all operational levels and clearly identify tasks and responsibilities in order to avoid any duplicated activities and ensure coordination between the main subjects involved in the SCIGR.

Acea, in accordance with the principles outlined and the Internal Control System Guidelines, pursuing the aim of continuous improvement in the risk control and monitoring activities, has introduced and integrated into the organisation second level protective procedures for specific risks and it has defined the standard content of the periodic information flows produced by such structures addressed to the Internal Control System Director and, through the Internal Audit Function Manager, to the Control Bodies.

COMPREHENSIVE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Preamble

The planning, implementation and periodic assessment of Acea's Internal Control and Risk Management System is based on the best practices of reference (integrated "Internal Control" model issued by CoSO) and on the principles of the Self-Governance Code.

a. Roles and duties of the various subjects in the Control System

The governance and implementation of the complete Control Sys-

tem involves subjects with diverse roles within the Company (governance and control bodies, Company departments, management, employees and post audit committee).

For a description of the roles and duties of the Control Bodies, we invite you to refer to the specific sections of this Report (Board of Directors, Internal Committees, the Managing Director, the Internal Audit Function, Risk & Compliance Function Manager, the Financial Reporting Officer and the Supervisory Body).

The role of the Ethics and Sustainability Committee, formerly the Ethics Committee, is described in paragraph 16 "Additional Corporate Governance Practices".

The Group's management is responsible for defining, implementing and maintaining an effective risk management process with the capacity to put into practice the plans and to achieve the strategic objectives. In particular, the Industrial Areas and the Company Departments of Acea SpA, each for its sphere of competence, are responsible in their everyday operations for implementing the actions that allow for achieving the expected business results and the management of the connected risks.

The employees are responsible for working in compliance with the external and internal regulations and the management's procedures and directives, also with the support of appropriate training courses aimed at increasing the skills and at fostering the professional attitude necessary to effectively perform the controls, as defined in the Internal Control and Risk Management System.

The Post Audit Committee, established in January 2018 and chaired by the Director assigned to the SCIGR, has the duty of analysing corrective interventions identified by the management downstream of internal auditing activities and monitoring realisation times.

b. Risk management system

The risk management system adopted by Acea contemplates widespread responsibility and involves subjects at all levels of the organisation. In particular, the risk management system adopted in Acea includes activities for risk identification, assessment, management and monitoring.

The Company uses a structured Control Risk Self-Assessment (CRSA) model, to assist the management in identifying the main risks, the action priorities and the adoption of policies to mitigate the residual risks in order to bring them to a level deemed acceptable by the Company top managers. For certain types of risks, second level control and monitoring models are used, which can infer specific indicators and risk limits (e.g. PAR and VAR).

Responsibility for the controls is divided into three complementary levels:

1. First level controls are aimed at ensuring correct execution of Company processes, in order to prevent risks by means of suitable mitigation actions. The responsibility for their execution is assigned to the line structures;
2. Second level controls are aimed at verifying that the controls defined for Company operations are effective and implemented, through continuous monitoring aimed at guaranteeing that the risk mitigation actions are adequately identified and put into practice in the organisation by the subjects responsible for said implementation;
3. Third level controls are entrusted to the Internal Audit Function, comprising independent verification of the design and operation of the internal control system and monitoring the implementation of the improvement plans defined by the management.

The Internal Audit Function Manager is responsible for verifying that the Internal Control System is always adequate, fully operational and functioning. He reports to the Board of Directors, he is not responsible for any operational activities and he can have direct access to all information useful for the performance of his duties. He reports on his work to the Chairman, the Managing Director, the Control and Risks Committee and the Board of Auditors on the operation, adequacy and effectiveness of the Control System. The Internal Audit Function operates on the basis of a work plan, defined on the basis of the results of the Control Risk Self-Assessment which gives a summarised and comparative assessment of the main risk areas and of the relative control system and allows for identifying, according to the various risk levels of Corporate processes and intervention priorities. The Internal Audit Function Work Plan is approved annually by the Board of Directors, having consulted with the Board of Auditors and the Director Assigned to the Internal Control and Risk Management System.

c. Qualifying elements of the Control System

Pervasive elements of the Control System

The pervasive elements are of fundamental importance in the Acea control system, in as much as they represent the infrastructural foundations of said system, worthy of mention amongst which, in particular, are the following aspects:

- the definition of the ethical values and of the behavioural criteria, by which the behaviour of the employees and of all those who operate in pursuit of the Company's objectives must be inspired, is ensured by the rules of the Code of Ethics, approved by the BoD of Acea SpA and its subsidiaries and disclosed inside and outside the Company;
- the roles and responsibilities, and the relations between Company departments are clearly defined within the adopted organisational structure, and the powers of signature and the internal delegations are consistent with the hierarchical level, the organisational unit concerned and the assigned targets.

To this end, the organisational charts and other organisational provisions, the organisational and management model pursuant to Legislative Decree 231/2001, the Company procedures and the system of delegations and powers are formalised, circulated and disclosed.

Centralised monitoring controls for particular risk categories

The centralised monitoring controls for particular risk categories are the manner by which a transversal view of the risks and of the connected systems of control between the diverse processes within the Group is possible. The main centralised monitoring controls are described below.

Interest rate risk. The Acea Group's approach to the interest rate risk is based on the type of the structure of the assets and on the stability of the Group's cash flows; the activity is entrusted to the Administration, Finance and Control Department., The primary

objective, considering the needs expressed in the strategic plan, is the optimisation of the costs of the Group's liabilities and the simultaneous limitation of the effects caused by exposure to the interest rate risk, therefore the identification of the optimal combination between fixed and variable rates. The aptitude for risk and the relative limits are defined by the Board of Directors, by the approval of the single loan transactions with impact on the interest rate risk and the possible hedging transactions.

Commodity risks. With regard to the market risk deriving from trading in electricity and gas, the Risk Management Unit is present in the organisation in the context of the Risk & Compliance Function which monitors the observance of the market risk management policies, correct application of the respective manuals and observance of the limits of exposure defined above and periodically reports exposure to market risk, the trend of the main values and of the main business appraisal parameters, observance of limits as well as any critical issues.

Trade credit risks (customers). Within the sphere of the Administration, Finance and Control Department, specific methods have been developed to prevent and monitor the risk of customers' insolvency. The protective action is mainly aimed at ensuring preliminary risk analyses of Acea Energia's commercial proposals on the free electricity and gas market, and, therefore, of optimising the commercial action with acceptable refusal levels compared with local and national averages.

Risks relating to quality, environment, safety and energy. Acea favours the adoption of management systems in the Group companies which comply with standards ISO 9001, ISO 14001, OHSAS 18001 and ISO 50001 (QASE management systems). Such systems envisage the mapping of processes, risk assessment for each context of reference and management system, an appraisal of the aspects and environmental impacts and an appraisal of significant energy aspects. Operational procedures, performance indicators and sought objectives are defined for every process included in the QASE management systems. The responsibility for guaranteeing implementation and controlling the implementation of the policies regarding quality, environment, safety and energy so as to ensure that QASE certification of the interested processes is obtained and retained is assigned to the Integrated Certification Systems Unit of the Risk & Compliance Function.

Whereas the Workplace Safety Unit is located in the Corporate Services and Affairs Department, the manager of which is the Health and Safety Officer delegated by the BoD, such unit having the tasks of defining the guidelines and policies on the matter of health and safety at the workplace for Gruppo Acea, supporting the operational companies in their implementation and progressive updating.

Financial reporting risks (Law 262/2005). Protection against the risks relating to the adequate and effective application of the administrative and accounting procedures connected to the financial reporting process is one of the responsibilities of the Financial Reporting Officer (paragraph 10.5). The Internal Control and Risk Management System in respect of Financial Reporting is described in the following paragraph.

Compliance risk. As from the month of September, the Board of Directors integrated the Risk & Compliance function dedicated to overseeing matters of compliance, with particular reference to protection against legal and conformity risk, including the risk of committing criminal offences to the damage or in the interest of Gruppo Acea.

Such control processes monitor specific compliance risks (such as antitrust, on the matter of the protection of personal data as per Legislative Decree 196/2003, regarding administrative liability of entities as per Legislative Decree 231/01 etc.), they propose guidelines to be circulated within the Group so as to promote an increasing awareness of Compliance issues, also by means of implementing training programmes aimed at spreading a managerial and operational culture of awareness regarding risks and responsibilities

deriving from failure to observe the normative in force.

Information security risks. The Innovation, Technology & Solutions (ITS) Function is responsible for:

- defining the guidelines on computer safety aimed at ensuring confidentiality, integrity and availability of data, in line with the normative in force and having the function of steering and controlling the entire Group;
- monitoring architectural compliance in the informatory (IT), industrial (OT) environments and for innovative technologies (e.g. IoT), respect to the Group's guidelines;
- ensuring real-time monitoring of the IT infrastructure in order to promptly identify threats and attacks and define/update operational continuity and IT crisis management plans, guaranteeing the execution and coordination of activities, plans and countermeasures for emergency management;
- assessing, in coordination with the Risk & Compliance Function, the impacts of cyber risks (e.g. safety, loss of operativity, access and confidential information, etc.) and the cost/opportunity of the interventions to mitigate or eliminate the impacts thereof;
- promote initiatives aimed at improving the level of protection of the organisation (e.g. security/vulnerability assessment).

d. Overall assessment of the adequacy of the Control System

See the contents of paragraph 4.3 of the Board of Directors.

MAIN FEATURES OF THE EXISTING INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS (art. 123 -bis, paragraph 2, letter b), TUF)

Preamble

In the Internal Control system, with reference to financial reporting, particular relevance is held by the "Group's Management and Control Model pursuant to Law 262" (the Model), adopted on the occasion of the updating of the Group's Internal Control System to the requirements of Law 262/2005. In particular, in 2007 Acea began a process of adaptation to the needs expressed by Law 262/2005 aimed at planning an effective system of Internal Control over Financial Reporting (ICFR), subject to constant improvement and adaptation to the Company's evolution, which can allow the Acea Financial Reporting Officer (FRO) and Managing Director to issue the certifications required by art. 154-bis of the TUF.

The system is defined as all the activities for identifying the risks/controls and for defining specific procedures and tools adopted by Acea to ensure, with reasonable certainty, the achievement of the aims of the credibility, accuracy, reliability and immediacy of the financial information.

The Model defines the guidelines, the methodological references and the responsibilities for the institution, assessment and maintenance of the ICFR.

The Model is developed on the basis of the fact that the ICFR must be a part of the broader Internal Control and Risk Management System and an essential element of Acea's Corporate Governance, and that the credibility of the information disclosed to the market on the Company's situation and results is a fundamental element for all the stakeholders.

The Model, approved by Acea's Board of Directors on 20 February 2008, is composed of a series of documents, circulated among the companies of the Group, which define all the basic aspects of the system:

- Financial Reporting Regulations;
- Guidelines for the implementation of the Model;
- Periodic reports of the Group for the implementation of the information flow.

The Model is completed by the Group's Accounting Principles Manual, the Guide to closing the consolidated financial statements, the administrative and accounting procedures and the specific operating documents.

The implementation of the Internal Control and Risk Management System in relation to the Group's financial reporting has been carried out, also through successive adjustments, also considering the guidelines provided by certain category bodies regarding the Financial Reporting Officer's activities, in particular:

- Position Paper of the Andaf [National Association of Administrative and Financial Directors] "*Il Dirigente Preposto alla redazione dei documenti contabili societari*" [The Financial Reporting Officer];
- Position Paper of the AIIA [Italian Internal Auditors' Association] "*Il contributo dell'Internal Auditing nella realizzazione di un buon processo di Corporate Governance e nell'organizzazione di un flusso informativo con il Dirigente Preposto alla redazione dei documenti contabili e societari*" [The contribution of Internal Auditing in the creation of a good Corporate Governance process and in the organisation of an information flow with the Financial Reporting Officer];
- Guidelines issued by Confindustria "*Linee guida per lo svolgimento delle attività del dirigente preposto alla redazione dei documenti contabili societari ai sensi dell'art. 154-bis TUF*" [Guidelines for the performance of the Financial Reporting Officer's activities pursuant to art. 154-bis of the TUF].

DESCRIPTION OF THE MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS

The Model defines the guidelines of reference for creating and managing the system of administrative and accounting procedures (so-called activity/risk/control matrices) for Acea and its major consolidated companies for the purposes of corporate Financial Reporting, regulating the main steps and responsibilities.

a) Steps

Defining the scope of analysis. Every year Acea updates the scope of analysis of the system of administrative-accounting controls and of the monitoring of the underlying processes, to guarantee that the risks relating to the financial reporting of the more significant accounting items within the consolidation perimeter are covered.

The scope of the analysis is initially determined by the weight of each company of the Group on the consolidated financial statements, taking into account the relevance for the same of the associated significant accounts and administrative-accounting processes; successively, the results of the analysis are integrated by considerations of a qualitative nature to take into account both the Group's structure and the features of specific financial statement items.

Analysis of process risks and controls. The approach adopted by Acea allows for identifying the "key" risk and control points deemed significant for the consolidated financial statements. For this purpose, the control objectives and the related risks are defined for every process and activity; i.e.

- financial statement assertion: this element must be respected in the reporting of company events in order to represent them truly and correctly on the financial statements;
- theoretic risk: risk identified at the "inherent level", not taking into account the existence and the effective execution of specific control techniques aimed at eliminating the risk in question or at reducing it to an acceptable level;
- specific control objective: objective that must be guaranteed

by the execution of the control activity. In particular, the financial statement assertions considered in the Model are:

- *Existence and occurrence* (the company's assets and liabilities must exist at a definite date and the transactions recorded must represent events that have actually taken place during a specific period);
- *Completeness* (all the transactions, assets and liabilities to be represented must be effectively included on the financial statements);
- *Rights and obligations* (the company's assets and liabilities must represent, respectively, its rights and obligations on a specific date);
- *Assessment and reporting* (the assets and liabilities, the shareholders' equity, the revenues and the costs must be posted on the financial statements at their correct amount, according to the generally accepted accounting standards);
- *Presentation and informing* (the financial statement items must be correctly named, classified and illustrated).

For each specific risk/objective subject to control, the so-called "key" controls are identified, which allow for identifying the existing system of controls (manual/automatic controls; prior/successive controls) in relation to each relevant process, in order to reach the objective of control and to effectively mitigate the risk.

Assessment of the controls in view of the risks identified. The assessment of the design of the controls described in the administrative and accounting procedures, aims to analyse how the single control activities are structured and defined in respect of the objective of preventing the risk of error on the financial statements. The assessment is carried out considering the goal that the control aims to achieve, namely whether the risk is mitigated ("adequate/inadequate" control). The assessment of the design of the controls is the responsibility of the Business Lines, starting from the hierarchical level above the manager of the department/activity subject to the control, up to the level of the Board of Directors in the case of the companies of the Group.

The assessment of the operativity of the controls identified in the administrative and accounting procedures is also subject to specific analysis by the Business Lines. In fact, for controls whose design is deemed adequate, their execution must then be assessed ("implemented/not implemented" control).

The operativity of the controls, ascertained by the Business Lines, is corroborated by independent monitoring carried out through a periodic testing plan of the FRO. The test plan is defined according to criteria of priority and rotation on the basis of which, in each period of reference, a certain sub-series of controls to be tested is selected, until achieving coverage of the main controls identified in the procedure. The FRO implements a process for sharing and circulating the results of the test activities, so that the managements of reference can put in to practice the necessary corrective action in their own structures.

Corrective Action Plan. If, on the basis of the analyses carried out by the Business Lines, the "key" controls are found to be absent, not documented or not carried out correctly according to the company's procedures, the manager of the organisational unit concerned, up to the level of the Board of Directors for the companies of the Group, defines and implements a remedy plan with indication of the timing and responsibilities for the execution of the corrective action. The remedy plan is submitted to the FRO for the overall assessment of the system and for the coordination of the action to be taken, and it is updated six-monthly by the subjects responsible.

Overall assessment. To allow the Acea FRO and Managing Director to issue the certifications required by art. 154-bis of the TUF, a "chain" system of internal certifications has been introduced, de-

scribed in more details in the following paragraph, with the aim of ensuring the adequate internal formalisation of responsibilities for the adequacy and the effective application of the administrative and accounting procedures, and for preparing and communicating the corrective action plan, when necessary, and for updating the procedures (see point b), Roles and Responsibilities).

The overall assessment is therefore based on a complex evaluation procedure which takes into account:

- the assessment of the design of the existing controls and the assessment of their execution, carried out by the Acea management and by the Boards of Directors of the subsidiaries, together with the implementation of the remedy plans;
- the analysis of the test results;
- the final analysis of the areas for improvement that have come to light, with reference to their relevance on the financial statement information.

If deemed necessary, within the scope of the assessment process, the methodology adopted may include the design and execution of compensatory controls and verifications. Any important shortcomings that are found are communicated to the Control Bodies according to the procedures laid down in the Financial Reporting Regulations.

b) Roles and Responsibilities

The Model is based on the clear internal attribution of responsibilities in the planning, assessment and maintenance over time of the ICFR, without prejudice to the responsibilities attributed by law to the FRO and to the Board of Directors. For this purpose, the financial reporting introduced within the Acea Group is based on a "chain" system of certifications which has the aim of the adequate internal formalisation of the responsibilities for the adequacy and effective application of the administrative and accounting procedures, of monitoring the corrective action plan, when necessary, and of immediately detecting possible modifications to the controls that are the competence of the Business Lines and factors of change/risk that arise in the course of normal process operations, that can influence the adequacy of the ICFR.

The assessment process of the FRO and of the Managing Director, on the basis of which the certification of the financial statements is issued according to the CONSOB model, therefore entails internal certifications (reporting forms) issued by the managers of the processes that are relevant for Acea and by the Managing Directors of the subsidiaries. In particular, Acea, by means of reporting, has disciplined roles and responsibilities, the activities to be performed by each subject involved, the calendar, instructions for filling in the reporting forms, and the methods for updating the administrative and accounting procedures.

The Model identifies the main actors of the financial reporting process, in addition to the FRO and the Boards of Directors, with the relative responsibilities.

- **The Control Manager** is responsible towards the Sub-Process Manager for the execution and certification of the execution of the controls of his competence according to the procedures and timing laid down by the administrative and accounting procedures, and for providing the basic information input for the reporting flow;
- **The Sub-Process Manager** is responsible for a related series of activities necessary for achieving a specific control objective; he must carry out an overall assessment of the design and implementation of the control, in relation to the sub-process in question; he must also update and ensure the implementation of the corrective action plan.
- **The 262 Administrative Contact for the companies** is the subject within the Group companies responsible for all the activities necessary to allow the Acea FRO to issue the certification; he is responsible for consolidating all the information received from

the Sub-Process Managers and for assembling the overall assessment of the design and implementation of the controls for the company in question, which he then submits to the company's Board of Directors: he is also responsible for guaranteeing the information flows to and from the FRO.

- **The companies' delegated administrative body** is responsible for assessing the design and implementation of the controls of the company and sending the internal certification to the FRO, in the defined format, together with the corrective action plan suitably endorsed, also communicating any change/risk factors that have arisen in the period of reference that could influence the adequacy of the ICFR.

Lastly, with reference to the other governing and control bodies within and outside the Group, Acea has introduced a virtuous information exchange process, to and from the FRO, structured and modulated to foster as broad an overall view as possible of the Internal Control System on the part of said bodies.

10.1 THE CONTROL SYSTEM DIRECTOR

The Acea Board of Directors has chosen the Managing Director as the director appointed for the institution and maintenance of an effective Internal Control and Risk System, and has conferred mandate to the same to implement the Guidelines of the Internal Control and Risk Management System.

In 2016, the Managing Director, also taking avail of the assistance of the Internal Audit Function, has provided for identifying the Company's main risks, taking into account the features of the activities performed by Acea and its subsidiaries, and has periodically submitted them to the Board of Directors' examination. He has put into practice the guidelines drawn up by the Board of Directors, ensuring the planning, execution and management of the System and the constant monitoring of the overall adequacy, effectiveness and efficiency. He has also provided for the adaptation of the system to the dynamics of the operating conditions and the legislative and regulatory context.

The appointed Director may request the Internal Audit Function, notifying the Chairman of the BoD, the CRC and the CS of the execution of verifications on specific operating areas and on respect for the internal rules and procedures in the execution of Company operations.

The appointed Director also immediately informs the Control and Risks Committee and the Board of Directors of problems and critical situations that arise in the performance of his activities or of which he gains knowledge.

10.2 THE AUDIT FUNCTION MANAGER

On 18 December 2013, the Board of Directors, on a Managing Director's proposal, with the favourable opinion of the Control and Risks Committee and after consulting the Board of Statutory Auditors, resolved on the appointment of Ms. Liberata Giovannelli as Manager of the Internal Audit Function and defined her salary, in accordance with the Company's policies.

The Guidelines of the Internal Control and Risk Management System approved by the Board of Directors define the Internal Audit Function's mission and activities, according to which this Department has a central role in the coordination of the Internal Control and Risks Management System. The Audit Manager is required to verify the operation and adequacy of the System, by means of verifications, both continuously and in relation to specific needs, and to check on the operations and suitability of the System, with the support of the Managing Director in the activities of identifying and establishing the priorities of the major risks to which Acea SpA

and its subsidiaries are exposed. The Internal Audit Function is also mandated to provide for the general review of the risk analysis process carried out by the second level control structures which protect against certain types of risks, and for the coordination of the information flows from said structures (see Chapter 10 "Internal Control and Risk Management System").

At its meeting of 13 March 2017, the Board of Directors approved the Internal Audit Function's Work Plan and at the same time it verified the adequacy of the resources allocated to the Department for the performance of its duties.

The Internal Audit Function Manager, who has direct access to all useful information for the performance of her mandate, has no responsibility for operational areas, nor is she hierarchically subordinate to the managers of the operational areas, but reports directly to the Board of Directors.

During financial year 2017, the Internal Audit Function, performing its duties as described, carried out the following activities:

- a. it verified, both continuously and in relation to specific needs and consistently with the international standards for professional internal auditing, the operativity and the suitability of the System, by means of an Internal Audit Function action plan - based on a structured process of the analysis and prioritisation of the main risks;
- b. it performed additional audits to those provided under the approved Plan;
- c. it drafted a final report on the single audit actions and requested the competent Functions/Companies, when necessary, to draw up action plans for overcoming the criticalities found, monitoring the implementation and reporting the results to the Control and Risks Committee and, as from its establishment, the Post Audit Committee;
- d. it constantly informed, by means of drawing up specific reports, the Chairman of the Board of Directors, the Director Assigned to the System, the Control and Risks Committee about the activities carried out and related results; it did not draw up reports on events of special significance as none emerged during the fulfilment of the task;
- e. within the sphere of the Internal Audit Function activities plan, it verified the reliability of the information systems, including those of accounting disclosure;
- f. it assisted the Supervisory Body of Acea SpA and of its subsidiaries in the preparation and implementation of the Organisational and Management Model and executed the verifications pursuant to Legislative Decree 231/01;
- g. it contributed to the design of training and corporate information activities regarding Internal control topics;
- h. it monitored initiatives for overcoming anomalies found in the operativity and function of the controls, also through follow up activities;
- i. it collected and processed, according to the methods defined in the whistleblowing procedure, reports received concerning cases of presumed violations due to non-observance of the law, the internal regulations and the Code of Ethics, as well as those related to problems with the Internal Control System and produced periodic monitoring reports for the Ethics and Sustainability Committee (formerly the Ethics Committee), the Control and Risks Committee and the Board of Auditors;
- j. it drafted the report in which it gives an assessment of the operativity and suitability of the System and sends it to the Chairmen of the Board of Directors, the Control and Risk Committee and the Board of Auditors, as well as the Director Assigned to the System.

Until the establishment of the new Risk & Compliance Function (ref. para. 10.5.2), the Internal Audit Function also assisted the Managing Director in identifying Acea's main risks, preparing spe-

cific summary reports for the Managing Director and the Control and Risks Committee.

In this regard:

1. it assisted the management in identifying and assessing the main risks to the Group and associated controls, through a structured analysis and monitoring process (*Control Risk Self Assessment*);
2. it collected and examined the information flows processed for 2017 by the corporate structures with specific tasks regarding internal control (second level control processes). Such flows were shared with the Risk & Compliance Function which, as required under the related organisational provision of 1 February 2018, has the duty of consolidating them and preparing the supplementary report for the management and the Control Bodies on the matter of risk management.

10.3 ORGANISATIONAL MODEL as per Legislative Decree 231/2001

With the adoption of the Organisational, Management and Control model (the “MOG” - *Modello di Organizzazione e Gestione*), as per Legislative Decree 231/2001, Acea has adopted its Organisational, Management and Control model as contemplated by Legislative Decree 231/2001, in order to comply with the provisions of the said Decree and in respect of its principles and those of the Self-Governance Code and the recommendations of the Supervisory and Control Authorities, in pursuit of reinforcing its control and Corporate Governance systems, and in particular to prevent the predicate offences referred to in the Decree.

With the adoption of the MOG, Acea has set itself the following goals of a general nature:

- to achieve awareness of the activities that present a risk of offences with relevance for the Company (risk activities) and awareness on the part of the addressees of the rules (methods and procedures) that discipline the risk activities;
- the circulation, personal acquisition and concrete affirmation of a corporate mentality based on legality, in the awareness of the Company's express disapproval of any behaviour contrary to law, the self-regulating provisions, the indications of the supervisory and control authorities and internal provisions;
- the circulation, personal acquisition and concrete affirmation of a mentality of control, which must govern the pursuit of objectives.
- Following initial approval, in May 2004 the Model, both for Acea SpA and for the subsidiaries was continuously updated following the introduction of new liable crimes in relation to Legislative Decree 231/2001, developments in case-law and doctrines and corporate organisational changes. By resolution of the Board of Directors downstream of a review and updating activity described in the preamble of this report, the current Acea SpA MOG was adopted, updated with the liable crimes introduced by the Decree.

As from the date of its establishment the Risk & Compliance function is responsible for monitoring developments in the normative concerning the administrative liability of Entities according to the provisions under Legislative Decree 231/01, collaboration with the Acea Supervisory Body for updating the MOG and coordination of the activities of the structures of the Group's Subsidiaries in order to update the related MOG.

As contemplated by the Acea MOG, the subsidiaries, for the purposes indicated in the Decree and after having identified their own activities that involve a risk of such offences and the most suitable measures to prevent the same, have adopted their own MOGs, consistent with the principles and the contents of that of the Parent Company, and they have appointed their own Supervisory Bodies.

In relation to the various types of offence provided under Legislative Decree 231/01 and the related sensitive activities, the MOG in fact identifies the Company's processes that are functional and instrumental for protecting against the risk activities and it recalls the relevant organisational and control principles which must characterise the organisational system and with which the recipients must comply in their activities of competence.

The Supervisory Body (“OdV”), set up pursuant to Legislative Decree 231/2001 has full and autonomous powers of initiative, action and control regarding the functioning, effectiveness and observation of the MOG, in order to prevent the risk of offences for which the Company could bear administrative liability.

The OdV supervises the effectiveness and adequacy of the MOG, monitoring its state of implementation and proposing any necessary updates to the Board of Directors. It must also report to Acea's competent bodies any breaches of the MOG, ascertained or subject to pending investigations, which could lead to liability bearing on the Company.

Art. 14, paragraph 2, of Law no. 183 of 12 November 2011, known as the “Stability Law”, amended art. 6 of Legislative Decree 231/2001, providing for the possibility of the Board of Statutory Auditors, for the purposes of the said Legislative Decree, to also adopt the role of the Supervisory Body. The Acea Board of Directors, at the meeting of 12 May 2016, pursuant to the aforesaid provision and in continuity with the choice adopted by the preceding Board of Directors, decided to take avail of the faculty of attributing the role of Supervisory Body, pursuant to Legislative Decree 231/2001, to the Board of Statutory Auditors for a period equal to duration of the Board's term in office as established by the appointing Shareholders' Meeting.

Superseding the previous composition of the OdV, the MOG approved by the BoD envisages the establishment of a separate body, formed of two external members who are experts on internal control and corporate criminal liability, as well as an internal member represented by the Internal Audit Function manager.

Consequently the Board of Directors proceeded with appointing a dedicated Supervisory Body for the period 1st January 2018 - 31st December 2020.

So as to guarantee full implementation of the Models of Acea and of its subsidiaries, in conformity with the Decree and/or settled case law:

- the information flows, as far as contemplated by the obligations of reporting to the OdV, which allow for monitoring significant transactions within the defined risk areas where the offences contemplated by Legislative Decree 231/2001 could be committed, have been defined and rendered systematic. Said information, acquired and managed for the main companies of the Group by means of a specific IT support, is accompanied by risk indicators which draw attention to specific transactions or activities;
- instruction and training activities have been developed regarding Legislative Decree 231/2001, the Company's MOG, the Code of Ethics and the Quality, Environment, Safety and Energy Systems;
- a special channel for reporting to the Supervisory Body any cases of non-observance of the Model has been created.

In compliance with the Code of Ethics and as explained in the Quality, Environment, Safety and Energy Policy, to prevent the risk of offences committed with breach of the accident prevention and environmental provisions of art. 25-septies (manslaughter or grievous or extremely grievous bodily harm committed with breach of the provisions on health and safety in the workplace) and of art. 25-undecies (Environmental offences) of Legislative Decree 231/2001, Acea maintains that the Group's strategic choice to promote the circulation and implementation of the Management System, certified according to the standards ISO 9001, ISO 14001, OHSAS 18001 and ISO 50001 (QASE management systems), already

adopted by the main companies of the Group, is fundamental. The Board of Directors attributes a specific annual budget to the OdV of 25,000.00 Euros (twenty-five thousand point zero zero) in order to guarantee and establish the autonomous “power of initiative and control” which Legislative Decree 231/2001 grants the latter.

10.4 STATUTORY AUDIT COMPANY

Pursuant to art. 22-bis of the Articles of Association in force, the certified audit of the accounts is carried out by an auditing firm appointed and operating pursuant to law and pursuant to the regulations dictated for issuing companies listed on regulated markets. In particular, it verifies that the accounts have been regularly kept and that the management events have been correctly recorded in the accounts during the period, and it also verifies the Company’s financial statements and the consolidated financial statements of the period. The Shareholders’ Meeting called to approve the financial statements for the year ended 31 December 2016, held on 27 April 2017 in conformity with the provisions of law then in force, by recommendation of the Board of Statutory Auditors, conferred *PricewaterhouseCoopers* SpA the assignment of auditing the Company’s financial statements and the consolidated financial statements for a term of nine financial years - specifically 2017-2025 in other words until the approval of the financial statements of the last year of the said mandate - and established the relative fees. In the performance of its activity, the Auditing Firm had access to the Company’s information and data, in both documental and electronic format, its archives and assets and to those of its subsidiaries.

10.5 THE FINANCIAL REPORTING OFFICER AND THEIR OTHER CORPORATE ROLES AND FUNCTIONS

10.5.1 The Financial Reporting Officer

The figure of the Financial Reporting Officer, introduced by Law 262/05, was adopted by Acea with an amendment to the Articles of Association of 13 November 2006, which requires this figure to be appointed by the Board of Directors.

In its meeting of 3 August 2017, the Board of Directors of Acea SpA, chaired by Luca Alfredo Lanzalone, resolved to appoint – effective as from 1 September 2017 – Giuseppe Gola as Financial Reporting Officer for Acea SpA, pursuant to art. 154-bis of Legislative Decree no. 58/1998, who also assumed the office of Finance and Control Administration Director of Acea SpA.

The Financial Reporting Officer must introduce and maintain the Control System for financial information and, together with the Managing Director, issue a specific certification according to the model circulated by Consob.

In particular, in accordance with the Regulations approved by the Board of Directors of 20 February 2008, he must perform the following duties:

- to provide adequate administrative and accounting procedures for the preparation of the Company’s financial statements, the consolidated financial statements and the six-monthly interim report;
- to ensure that the financial statements are drafted in compliance with the applicable international accounting standards;
- to ensure that the Company’s deeds and communications disclosed to the market and the relative accounting statements, including the interim reports, correspond to the documentary evidence, the Company’s books and the accounting entries;
- to assess, together with the Internal Control Committee, (a) the adequacy of the accounting principles adopted, and (b)

their standardisation for the purposes of the drafting of the consolidated financial statements.

The Financial Reporting Officer has issued the certification, together with the Managing Director, in compliance with art. 154-bis of the TUF, without remarking any aspects worthy of note.

10.5.2 Risk & Compliance Function

As from September, the Board of Directors integrated the Risk & Compliance Function into the macrostructure, establishing a fundamental safeguard for the governance and management of the SCIGR. The function has the task, amongst others, of identifying, describing and measuring the main risk factor which could jeopardise the achievement of the Group’s strategic objectives, support the management in defining plans of action for bringing the risk back to a level deemed as acceptable and monitoring the implementation thereof. In this context and as further detailed in the internal control and risk management System Guidelines, approved on 15 February 2018, the new function is assigned with:

- defining and developing the method of assessment and prioritisation of risks according to the indications provided by the Self-Governance Code and best practice of reference;
- coordinating the management of the periodic risk assessment process, in which the risk owner is responsible, in relation to first level controls, for identifying and assessing the risks of their competence, identifying adequate mitigation strategies and monitoring their status of progress;
- coordinating and monitoring the development and implementation, by the organisational structures of reference, of instruments and operating processes aimed at guaranteeing adequate informatory flows of risk management and compliance;
- guaranteeing adequate informatory flows in summary reports regarding risk to the Assigned Director, Control and Risks Committee and the corporate bodies of reference, according to the information received from the structures.

Merging into the Function were the activities, already allocated into various corporate structures and functions, pertaining to: the management of the CRSA, insurance risk management, control and monitoring of commodity risks, update of the Organisational and Management Model as per Legislative Decree 231/01, Privacy and Antitrust compliance and the integrated certification systems. Therefore apart from continuing activities already present in the merged organisational units, the new Function has the task of initiating plans for the fulfilment of the other assigned duties.

In particular, within the sphere of the Risk & Compliance Function, the Enterprise Risk Management Unit was established, having the following responsibilities:

- definition and development of the method for assessing and prioritising risks according to the indications provided by the Self-Governance Code and the best practice of reference;
- coordinating the management of the periodic risk assessment process, in which the risk owner is responsible, in relation to first level controls, for identifying and assessing the risks of their competence, identifying adequate mitigation strategies and monitoring their status of progress;
- coordinating and monitoring the development and implementation, by the organisational structures of reference, of instruments and operating processes aimed at guaranteeing adequate informatory flows of risk management and compliance;
- guaranteeing adequate informatory flows in summary reports regarding risk to the Assigned Director, Control and Risks Committee and the corporate bodies of reference, according to the information received from the structures.

10.5.3. Post Audit Committee

A Post Audit Committee was established in January 2018, it is chaired by the Director assigned to the SCIGR, having the task of

analysing corrective interventions identified by the management downstream of the internal audit activities and monitoring the realisation times thereof.

10.6 COORDINATION AMONG SUBJECTS INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

In order to allow the various subjects involved in the SCIGR to adequately perform the role assigned in relation to such system, specific informatory flows are defined among the various levels of control and the competent management and control bodies, duly coordinated in terms of content and timeframes.

The Guidelines of Acea's Internal Control and Risk Management System contemplate a series of activities for the coordination between the various subjects involved in the System, in order to ensure continuous monitoring of the adequacy and functioning of the said System, and to facilitate the efficient exchange of information. Put briefly, the relative procedures include:

- periodic coordination meetings regarding, in particular, the processing of the financial information and the assessment, monitoring and mitigation of the risks (economic-financial, operational and compliance risks);
- information flows between the subjects involved in the Con-

trol and Risk Management System;

- coordination meetings and joint meetings with the Board of Statutory Auditors, the Control and Risks Committee, the external Auditing Firm, the Financial Reporting Officer and the Internal Audit Function Manager;
- structured information flows on the part of the subjects responsible for the second level controls to the top management, the Internal Audit Function and the Supervisory Bodies;
- communication flows between the Internal Audit Function and the Risk & Compliance Function to support the specific activities of competence. In particular, the Risk & Compliance Function informs the Internal Audit Function about the main corporate risks useful for preparing the risk-based Audit Plan proposal and receives the results of the internal audit activities where relevant to performing its task;
- structured information flows between the Supervisory Bodies of Acea's subsidiaries and the issuer's Supervisory Body;
- periodic reports to the Board of Directors;
- assistance to the Internal Audit Function in its activities in the role of Acea's Supervisory Body and to those of the subsidiaries;
- attribution to the Board of Statutory Auditors of the role of the Supervisory Body pursuant to Legislative Decree 231/2001. During 2017, effective as of 1st January 2018, the Board of Directors decided to appoint a dedicated Supervisory Body.

11. DIRECTORS' INTERESTS AND RELATED PARTIES TRANSACTIONS

Prior to discussion on each item on the agenda during the board meeting, every director must report any interests that it holds, directly or on behalf of third parties, connected with the topics or questions to be dealt with, specifying the nature, the terms, the source and the extent.

With regard to transactions with related parties, the procedure for such transactions, issued pursuant to art. 2391-bis of the Civil Code and adopted in accordance with the principles dictated by the "Regulations on Transactions with Related Parties" of Consob resolution no. 17221 of 12 March 2010 and successive amendments, effective as of 1 January 2011, was amended by the Board of Directors on 18 December 2013, entering into force on 1 January 2014, and it applies to transactions carried out directly by Acea, or companies directly or indirectly controlled individually by the latter, and related parties.

Depending on the amount, the transactions are divided as follows:

- transactions of *Major Relevance*, in which at least one of the indices of relevance, indicated in Annex 3 of the aforesaid Regulations of Consob resolution no. 17221 of 12 March 2010 as successively amended, is above the threshold of 5%, which must be approved by the Acea SpA Board of Directors;

- transactions of *minor value* with a counter-value of not more than Euro 200,000.00 (two hundred thousand);
- transactions of *Minor Relevance*, which includes all the transactions with related parties that cannot be classified as of major relevance or of minor value.

According to the procedure, before the approval of a transaction with a related party, whether of Major or Minor Relevance, the Transactions with Related Parties' Committee expresses an opinion on the Company's interest in the execution of the transaction and on the convenience and on the substantial correctness of the related conditions.

At present, the OPC is composed of three independent directors, namely: Fabrice Rossignol, as coordinator, Michaela Castelli and Massimiliano Capece Minutolo Del Sasso.

The Board of Directors has confirmed the allocation of an annual budget for 2018 of 50,000.00 Euros (fifty thousand point zero zero) for the Committee so as to allow the latter, should it be deemed necessary, to confer external mandates instrumental to the performance of its duties.

For further details, please refer to the website www.acea.it in the "Corporate Governance" section.

12. APPOINTMENT OF THE AUDITORS

In compliance with the provisions of law and of the Articles of Association, the Board of Statutory Auditors is composed of three standing auditors and two alternative auditors, appointed by the Ordinary Shareholders' Meeting for a term of three financial periods, and they can be re-elected on expiry of their mandate.

There must be a gender balance in the composition of the Board of Statutory Auditors, as governed by law.

The Board of Statutory Auditors is appointed, in compliance with art. 22 of the Articles of Association, by the same methods as those for the appointment of the Directors, illustrated above. Half plus one of the standing auditors to be elected will be drawn from the list that has obtained the majority of votes, in the progressive order in which they are placed on the list, rounded down to the nearest whole number in the case of a fractioned number, and one alternative auditor.

For the other members of the Board of Statutory Auditors, those elected who have obtained the first and second highest percentage on the minority lists will be designated as standing auditor and al-

ternative auditor respectively; pursuant to the combined provision of arts. 15 and 22 of the Articles of Association, in case of equal percentage, the standing auditor will be the one on the minority list that has obtained most votes. In any case, at least one standing auditor must be elected by the minority shareholders. If an auditor leaves office during a financial period, the alternative auditor on the same list as the outgoing auditor will take his/her place.

The appointment of auditors who, for any reason, are not elected according to the above-illustrated procedure, must be approved by a Shareholders' Resolution passed with the majority required by law.

The Chairman of the Board of Statutory Auditors will be chosen from those effectively elected from the minority list.

Therefore, under the present election system, the lists can be presented by shareholders which, alone or together with other shareholders, represent at least 1% of the share capital. The lists must be presented to the Company's head office and they will be published by Acea in at least three national daily newspapers.

13. COMPOSITION AND OPERATION OF THE BOARD OF AUDITORS (as per art. 123 bis, paragraph 2, letter d, TUF)

The current Board of Statutory Auditors was appointed by the Ordinary Shareholders' Meeting of 28 April 2016 and its mandate will expire on the approval of the financial statements for 2018.

For the appointment by the Shareholders, two lists were presented: List no. 1 presented by Roma Capitale with three candidates, Corrado Gatti, Rosina Cichello and Lucia Di Giuseppe and List no. 2 presented by the shareholder Fincal SpA with two candidates, Enrico Laghi and Carlo Schiavone; List no. 1 was voted by 68.94% and List no. 2 by 30.89% of the voters.

According to the appointments at that Meeting, the Board of Statutory Directors is formed, as described in *Table no. 3*, by the components below, a brief professional description of whom is given, in compliance with art. 144 – decies of the Issuers' Regulations:

- **Enrico Laghi, Chairman.** Full professor of business economics at "La Sapienza" University of Rome; he is a member of the Institute of Chartered Accountants of Rome and listed on the Register of Certified Auditors;
- **Corrado Gatti, statutory auditor.** Full professor of economics and business management at "La Sapienza" University of Rome. He holds the office of board member, auditor and chairman of the board of auditors of companies and entities. He is advisor on strategic, organisational and financial aspects for several private and public companies. He is a member of the Institute of Chartered Accountants of Rome, and registered in the Register of Certified Auditors and on the Register of Expert Witnesses of the Court of Rome.
- **Rosina Cichello, statutory auditor.** A graduate in economics and business studies from "La Sapienza" University of Rome. She is a member of the Institute of Chartered Accountants of Vibo Valentia and is listed on the Register of Certified Auditors. She is a tax consultant and an auditor for various private companies.
- **Lucia Di Giuseppe, alternative auditor.** A graduate in economics and business studies from "La Sapienza" University of Rome. She is a member of the Institute of Chartered Accountants of Avezzano and Marsica (AQ) and is listed on the Register of Certified Auditors and on the Register of Expert Witnesses of the Court of Avezzano. She provides administrative, commercial, tax and labour law advisory services for joint stock companies, partnerships, professionals and individual entrepreneurs.
- **Carlo Schiavone, alternative auditor.** A graduate in economics

and business studies from Rome University. He is a member of the Institute of Chartered Accountants of Rome and is listed on the Register of Certified Auditors. He has held office as statutory auditor for listed companies and important national banking groups.

The auditors have been chosen amongst people who can be qualified as independent and they must act with autonomy and independence, also as regards the shareholders that have elected them. The Independent of the auditors is assessed by Acea in accordance with the law and art. 3 of the Code.

After the appointment of an auditor who qualifies him/herself as independent, and successively at least once a year, the Board of Statutory Auditors, on the basis of the information provided by the person concerned or however available to Acea, assesses the relations that could, or which could apparently, compromise the independent judgement of said auditor.

The Board of Statutory Auditors receives from the Board of Directors, at the Board of Directors' meetings, information on the activity performed by the Board of Directors, by directly participating in the Board of Directors' meetings and by examination of the material which illustrates the items on the agenda, which it receives in advance in the same format and within the same terms as the documentation received by the Board Directors.

The Board of Statutory Auditors exercises the powers and performs the duties contemplated by the provisions in force.

The Board of Statutory Auditors, in the performance of its activity, cooperates with the Internal Audit Function prevalently by periodic meetings for the illustration of the work plan of the independent monitoring activities and of the results of the main actions carried out during the period.

The Board of Statutory Auditors also cooperates with the Control and Risks Committee, by the participation of the Chairman and/or the Auditors at the meetings.

During the period, the Board of Statutory Auditors held 18 meetings, with an average duration of 1 hour 52 minutes, regularly attended by the statutory auditors.

In 2018, at the date of this Report, the Board of Statutory Auditors has held 5 meetings, with an average duration of approximately 2 hours, one of which held jointly with the Control and Risks Committee.

14. RELATIONS WITH THE SHAREHOLDERS (as per art. 123 bis, paragraph 2, letter a), TUF)

Price-sensitive information regarding the Company is precisely and immediately disclosed to the market and to the relative Supervisory Authorities. The information in question is constantly updated and made available on the Company's Internet site at www.acea.it.

Acea's organisational structure includes an Investor Relations Department, which hierarchically reports to the Managing Director, the Manager of which is Ms Elvira Angrisani.

On the approval of the annual, six-monthly and quarterly results of the Business Plan and of the execution of possible extraordinary price sensitive transactions, the Company organises special conference calls with institutional investors and financial analysts.

Conference calls were held in 2017 with the financial community

upon the approval of the annual and interim results of the 2018-2022 Business Plan; road-shows were held in the main national and international cities (Rome, Milan, London and Paris), during which one-to-one meetings took place as well as presentations to large audiences of about 160 equity investors, buy side analysts and investors/credit analysts; the Company participated in Utility Conferences organised by the main merchant banks.

In addition, to ensure timely notification to Shareholders and Investors, corporate documents, press releases, notices and other information concerning the Group is published on the Company's Internet site (www.acea.it) within the terms laid down by the laws in force.

15. SHAREHOLDERS' MEETINGS (as per art. 123 bis, paragraph 2, letter c, TUF)

The organisational regulation for the Shareholders' meeting is contained in the Acea SpA Articles of Association which, in addition to referring to the provisions of law, dedicates Articles 10, 11, 12, 13 and 14 to the Shareholders' Meeting.

As at 31 December 2017 and to date, art. 10 sets out the methods for calling the Shareholders' Meeting, establishing, under art. 10.3, that "without prejudice to the powers of convocation contemplated by specific provisions of law, the Shareholders' Meeting, whether ordinary or extraordinary, is summoned by the Board of Directors by a notice containing indication of the day and place of the meeting and the list of matters on the agenda." Under paragraph 4 of the same article, it is also stated that the Meeting can be held elsewhere than at the registered office, providing it is held in Italy.

"The notice is published on the Company's Internet site, in the Official Journal of the Italian Republic and in the daily newspaper "Il Sole - 24 Ore" within the terms laid down by the laws in force. The meeting can be summoned also more than twice. The convocation notice can establish that the meeting will be held, on a different day, on second, third or ulterior convocation, if the quorum required by law for its constitution is not reached on the preceding convocation" (art. 10.4 of the Articles of Association).

Art. 11.1 rules that "The Ordinary Shareholders' Meeting must be held at least once a year for the approval of the financial statements within 120 days from the closure of the financial period, or within 180 days of the said closure in the case of the conditions contemplated by art. 2364 of the Civil Code".

Art. 11.2 rules that "The Extraordinary Shareholders' Meeting is held whenever it is necessary to pass a resolution reserved to the same by law".

Art. 11.3 rules that "The Shareholders' Meeting, whether ordinary or extraordinary, is also held when requested by as many Shareholders as represent the percentages contemplated by the laws in force, and the request must specify the items to be discussed, or when requested by the Board of Statutory Auditors or members of the same in the cases contemplated by law.

In addition, as many Shareholders as represent the percentages contemplated by the laws in force may request, in respect of the terms laid down by the laws in force, additions to the subjects to be discussed, indicating in the request the additional items that they propose. The convocation and the addition of items to the agenda at the request of Shareholders are not admitted on matters on which the Shareholders' Meeting is obliged by law to pass resolutions on Directors' proposals or on the basis of a project or a report prepared by the Directors".

Art. 12 of the Articles of Association expressly states that the majorities necessary for the Meeting, whether ordinary or extraordinary, and its resolutions to be quorate are those contemplated by law.

Art. 13.1 of the Articles of Association rules that "entitlement to participate in the Shareholders' Meeting and to exercise the right to vote is testified by a communication to the issuer made by the intermediary, in conformity with the accounting evidence, in favour of the subject holding the right to vote, according to the procedures and terms laid down by the laws in force" (the so-called "record date").

Art. 13.2 provides for the Shareholders entitled to participate in the Meeting to be represented pursuant and according to the procedures of law.

In addition, the same art. 13 provides that "with the exception of Roma Capitale or its subsidiaries that have become shareholders, the voting right cannot be exercised, directly or by proxy, for more than 8% of the share capital".

To this regard, it is necessary to pay attention to art. 6 of the Arti-

cles of Association, which, however, provides that: "with the exception of Roma Capitale and its subsidiaries that have become shareholders, no shareholder may hold a stake of more than 8% of the share capital. In the case of non-observance, the shareholder may not exercise the voting right on the shares in excess of that limit and resolutions adopted with the determining vote of such shares that should not bear voting rights according to this art. 6, can be challenged pursuant to and according to the procedures of art. 2377 of the Civil Code. Shares for which the voting right cannot be exercised are calculated in any case for the purpose of ascertaining that the Meeting is quorate" (art. 6.1 of the Articles of Association).

"The aforesaid limit also applies to stakes held by the group to which each shareholder belongs, i.e.:

- a group formed of natural or legal persons which, directly or indirectly, control, are controlled by or are affiliates of the shareholder;
- a group formed of subjects connected to the shareholder, even if they do not have a corporate form;
- a group formed of natural or legal persons which, directly or indirectly, explicitly or by determining behaviour, have entered into or, in any case, adhere to agreements of the type contemplated by art. 122 of Legislative Decree 58/98, if such agreements regard at least 8% of the capital with voting rights.

Control and affiliation, for the purposes of this art. 6, are considered as recurrent in the cases contemplated by art. 2359 of the Civil Code." (art. 6.2 of the Articles of Association).

According to point no. 3 of art. 6, the limit referred to in art. 6, point 1, also applies in the case of:

- "shares held by members of the shareholder's family, understood as composed of the shareholder, his/her spouse, unless they are divorced, and their cohabiting children and/or children still economically dependent on the shareholder;
- shares held by a natural or legal person through a subsidiary or a trust or by proxy;
- shares held directly or indirectly that are restricted by lien or usufruct, if the relative voting rights are held by the lien creditor or the usufructuary;
- shares subject to repurchase agreement, which will be taken into account with regard to the giver-over and the hedger."

Point 4 of art. 6 also establishes that "anyone that holds Company shares in excess of 8% of the share capital must inform the Company in writing within the twenty days following the transaction which resulted in this limit being exceeded".

Another restriction laid down under point 5 of art. 6 is that "shareholders that have not contributed to the approval of the resolutions regarding the introduction or the removal of restrictions on the circulation of the shares do not have the withdrawal right".

Art. 13.3 provides that: "To facilitate the collection of proxies from shareholding employees of the Company, its subsidiaries and affiliates and shareholders' associations, with the requisites contemplated by the relative provisions in force, specific spaces are made available for the communication and the collection of the proxies.

If a proxy is conferred electronically, according to the procedures contemplated by the regulations in force at any moment, said proxy may be communicated via the Company's Internet site according to the procedures specified in the notice of convocation".

On 3 November 2000, the Ordinary Shareholders' Meeting approved the adoption of Regulations (available on the Internet site at www.acea.it) that discipline the ordered functioning of the Shareholders' Meeting. The approved Regulations are the result of

in-depth study carried out on the texts prepared by the various Study Commissions set up by the various category associations, and in particular they are based on the results of the studies carried out by Assonime. Art. 7. 3 of the said Regulations disciplines the procedures which guarantee the shareholder's right to take the floor on the topics under discussion, and in particular:

“The request to take the floor on the single items on the agenda may be presented to the Chairman (of the Shareholders' Meeting) from the moment the Meeting is constituted until the Chairman of the Meeting declares the discussion on the item closed. In giving the floor, the Chairman of the Shareholders' Meeting normally follows the order of the presentation of the requests for the floor. Each shareholder may take the floor only once on each item on the agenda, and for no more than 10 minutes.”

The Board of Directors has reported to the Shareholders' Meeting the activity performed and programmed, thus ensuring that the shareholders are correctly informed on the elements necessary to allow them to take informed decisions on the matters of their competence. The Board of Directors considers the Shareholders' Meeting to be a particularly significant moment for its relations with the shareholders; therefore it makes all efforts, as far as falling within its competence, to encourage and facilitate the broadest participation possible of the shareholders at the Meetings.

In financial year 2017 and to date, no significant changes have taken place in the capitalisation of the Acea shares or in the composition of its corporate bodies, that could harm the prerogatives of the minority shareholders.

16. OTHER CORPORATE GOVERNANCE PRACTICES (as per art. 123 bis, paragraph 2, letter a), TUF)

The Ethics and Sustainability Committee (formerly Ethics Committee)

The Ethics Committee was established by resolution of the Board of Directors on 26 July 2001.

In December the BoD approved the Committee Regulation which attributes specific tasks on the matter of supervising matters of sustainability associated to exercising corporate activities and interaction dynamics with all the stakeholders, in accordance with the recommendations of the Self-Governance Code and consequently changed its name from Ethics Committee to Ethics and Sustainability Committee.

The Committee is a panel body having full and autonomous powers of action and control designated with providing propositional and advisory support to the Board of Directors within the context of corporate ethics and environmental, social and governance topics (ESG - *Environmental, Social and Governance*).

The composition and operation of the Committee are disciplined by specific Regulations approved by the Board of Directors.

The Committee is formed of three directors, to be precise Gabriella Chiellino (Chairman), Michaela Castelli and Giovanni Giani, who are all independent directors. Ms. Chiellino has adequate experience in environmental matters and/or corporate social responsibility, this is assessed by the Board of Directors upon appointment.

The Committee has the duty to assist the Board of Directors with investigative functions of a propositional and advisory nature, in the appraisals and decisions related to ethics and sustainability.

So as to fulfil its responsibilities, it carries out the following duties:

- a. It promotes the integration of sustainability in the strategies and culture of the company and favours its circulation among employees, shareholders, users, the territory and all the stakeholders in general;
- b. It supervises matters of sustainability, also in relation to the reporting contexts provided under Legislative Decree 254/2016, associated to exercising corporate activities and the dynamics of interaction of the latter with all the stakeholders and examines the main corporate rules and procedures proving to be of relevance upon comparison;
- c. Examine the guidelines of the Sustainability Plan and the procedures for implementing them;
- d. Monitoring the implementation of Sustainability Plan approved by the Board of Directors;
- e. Examine the no profit strategies of the company;
- f. Monitor, regarding matters of competence, the adequacy of the Code of Ethics and its effective implementation;
- g. Express, by request of the Board of Directors, opinions on other matters regarding sustainability;
- h. Report to the Board of Directors, at least on a half-yearly basis and no later than the term for approving the annual or interim financial report, about the activity carried out;
- i. Liaise with the pertinent corporate structures and bodies in relation to aspects of ethics and sustainability.

The Code of Ethics was adopted by Acea as from 2001 and the

current version was approved by the BoD of Acea SpA on 22 February 2012. A review of the text of the Code of Ethics was initiated during 2017 and is still in progress, having the objective of actualising the content thereof and strengthening content pertaining to sustainability and the elements for ensuring that its observance is efficiently monitored.

The Code of Ethics is a fundamental element in the control environment of Acea, which circulates the knowledge thereof among personnel, both upon recruitment and in cyclical training activities, also carried out in e-learning mode. Compliance with the Code is explicitly required of employees, suppliers and all those contributing in the Company's activity (advisors, collaborators, etc.).

By resolution of their Boards of Directors, the subsidiaries transposed the Acea SpA Code of Ethics, which forms an integral part of the Organisational and Management Models as per Legislative Decree 231/2001.

Among the instruments implementing the Code, Acea adopted a procedure for managing reports of presumed violations of the principles of the Code and the Organisational and Management Model (whistleblowing) which ensures confidentiality and protects the whistleblowers in good faith.

In accordance with the principles set out in the Code of Ethics, Acea has also brought about the promotion of a culture of equal opportunities and management and valorisation of diversity by means of adopting, with resolution of 10 November 2014, a Diversity Management Charter and establishing an dedicated Diversity Committee, pursuing a diversified approach to managing people which is aimed at creating an inclusive working environment capable of favouring the expression of individual potential and using it as a strategic lever for the Company's purposes. The Diversity Committee is chaired by the Chairman del BoD, who delegated such function to the Chairman of the Ethics and Sustainability Committee.

In the context of the Human Resources Development Function, the People Involvement Unit is assigned with the responsibilities of defining, in collaboration and with the support of Business and the players involved for various reasons, the guidelines and policies on the matter of People Care and Diversity & Inclusion Management and to develop initiatives aimed at valorising the differences and the unique contribution of each employee.

In addition to monitoring the effective implementation of the Code of Ethics and in order to foster the concrete application of the principles of sustainable development affirmed in the Code of Ethics, the Ethics and Sustainability Committee, carried out a survey in 2017 on the awareness on the part of the managers of the issues connected to sustainability and their reflection in decision-making and strategic processes.

The Board of Directors confirmed the allocation of an annual budget for 2018 of 25,000.00 Euros (twenty-five thousand point zero zero) for the Committee.

The Committee, in the performance of its duties, coordinates its activity with that of the Supervisory Body.

17. CHANGES SINCE THE CLOSURE OF THE FINANCIAL YEAR

The changes that have taken place after closure of the period until this day are described in the specific sections.

For the Board of Directors
The Chairman
Luca Alfredo Lanzalone

TABLES

TABLE 1: INFORMATION ON THE OWNERSHIP STRUCTURE

SHARE CAPITAL STRUCTURE				
	N° of shares	% of share capital	Listed on Borsa Italiana's online stock exchange	Rights and obligations
Ordinary shares	212,964,000	100%	100%	
Shares with restricted voting rights	-----			
Shares without voting rights	-----			

OTHER FINANCIAL INSTRUMENTS (attributing the right to subscribe newly issued shares)				
	Listed (indicate the markets) / not listed	N° of instruments in issue	Category of shares to serve conversion/exercise	N° of shares to serve conversion/exercise
Convertible bonds	-----	-----	-----	-----
Warrants	-----	-----		

RELEVANT STAKES From the Consob website as of 14 March 2018			
Declarant		% of ordinary capital	% of voting capital
ROMA CAPITALE	Roma Capitale	51%	51%
SUEZ ENVIRONNEMENT COMPANY SA	Suez Sa	10.850%	23.333%
	Suez Italia SpA	12.483%	
	Viapar Srl	0.939%	
CALTAGIRONE FRANCESCO GAETANO	Fincal SpA	2.677%	5.006%
	So.fi.cos. Srl	0.780%	
	Viafin Srl	0.610%	

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES AS AT 31/12/2017
BOARD OF DIRECTORS

Office	Members	Year of birth	Date of first appointment*	In office since	In office until	Lists (M/m)**	Exec.	Non-Exec.
Chairman	Luca Alfredo Lanzalone	1969	27/04/2017	27/04/2017	31/12/2019	M	x	
AD	Stefano Antonio Donnarumma	1967	27/04/2017	27/04/2017	31/12/2019	M	x	
Director	Michaela Castelli	1970	27/04/2017	27/04/2017	31/12/2019	M		x
Director	Gabriella Chiellino	1970	27/04/2017	27/04/2017	31/12/2019	M		x
Director	Liliana Godino	1962	27/04/2017	27/04/2017	31/12/2019	M		x
Director	Giovanni Giani	1950	coop. BoD 29/11/2011 Ass. 04/05/2012	27/04/2017	31/12/2019	m		x
Director	Alessandro Caltagirone	1969	27/04/2017	27/04/2017	31/12/2019	m		x
Director	Massimiliano Capece Minutolo Del Sasso	1968	23/04/2015	27/04/2017	31/12/2019	m		x
Director	Fabrice Rossignol	1964	27/04/2017	27/04/2017	31/12/2019	m		

No. meetings held in financial year 2017: 10

Control and Risks Committee : 5

DIRECTORS LEAVING OFFICE DURING FINANCIAL YEAR 2017

Office	Members	Year of birth	Date of first appointment*	In office since	In office until	Lists (M/m)**	Exec.	Non-Exec.
Chairman	Catia Tomasetti	1964	05/06/2014	05/06/2014	31/12/2016	M	x	
AD/DG•	Alberto Irace	1967	05/06/2014	05/06/2014 BoD 09/06/2014 (MD)	31/12/2016	M	x	
Director	Elisabetta Maggini	1982	05/06/2014	05/06/2014	31/12/2016	M		x
Director	Paola Antonia Profeta	1972	05/06/2014	05/06/2014	31/12/2016	M		x
Director	Francesco Caltagirone	1968	29/04/2010	05/06/2014	31/12/2016	m		x
Director	Giovanni Giani	1950	coop. BoD 29/11/2011 Ass. 04/05/2012	05/06/2014	31/12/2016	m		x
Director	Roberta Neri	1964	23/04/2015	23/04/2015	31/12/2016	M		x
Director	Massimiliano Capece Minutolo Del Sasso	1968	23/04/2015	23/04/2015	31/12/2016	m		x
Director	Angel Simon Grimaldos	1961	coop BoD 28/06/2016	28/06/2016	31/12/2016	m		

N. meetings held in financial year 2017: 4

Control and Risks Committee: 6

Quorum required to present lists for the election of the Board of Directors (as per art. 147-ter TUF): 1% of voting shares

NOTES

• This symbol indicates the director appointed for the Internal Control and Risks Management system.

* The date of first appointment of each director means the date that such director was appointed for the (very) first time to the BoD of Acea SpA.

** This column indicates the list from which each director was taken ("M": majority list; "m": minority list).

BOARD OF DIRECTORS					Control and Risks Committee			Appoint. and Remun. Committee		Ethics and Sustainability Committee *****	
Office	Members	Indep. as per Code	Indep. as per TUF	No. of other offices***	(1)	(2)	(1)	(2)	(1)	(2)	(1)
Chairman	Luca Alfredo Lanzalone			-----	10/10						
AD	Stefano Antonio Donnarumma			-----	10/10						
Director	Michaela Castelli	x	x	4	10/10	P	5/5			M	7/7
Director	Gabriella Chiellino	x	x	-----	10/10			M	6/6	P	7/7
Director	Liliana Godino	x	x	-----	10/10	M	5/5	P	6/6		
Director	Giovanni Giani	x	x		8/10	M	4/5	M	6/6	M	4/7
Director	Alessandro Caltagirone	x	x	6	9/10						
Director	Massimiliano Capece Minutolo Del Sasso	x	x	7	10/10	M	5/5	M	6/6		
Director	Fabrice Rossignol	x	x	-----	8/10						

Appointments and Remuneration Committee: 6

Ethics and Sustainability Committee****: 7

DIRECTORS LEAVING OFFICE DURING FINANCIAL YEAR 2017					Control and Risks Committee			Appoint. and Remun. Committee		Ethics Committee *****	
Office	Members	Indep. as per Code	Indep. as per TUF	No. of other offices***	(1)	(2)	(1)	(2)	(1)	(2)	(1)
Chairman	Catia Tomasetti			-----	4/4						
AD/DG•	Alberto Irace			-----	4/4						
Director	Elisabetta Maggini	x	x	-----	4/4	M	6/6	P	8/8	M	---
Director	Paola Antonia Profeta	x	x	1	4/4					P	---
Director	Francesco Caltagirone			6	3/4						
Director	Giovanni Giani			-----	4/4	M	5/6	M	7/8	M	---
Director	Roberta Neri	x	x	1	4/4	P	6/6	M	8/8		
Director	Massimiliano Capece Minutolo Del Sasso	x	x	6	4/4			M	8/8		
Director	Angel Simon Grimaldos			-----	2/4						

Appointments and Remuneration Committee: 8

Ethics Committee****: --

*** This column indicates the number of offices that directors or statutory auditors hold in other financial, banking or insurance companies or companies of relevant dimensions listed on regulated markets, also abroad. The offices are explained in full on the last page of the Corporate Governance Report.

(1) This column indicates the directors' participation in the meetings of, respectively, the BoD and committees.

(2) This column indicates the qualification of the Director within the Committee: "P": Chairman; "M": member.

****The Ethics Committee was renamed the Ethics and Sustainability Committee by resolution 52 of 15 December 2017.

TABLE 3: STRUCTURE OF THE BOARD OF AUDITORS AS AT 31/12/2017

BOARD OF AUDITORS
Quorum required to present lists upon the last appointment: 1% of voting share

Office	Member	Year of birth	Date of first appointment *	In office since	In office until	List (M/m)**	Independence as per Code	*** (%)	Number of other offices****
Chairman	Enrico Laghi	1969	2010	28/04/2016	31/12/2018	m	x	13/18	3
Statutory Auditor	Rosina Cichello	1967	2016	28/04/2016	31/12/2018	M	x	18/18	---
Statutory Auditor	Corrado Gatti	1974	2010	28/04/2016	31/12/2018	M	x	18/18	13
Substitute Auditor	Lucia Di Giuseppe	1966	2016	28/04/2016	31/12/2018	M	x	N.A.	N.A.
Substitute Auditor	Carlo Schiavone	1960	2016	28/04/2016	31/12/2018	m	x	N.A.	19

Number of meetings held during financial year 2017: 18

Quorum required to present lists for the election of the Board of Directors (as per art. 147-ter TUF): 1% of voting shares

NOTES

* The date of first appointment refers to the date on which the auditor was appointed for the (very) first time as a member of the issuer's Board of Auditors.

** This column indicates the list from which each auditor was taken ("M": majority list; "m": minority list).

*** This column indicates the participation of the auditors in the meetings of the Board of Auditors.

**** This column indicates the number of offices held as directors or auditors by the subjects concern, pursuant to art. 148-bis of the TUF and of the relative implementation provisions contained in the CONSOB Issuers Regulations. The full list of offices is published by CONSOB on its website in compliance with art. 144-quinquiesdecies of the CONSOB Issuers' Regulations.

**SCHEDULE 1.
COMPOSITION OF THE ACEA BOARD OF DIRECTORS AND OFFICES HELD BY THE DIRECTORS IN OTHER COMPANIES AS AT 31/12/2017**

Role	Name	Qualification	Other Offices (*)
Chairman	Luca Alfredo Lanzalone	Executive director	-----
Managing Director	Stefano Antonio Donnarumma	Executive director	-----
Director	Michaela Castelli	Independent director	Recordati SpA La Doria SpA Stefanel SpA NeXi SpA
Director	Gabriella Chiellino	Independent director	-----
Director	Liliana Godino	Independent director	-----
Director	Giovanni Giani	Independent director	-----
Director	Alessandro Caltagirone	Independent director	Aalborg Portland Holding A/S Unicredit Spa Cementir Holding Spa Caltagirone Spa Il Messaggero Spa Vianini Lavori Spa
Director	Fabrice Rossignol	Independent director	
Director	Massimiliano Capece Minutolo Del Sasso	Independent director	Ical 2 SpA Porto Torre SpA Energia SpA G.S. Immobiliare SpA Vianini SpA Immobiliare Caltagirone SpA Fincal SpA

(*) List of offices held as director or auditor by each Board Director in other companies listed on regulated markets, also abroad, in financial, banking and insurance companies or companies of relevant dimensions.

2017

FINANCIAL STATEMENTS OF ACEA SPA

ACEA GROUP CONSOLIDATED FINANCIAL STATEMENTS

ACEA SPA

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