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 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.

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 accordance 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 Tecnologies 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 modifications by ARERA. Based on the interpretation of the legal nature of the tariff component Fo.NI. (New Investments Fund) is entered among the revenues for the year the relative amount due to the Water Companies where expressly recognized by the Area Authorities which establish the intended use. The 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.
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:

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.

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 financial 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 loses. 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 lost (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.

IFRIS 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 IRFS 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 associate 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 IRFS 15, shall continue to recognise said revenue over the course of time, across the expect 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 that 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 (FVTPL). 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 obtains 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%)**
Items capable of reclassification to profit and loss account				
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%)
Items not capable of reclassification to profit and loss account				
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	288,196		416,087		(127,891)
7	Amortisations	328,911		254,247		74,664
7	Revaluations/Devaluations	63,228		33,643		29,586
27	Variation to risks fund	56,032		12,266		43,766
26	Net variations in severance packages	(2,087)		(8,683)		6,596
	Net financial debt interest	71,955		111,564		(39,609)
11	Taxes paid	(137,764)		(109,635)		(28,129)
	Cash flows generated by operative activities before variations	**668,471**		**709,487**		**(41,018)**
23	Increase in credits included in working assets	(244,119)	29,465	(56,652)	(28,621)	(187,467)
31	Increase/decrease in debts included in current liabilities	10,752	(12,944)	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	(183,395)		(248,949)		65,554
15-17	Purchase/sale of intangible fixed-assets	(330,583)		(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	(33,328)	33,246	(83,698)
	Dividends collected	9,626	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	(968)	(107,609)	(31,921)	589,223
	Debt interest paid	(98,732)		(112,273)		13,541
	Dividend payments	(136,110)	(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 conoslidation 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);
- Hyrdo 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 offsetting 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

Total € 252,976 thousand and show a total increase of € 36,186 thousand, compared to € 216.791 thousand on 31 December 2016. Examining the composition one reports the following:

€ 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 porterage 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%).

CONCESSION FEES

The total amount of € 45,741 thousand (-`€ 1,701 thousand 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.

€ 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 amortisations, devaluations and appropriations entry primarily due to:

- increase in amortisations registered by Publiacqua 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 Industrial 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
Hyrdo	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

As of 31 December 2017, net sums released due to surplus, apropriation reserves total € 60,840 thousand and are divided thusly by type:

€ 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.

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.

€ 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 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	Revertible 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:
  1. plant improvement works for Line II and line III of the San Vittorio del Lazio plant;
  2. plant improvement works primarily involving the boiler oven complex of the Terni plant;
  3. works to update and restore the Orvieto waste treatment plant;
  4. 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 determineing 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 relates 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.

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".

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 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:

1. 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,
2. for € 18,016 thousand, to the fund for risks having tax effects (€ 19,565 thousand on 31 December 2016),
3. for € 56,648 thousand, to the devaluation of credits (€ 52,445 thousand on 31 December 2016),
4. for € 14,027 thousand to set benefit plans and contributions (€ 12.778 thousand on 31 December 2016),
5. 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 Balance	Changes in 2017: 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 provided 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)	(d)		(a)-(c)	(b)-(d)	
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 recovery 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 diected 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 (incuding 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 hyrdo 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 December 2016;
- € 1,434 thousand in credits related to hyrdo 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%**

<u>Credits toward related businesses</u>

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.

<u>Crediti toward jointly-controlled businesses</u>
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 deriviatives 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 thousand 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.

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:

€ 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 reference 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.

	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 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.

Type of plan € million	+0.5%	-0.5%
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 the actual one. Sensitivity analyses were not performed for other variables such as, for example, inflation rate.

Type of plan € million	-1 year of age
Severance	-0.1
Rates Rebates	-1.8
Accrued Additional Salary Payments	+0.3

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:
  1. 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
  2. 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 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 (ARERA 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	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
Debits 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%
Debits 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 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%)
Hyrdo	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:

- **Enviroment**: 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
Debits 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 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:

€ 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 2016) and are broken down by area as follows:

€ 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.

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:

€ 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%)
Debits for solidarity contributions	4,755	4,760	(5)	(0.1%)
Debts for environmental premium, Article 10 of ATI4 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 Acque Potabili SpA as payment for transfer of the business line and € 788 thousand to the company 2i Rete Gas for acquisition of the Municipalities of Colleferro and Valmontone Business Line);
- - € 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 interet 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 Acquedotto 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 selection 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 RcVOL 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 be valuated 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 where 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 fo 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 schedule 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 fo 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, quantiifed 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 acrrued 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, belive that the € 11 million in penalties, imposed by the Conference of Mayots for alleged non-performanced 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 acquiring 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: ϑ =1.065; 2013: ϑ = 1.134; 2014: ϑ = 1.236; 2015: ϑ = 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 updated 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 by 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 €/m^3.

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 Environment 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 consist 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 Campania Region, Campania Water Entitiy, Sarnese Vesuviano Environmental Entitiy 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 management pre-existing to the assignment. In June 2006, Acea - via the vehicle Acque Blu Fiorentine 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 components 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 ($Opex_{QC}$) concerning aspects linked to adjustment to the Service quality standards, for € 0.8 million in 2016 and € 1.5 million for the period 2017-2019and 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 I 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.

	REVENUES		COSTS	
€ thousand	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	31.12.207
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, am 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 20096. 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 AATO5

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 municipalities, 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 €/m^3.
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 €/m^3.
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.

Acea 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.

Acea 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.

Acea 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 subtension indemnity (or compensation for damage incurred due to illegitimate subtension), 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 'subtension 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.

Acea 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 Autopark, 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 ATAC 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. Annulling 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 Peruzy, Maurizio Leo and Antonella Illuminati

With actions brought before the Court Employment Division, former Directors of Acea,Peruzy 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 Peruzy and Leo, the events have been defined by the stipulation, in February 208, 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 hot 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 debeatur* of the claim.

Acea SpA and *a*reti SpA – MP 31 Srl (formerly ARMOSIA MP Srl)

This is a lawsuit filed against the Injunction Decree issued by the Court of Rome – RG. 58515/14 against *a*reti 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 *a*reti (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 *a*reti. The demand made was for a total of about € 9 million. In the hearing on 17 February 2016, both Acea and *a*reti 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 *a*reti, 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 pe*titum* 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.

*a*reti SpA - GALA SpA

In November 2015, *a*reti 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 *a*reti 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, *a*reti launched enforcement of part of the guarantees given by GALA. On 12 April, GALA appealed against this enforcement with an interim petition 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 *a*reti from exercising its faculty to enforce. This decree was thereafter revoked by court order of 30 May 2017, which fully recognised the rights of *a*reti.
On 1 June 2017, given the continued serious breach, *a*reti 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 *a*reti 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 *a*reti 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 *a*reti, for payment of part of these charges: the court order was promptly challenged by *a*reti 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, *a*reti 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 *a*reti 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.
*a*reti 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

The following table shows the breakdown of financial assets and liabilities required by IFRS 7 based on the categories defined by IAS 39.

€ 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,

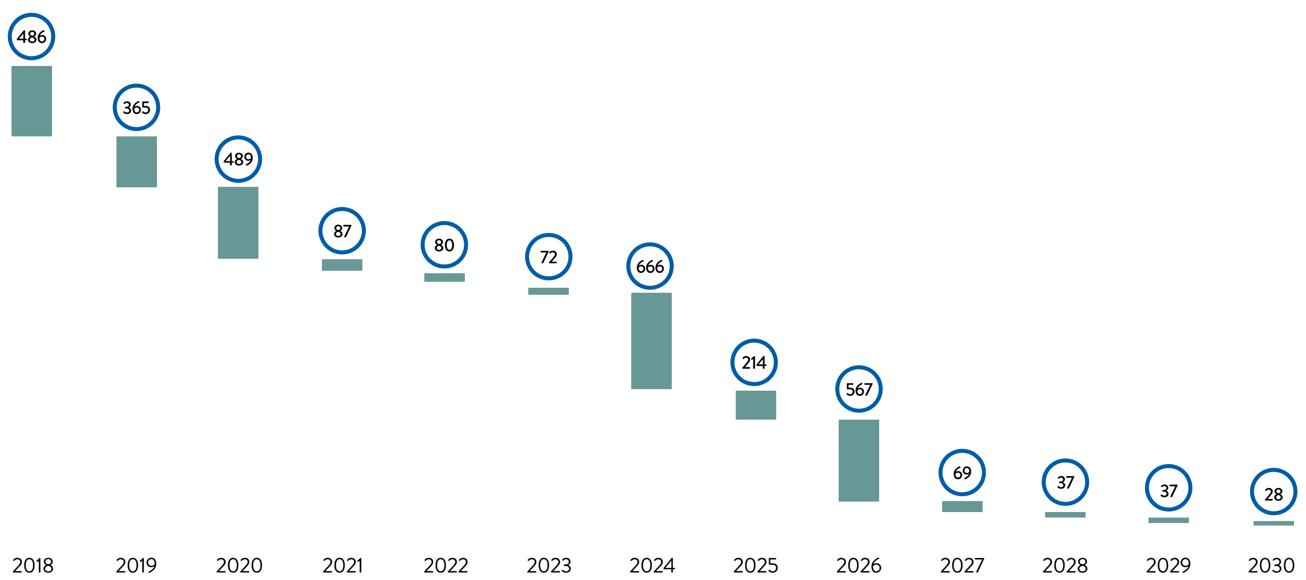
- for derivatives on individual commodities (PUN - single national price - standard base load products, Peak/Off Peak) the fair value level is 1 given they are listed on active markets,
- for complex indexes (ITRemix, PUN profiled products, ….) the fair value level is 2 given these derivatives are the 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 din 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 accordance with the specific nature of the business,
- to manage derivatives transactions solely for hedging purposes, should Acea decide to use them, in respect of the decisions of the Board of Directors and, therefore, the approved strategies and taking into account (in advance) the impact on the income statement and Statement of Financial Position of said transactions, giving preference to instruments that qualify for hedge accounting (typically cash flow hedges and, under given conditions, fair value hedges).

The Group currently uses derivative instruments to hedge interest rate risk exposure for Acea which:

- swapped 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: € thousand	Amortised cost (A)	RISK-FREE FV (B)	Delta (A)-(B)	RISK ADJUSTED FV (C)	Delta (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
Consorcio Acea-Acea Dominicana	Av. Las Americas - Esq. Masoneria - 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 2017	Profit for the year 2016	Shareholders' Equity 31/12/2017	Shareholders' Equity 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 due: Remuneration for the office	Non-monetary benefits	Bonuses and other incentives	Other compensation	Total
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:

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- 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.

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 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 actually 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 consolidate financial statements in accordance with art.154-bis of Legislative Decree 58/98

(Translation from the original Italian text)

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

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

   of the administrative and accounting procedures for preparing the consolidated financial statements at 31 December 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

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