ACEA FINANCIAL STATEMENTS

FORM AND STRUCTURE

GENERAL INFORMATION

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

COMPLIANCE WITH IAS / IFRS

The financial statements have been drafted in accordance with the *International Financial Reporting Standards* (IFRS) effective on the date of drafting the financial statements, approved by the *International Accounting Standards Board* (IASB) and adopted by the European Union, consisting of the *International Financial Reporting Standards* (IFRS), by the *International Accounting Standards* (IAS) and by the interpretations of the *International Financial Reporting Interpretations Committee* (IFRIC) and the *Standing Interpretations Committee* (SIC), collectively referred to as "IFRS" and pursuant to Art. 9 of Italian Legislative Decree 38/05.
Acea SpA adopts the international accounting standards, *International Financial Reporting Standards* (IFRS), with effect from the financial year 2006, with transition date to the IFRS at 1 January 2005. The latest financial statements drafted according to the Italian accounting standards refer to the financial year ended on 31 December, 2005.

BASES OF PRESENTATION

The Financial Statements for the year ended on 31 December, 2017 consist of the Statement of Financial Position, the Profit and Loss Account, the Statement of Comprehensive Income, the Statement of Cash Flows and the Statement of Changes in Equity - all drafted according to the provisions of IAS 1 - as well as the Explanatory and Supplementary Notes, drafted in accordance with applicable IAS / IFRS provisions.
It is specified that the Profit and Loss Account is classified based on the nature of the costs, the Balance Sheet and Financial Position based on the liquidity criterion with the subdivision of items between current and non-current, while the Cash Flow Statement is presented using the indirect method.

The financial statements for the year ended on 31 December, 2017 have been drafted in Euro and all amounts are rounded to thousands of Euro unless otherwise indicated.

ALTERNATIVE PERFORMANCE INDICATORS

On 5 October 2015, the ESMA (European Security and Markets Authority) published its guidelines (ESMA / 2015/1415) on the criteria for submitting alternative performance indicators that replace, with effect from 3 July 2016, the recommendations of CESR / 05-178b these guidelines have been incorporated into our system with CONSOB's Notice no. 0092543 of 3/12/2015. The above guidelines have been incorporated into our system by means of CONSOB's Notice no. 0092543 of 3/12/2015. Below are the contents and meaning of non-GAAP result measures and other alternative performance indicators used in these financial statements:

1. the gross operating margin (or EBITDA) represents an indicator of operating performance and includes, from 1 January 2014; the gross operating margin is calculated by adding to the Operating results the item "Depreciation, Provisions and Write-downs" as the main non-cash items;
2. the net financial position is an indicator of the financial structure and is obtained from the sum of non-current payables and financial liabilities net of non-current financial assets (financial receivables and securities other than equity investments), current financial payables and other current net current liabilities current financial assets and cash and cash equivalents;
3. net invested capital is defined as the sum of "Current assets", "Non-current assets" and Assets and Liabilities held for sale, net of "Current liabilities" and "Non-current liabilities", excluding the items considered in determining the net financial position;
4. net working capital is the sum of current receivables, inventories, the net balance of other current assets and liabilities and current payables, excluding the items considered in determining the net financial position.

USE OF ESTIMATES AND ASSUMPTIONS

Drafting of the Financial Statements, in application of the IFRS, requires the making of estimates and assumptions that affect the values of revenues, costs, assets and liabilities in the financial statements and information on potential assets and liabilities reference date. Furthermore, in making the estimates, the main sources of uncertainties that could have an impact on the valuation processes are considered. The final results may differ from these estimates. The estimates were used in the assessment of the impairment test, to determine some sales revenues, for provisions for risks and charges, the allowance for doubtful accounts and other provisions for depreciation, amortisation, valuations of derivative instruments, employee benefits. and taxes. The estimates and assumptions are reviewed periodically and the effects of each change are immediately recorded in the profit and loss account.
The estimates also took into account assumptions based on the parameters and market and regulatory information available at the time the financial statements were drafted. The current facts and circumstances that influence assumptions about future developments and events, however, may change due to, for example, changes in market developments or applicable regulations that are beyond the Company's control. These changes in assumptions are also reflected in the financial statements when they occur.
It must also be noted that some valuation processes, in particular the most complex ones such as the determination of any impairment of non-current assets, are generally carried out in full only during the drafting of the annual financial statements, except where there are indicators of impairment requiring an immediate assessment of any loss in value.

For more information on the methods in question, please refer to the following paragraphs.

EVALUATION CRITERIA AND ACCOUNTING PRINCIPLES

The most significant principles and criteria are explained below.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (and discontinued operations groups) classified as held for sale are valued at the lower of their previous carrying amount and market value less costs to sell.
Non-current assets (and disposal groups) are classified as held for sale when it is expected that their carrying amount will be recovered through a sale transaction rather than their use in the company's operations. This condition is met only when the sale is highly probable, the asset (or group of assets) is available for immediate sale in its current conditions and the Management has made a commitment to the sale, which must take place within twelve months from the date of classification in this item.

EXCHANGE RATE DIFFERENCES

The functional and presentation currency adopted by Acea SpA and by subsidiaries in Europe is the Euro (€). Transactions in foreign currencies are initially recognised at the exchange rate in force on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are reconverted into the functional currency at the exchange rate at the balance sheet date All exchange differences are recorded in the profit and loss account of the financial statements, with the exception of differences deriving from loans in foreign currency that have been entered into to hedge a net investment in a foreign company. These differences are recognised directly in equity until the net investment is disposed of and at that time any subsequent exchange rate difference is recognised in the profit and loss account. The tax effect and receivables attributable to the exchange differences deriving from this type of loan are also attributed directly to equity. Non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate in force on the date of initial recognition of the transaction. Non-monetary items recorded at fair value are converted using the exchange rate on the date of calculation of this value.
The currency used by Latin American subsidiaries is the official currency of their country. On the balance sheet date, the assets and liabilities of these companies are converted into the presentation currency adopted by Acea SpA using the exchange rate in effect on the balance sheet date, and their profit and loss account is converted using the average exchange rate for the year or the exchange rates prevailing on the date of execution of the relevant transactions. Differences in translation emerging from the different exchange rates used for the income statement with respect to the balance sheet are recorded directly in equity and are shown separately in one of its specific reserves. At the time of disposal of a foreign economic entity, the accumulated foreign exchange differences recorded in the shareholders' equity in a specific reserve will be recognised in the profit and loss account.

REVENUE RECOGNITION

Revenues are recognised to the extent that it is possible to reliably determine their value and it is probable that the relevant economic benefits will be achieved by Acea SpA and are valued at the fair value of the consideration received or receivable depending on the type of transaction. Revenues are recognised on the basis of specific criteria set out below:

Sale of goods

Revenues are recognised when the significant risks and rewards of ownership of the assets are transferred to the purchaser.

Services provided

Revenues are recorded with reference to the stage of completion of the activities on the basis of the same criteria as those for contract work in progress. In the event that the value of revenues cannot be reliably determined, the latter are recognised up to the amount of the costs incurred which are deemed to be recovered.

FINANCIAL INCOME

Income is recognised on the basis of interest accrued on the net value of the relevant financial assets using the effective interest rate (rate that exactly discounts estimated future cash flows at the net carrying amount of the asset). Interest is recorded as an increase in the financial assets shown in the financial statements.

DIVIDENDS

These are recognised when the unconditional right of shareholders is established to receive payment. These are classified in the profit and loss account under the item financial income.

CONTRIBUTIONS

Contributions obtained for investments in plants, both by public bodies and by private third parties, are recognised at fair value when there is a reasonable certainty that they will be received and that expected conditions will be met. Contributions received for specific plants whose value is recorded under fixed assets are recorded among other non-current liabilities and progressively released to the profit and loss account in constant instalments over a period equal to the useful life of the reference asset.
Operating grants (granted for the purpose of providing immediate financial assistance to the company or as compensation for expenses and losses incurred in a previous year) are recognised in full in the profit and loss account when the conditions for recognition are met.

CONSTRUCTION CONTRACTS IN PROGRESS

Construction contracts in progress are assessed on the basis of the contractual fees accrued with reasonable certainty, according to the percentage of completion criterion (the so-called cost to cost), so as to attribute the revenues and the economic result of

the contract to the individual financial years in proportion to the progress of the works. The positive or negative difference between the value of the contracts and the advances received is recorded respectively in the assets or liabilities of the balance sheet.
Contract revenues, in addition to contractual fees, include variants, price revisions and recognition of incentives to the extent that they are likely to represent actual revenues and if these can be determined reliably. Ascertained losses are recognised regardless of the progress of orders.

COSTS RELATED TO BORROWING

Costs related to the assumption of loans directly attributable to the acquisition, construction or production of assets that necessarily require a significant period of time before being ready for use or sale, are included in the cost of these assets, up until where they are ready for use or sale. The proceeds from the temporary liquidity investment obtained from the aforementioned loans are deducted from capitalised interest. All other charges of this nature are recognised in the profit and loss account when they are incurred.

EMPLOYEE BENEFITS

Benefits guaranteed to employees paid in connection with or following termination of employment through defined benefit and defined contribution plans (such as: Employee severance indemnities, additional monthly salaries, tariff concessions, as described in the notes) or other long-term benefits are recognised in the period of accrual of the right. The valuation of the liability is carried out by independent actuaries. These funds and benefits are not funded. The cost of benefits envisaged by the various plans is determined separately for each plan using the actuarial valuation method of the unit credit projection, making the actuarial valuations at the end of each year.
Profits and losses deriving from the actuarial calculation are recorded in the statement of comprehensive income, then in a specific Shareholders' equity Reserve, and are not subsequently charged to the profit and loss account.

TAXES

Income taxes for the year represent the sum of current taxes (as per tax consolidation) and deferred taxes.
Current taxes are based on the taxable results for the year. Taxable income differs from the results reported in the profit and loss 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.
The carrying amount of deferred tax assets is revised at each balance sheet date and reduced to the extent that, based on the plans approved by the Board of Directors, the existence of sufficient taxable income is not considered likely to allow all or partly the recovery of these assets.
Deferred taxes are calculated based on the tax rate that is expected to be in effect at the time the asset is realised or the liability is relieved. Deferred taxes are charged directly to the profit and loss account, with the exception of those relating to items recognised directly in equity, in which case the relevant deferred taxes are also recognised in equity.

TANGIBLE ASSETS

Tangible assets are recognised at cost, including ancillary costs directly attributable and necessary for putting the asset into service for the use for which it was purchased, net of the relevant accumulated depreciation and any accumulated impairment losses.
The cost includes the costs of the dismantling and removal of the assets and the costs of reclamation of the site on which the tangible assets stand, if they comply with the provisions of IAS 37. Assets composed of components of a significant amount with a different useful life.
Costs for improvements, tangible assets are recognized as assets when it is probable that they will increase the expected future economic benefits of the asset.
Land, whether free of construction or annexed to civil and industrial buildings, is not depreciated as it has an unlimited useful life.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset by applying the following percentage rates:

DESCRIPTION	ECONOMIC-TECHNICAL DEPRECIATION RATE	
	Min	Max
Instrumental systems and equipment	1.25%	6.67%
Non-instrumental systems and equipment	4%	
Instrumental industrial and commercial equipment	2.5%	6.67%
Non-instrumental industrial and commercial equipment	6.67%	
Other capital goods	12.50%	
Other non-capital goods	6.67%	19%
Instrumental vehicles	8.33%	
Non-instrumental vehicles	16.67%	

Systems and equipment under construction for production purposes are recorded at cost, net of write-downs for losses in value. The cost includes any professional fees and, for some assets, financial charges capitalised in accordance with the Company's accounting policies. The depreciation of these assets, as for all other assets, begins when the assets are ready for use. For some types of complex goods for which long-lasting functional tests are required, the suitability for use is attested by the positive passing of these tests.
Tangible assets are subjected annually to a recoverability analysis in order to detect any loss in value: this analysis is carried out at the level of individual tangible assets or, possibly, at the level of the cash-generating unit.
Assets held as financial leases are depreciated in relation to their estimated useful life as for assets held as property or, if lower, based on the expiry dates of leases.
Profits and losses deriving from the sale or disposal of assets are determined as the difference between the sale revenue and the net book value of the asset and are recorded in the profit and loss account for the year.

REAL ESTATE INVESTMENTS

Real estate investments, represented by properties held for rental and / or capital appreciation, are recorded at purchase cost including negotiation costs net of the relevant accumulated depreciation and any impairment losses.
Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The percentages applied are between a minimum of 1.67% and a maximum of 11.11%.
Real estate investments are eliminated from the financial statements when they are sold or when the investment property is permanently unusable and no future economic benefits are expected from its possible sale.
The sale of real estate which results in the leaseback of the assets is recorded on the basis of the substantial nature of the transaction considered as a whole. In this regard, reference is made to what has been explained regarding Leasing.
Any profit or loss deriving from the elimination of an investment property is recorded in the profit and loss account in the year in which the elimination takes place.

INTANGIBLE ASSETS

Purchases separated or deriving from business combinations

Intangible assets acquired separately are capitalised at cost, while those acquired through business combinations are capitalised at the fair value defined on the purchase date. After the first entry into the category of intangible assets, the cost criterion applies. The useful life of intangible assets can be qualified as definite or indefinite.
Intangible assets with an indefinite useful life are subjected annually to a recoverability analysis in order to detect any loss in value: this analysis is carried out at the level of the individual intangible asset or, possibly, at the level of the cash-generating unit.
The useful life is reviewed annually and any changes, where possible, are made by means of analytical tables.
Gains or losses deriving from the disposal of an intangible asset are determined as the difference between the disposal value and the carrying amount of the asset and are recorded in the profit and loss account at the time of disposal.

Costs of research and development

Research costs are charged to the profit and loss account when they are incurred. Development costs incurred in relation to a given project are capitalised when their future recovery is deemed reasonably certain. Following initial recognition of development costs, these are valued using the cost criterion that can be decreased by any accumulated depreciation or loss.
Any capitalised development costs are depreciated for the entire period in which expected future revenues will be shown in respect of the project itself. The carrying value of development costs is reviewed annually for the performance of an adequacy analysis for the purpose of detecting any impairment losses when the asset is not yet in use, or more closely when an indicator during the period exercise may raise doubts about the recoverability of the carrying amount.

Trademarks and patents

These are initially recognised at purchase cost and depreciated on a straight-line basis based on their useful life.
With regard to depreciation rates, please note that:

- development costs are depreciated over a period of five years in relation to the residual possibility of use;
- costs for intellectual property rights are amortized on the basis of a presumed period of three years.

IMPAIRMENT

At every balance sheet date, Acea SpA revises the carrying amount of its tangible, intangible and equity investments to determine whether there are indications that these assets have suffered impairment. If any indication exists, the Group estimates the recoverable amount of the asset in order to determine the impairment charge.
When it is not possible to estimate the recoverable amount of the individual asset, Acea SpA estimates the recoverable amount of the cash-generating unit to which the asset belongs.
Intangible assets with indefinite useful lives, including goodwill, are tested for impairment annually and each time there is any indication that an asset may be impaired, in order to determine the impairment charge.
The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In determining the value in use, estimated future cash flows are discounted to their current value using a pre-tax rate that reflects current market assessments of the value of money and the specific risks of the asset.

If the recoverable amount of an asset (or of a cash-generating unit) is estimated to be lower than the relative book value, it is reduced to the lower recoverable value. An impairment loss is immediately recognised in the profit and loss account, unless the asset is represented by land or buildings other than real estate investments recorded at revalued values, in which case the loss is recognised in the respective revaluation reserve.
When an impairment no longer exists, the carrying amount of the asset (or cash-generating unit), with the exception of goodwill, is increased to its new estimated recoverable amount. The reversal must not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment charge been recognised for the asset in prior periods. The reversal of an impairment charge is recognised immediately as income in the profit and loss account, unless the asset is carried at a revalued amount, in which case the reversal is recognised in the revaluation reserve.
Where an impairment charge is recognised in the income statement, it is included among amortisation, depreciation and impairment charges.

INVESTMENTS

Investments in subsidiaries and associates are recorded in the balance sheet at the adjusted cost of any impairment losses on the individual equity investments. The cost of acquisition or subscription, for those relating to contributions, corresponds to the value determined by the experts in the estimate pursuant to Article 2343 of the Italian Civil Code.
The excess of the acquisition cost compared to the share of the investee's shareholders' equity expressed at current values is recognized as goodwill. Goodwill is included in the carrying amount of the investment and is subject to impairment tests and possibly written down. Losses in value are not subsequently restored if the reasons for such devaluation cease to exist.
Losses on equity investments relating to the amount exceeding the amount of shareholders' equity are classified in the provision for risks and charges even if there is a credit exposure and until the eventual formal waiver of the receivable. Charges for settlement of equity investments are recognised through the valuation of the investments themselves regardless of the allocation of charges in the financial statements of investee companies.
Investments in other companies, constituting non-current financial assets and not destined for trading activities, are measured at fair value if they can be determined: in this case, gains and losses deriving from the fair value measurement are booked directly to equity until the moment of the sale when all the accumulated profits and losses are charged to the profit and loss account for the period.
Investments in other companies for which fair value is not available are recorded at cost, written down for any permanent losses in value. Dividends are recognised in the profit and loss account when the right to receive payment is established only if they derive from the distribution of profits subsequent to the acquisition of the investee company. If, however, they derive from the distribution of reserves of the investee prior to the acquisition, these dividends are recorded as a reduction in the cost of the investment itself.

TREASURY SHARES

The purchase cost of treasury shares is recognised as a decrease in equity. The effects of any subsequent transactions on these shares are also recognised directly in equity.

FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised when Acea SpA becomes part of the instrument's contractual clauses.

Trade receivables and other activities

Trade receivables, whose expiry falls within normal commercial terms, are recorded at their nominal value reduced by an appropriate write-down to reflect the estimate of the loss on receivables.
The estimate of amounts deemed uncollectable is made when it is considered probable that the company will not be able to recover the entire amount of the loan.
Receivables from customers refer to the amount invoiced which, as at the date of this document, is still to be collected as well as the portion of receivables for revenues for the period relating to invoices to be issued subsequently.

Financial assets related to agreements for services under concession

With reference to the application of IFRIC 12 to the public lighting service concession, Acea has adopted the Financial Asset Model, recognising a financial asset to the extent that it has an unconditional contractual right to receive cash flows.

Financial assets

Financial assets are recognised and reversed from the financial statements on the basis of the trading date and are initially valued at cost including charges directly connected with the acquisition.
At the subsequent balance sheet dates, the financial assets that the Group intends and has the ability to hold until maturity **(financial assets held to maturity)** are recorded at depreciated cost using the effective interest rate method, net of write-downs. made to reflect losses in value.
Financial assets other than those held to maturity are classified as held for trading or available for sale, and are valued at fair value at the end of each period.
When financial assets are **held for trading**, gains and losses deriving from changes in fair value are recognized in the profit and loss account for the period. For **available-for-sale** financial assets, the gains and losses deriving from changes in fair value are recognised directly in a separate item of equity until they are sold or impaired; at that time, the total gains or losses previously recognised in equity are charged to the profit and loss account for the period. The total loss amount must be equal to the difference between the acquisition cost and the current fair value.
In the case of securities widely traded on regulated markets (assets), the fair value is determined with reference to the stock market price listing bid price) at the end of trading on the closing date of the financial year. For investments for which a market price is not available, the fair value is determined based on the current market value of another substantially equal financial instrument or is calculated based on the expected future cash flows of the net assets underlying the investment.
Purchases and sales of financial assets, which involve delivery within a period of time generally defined by the regulations and conventions of the market in which the exchange takes place, are recorded on the trading date, i.e. on the date on which the Group has assumed the commitment to purchase / sell these assets.

The initial recognition of non-derivative financial assets, not listed on active markets and having fixed or determinable payment flows, is carried at fair value.
Subsequent to initial recognition they are valued at depreciated cost based on the effective interest rate method.
At each balance sheet date, the Group checks whether a financial asset or group of financial assets has suffered an impairment. A financial asset or group of financial assets is considered to be subject to impairment if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition and which have a impact on the estimated reliable future cash flows. The evidence of impairment derives from the presence of indicators such as financial difficulties, the inability to meet obligations, insolvency in the payment of important payments, the probability that the debtor fails or is subject to another form of reorganisation and the presence of objective data that indicates a measurable decrease in estimated future cash flows.

Cash and cash equivalents

This item includes cash and bank current accounts and deposits repayable on demand and other highly liquid short-term financial investments, which are readily convertible into cash and are subject to a non-significant risk of changes in value.

Financial liabilities

Financial liabilities are measured using the depreciated cost criterion. In particular, the costs incurred for the acquisition of loans (transaction costs) and any issue premium and discount are

directly adjusted by the nominal value of the loan. Consequently, net financial charges are restated on the basis of the effective interest rate method.

Financial derivative instruments

Derivative instruments are initially recognised at cost and adjusted to the fair value on subsequent closing dates. They are designated as hedging instruments if a relationship between the derivative and the subject of the formally documented hedge exists and the effectiveness of the hedge, verified periodically, is high.
When hedging derivatives cover the risk of changes in fair value being hedged (fair value hedge), derivatives are measured at fair value and the relevant effects recorded in the profit and loss account; the adjustment to fair value of the assets or liabilities subject to hedge accounting is also consistently recorded in the profit and loss account.
When hedged is the risk of changes in the cash flows of hedged items (Cash Flow Hedge), the changes in fair value for the party qualified as effective are recognised in equity, while the ineffective portion is recognised directly in the profit and loss account.

Trade payables

Trade payables, whose expiry falls within normal commercial terms, are recognised at their nominal value.

Elimination of financial instruments

Financial assets are eliminated from the financial statements when Acea SpA loses all the risks and the right to the perception of the cash flows connected to the financial activities.
A financial liability (or part of a financial liability) is eliminated from the balance sheet when, and only when, it is extinguished, or in other words, when the obligation specified in the contract is fulfilled or cancelled or has expired.
If a previously issued debt instrument is repurchased, the debt is extinguished, even if it is intended to resell it in the near future. The difference between the carrying amount and the payment paid is recorded in the profit and loss account.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are made when Acea has to meet a current obligation (legal or implicit) deriving from a past event, where it is probable that an outlay of resources will be required to satisfy the obligation and a reliable estimate can be made on the amount of the obligation.
The provisions are allocated based on the Management's best estimate for the costs required to fulfill the obligation at the balance sheet date, and if the effect is significant.
When the financial effect of time is significant and the payment dates of the obligations can be reliably estimated, the provision is determined by discounting the expected future cash flows at the average rate of the company's debt taking into account the risks associated with the obligation; the increase in the provision associated with the passage of time is recognised in the profit and loss account under the item "Financial income/(charges)".

ACCOUNTING STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS APPLIED FROM 1 JANUARY 2017

From 1 January 2017, the following documents, previously issued by the IASB and endorsed by the European Union, which bring amendments to the international accounting standards, have entered into force:

IAS 7: CASH FLOW STATEMENT

Document issued by the IASB on 29 January, 2016. The amendments to IAS 7 Cash Flow Statement require entities to provide information on changes in their financial liabilities, in order to allow users to better assess the reasons underlying the changes in the entity's indebtedness including both changes related to cash flows. as well as non-monetary changes. At the time of the initial application of this modification, the entity must not submit the comparative information relating to previous periods. The application of changes will require the Group to provide additional information.

IAS 12: INCOME TAX

On 19 January 2016, the IASB published the aforementioned Amendments which aims to provide clarifications on the methods for recogniSing deferred tax assets relating to debt instruments measured at fair value. These amendments clarify the requirements for the recognition of deferred tax assets with reference to unrealiSed losses, in order to eliminate differences in accounting practices.

IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (2014-2016 CYCLE)

On 8 December 2016, the IASB published the document "*Annual Improvements to IFRSs: 2014-2016 Cycle*".
The amendments concern a draft project issued on 19 November 2015 (see IFRB 2015/10).

The document introduces, among other things, amendments to **IFRS 12 *Disclosure of Interests in Other Entities***: the amendment establishes that disclosure requirements required for investments in other entities are to be stated even if they are classified as held for sale.
Changes will be applied retrospectively, starting from the financial years beginning on or after 1 January, 2017.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE AFTER THE END OF THE FINANCIAL YEAR AND NOT ADOPTED EARLY

IFRS 9 FINANCIAL INSTRUMENTS

On 25 July 2014, the IASB published IFRS 9 Financial Instruments including the part on the classification and measurement of financial instruments, the impairment model and hedge accounting.
IFRS 9 rewrites the accounting rules of IAS 39 with reference to the recognition and measurement of financial instruments, including hedging transactions.
The principle provides for the following three categories for the classification of financial assets:

- financial assets measured at amortised cost ("amortised cost");
- financial assets measured at fair value through profit or loss ("FVTPL" - "Fair value through profit and loss");
- financial assets measured at fair value recorded in the other components of the comprehensive income statement ("FVOCI" - "fair value through other comprehensive income").

With reference to this classification, the following additional provisions are noted:

- instruments representing capital held without trading purposes ("non-trading equity instruments"), which must be classified in the FVTPL category, may be classified on the basis of an irrevocable decision of the entity drafting the financial statements in the FVOCI category. In this case, changes in fair value (including exchange differences) will be recognised in the OCI and will never be reclassified to profit / (loss) for the year;
- if the financial assets classified under the "amortised cost" or "FVOCI" category create an "accounting mismatch", the entity that drafts the financial statements may irrevocably decide to use the "fair value option" classifying these financial assets under the "FVTPL" category;
- with reference to debt securities ("debt instruments") classified in the FVOCI category, it must be noted that interest income, expected credit losses (losses) and exchange differences must be recorded in the profit / (loss) year. In OCI, the other effects deriving from fair value measurement will be recorded, which will be reclassified to profit / (loss) for the year only in the event of "derecognition" of the financial asset.

With regard to financial liabilities, the standard proposes the classification already envisaged in IAS 39 but introduces an important change with regard to financial liabilities classified under the "FVTPL" category, since the portion of the change in fair value attributable to one's own credit risk ("Own credit risk") must be recorded in the ITU instead of the profit / (loss) for the year as currently envisaged by IAS 39. With IFRS 9, therefore, an entity that sees its credit risk worsen, even if it has to reduce the value of its liabilities measured at fair value, must not reflect the effect of this reduction in the profit / (loss) of the year but in the Other Comprehensive Income.
IFRS 9 introduces a new impairment model based on expected losses. The entity must immediately recognise, regardless of the presence or absence of a "trigger event", expected future losses on its financial assets, and must continuously adjust the estimate, also in consideration of changes in the counterparty's credit risk, based not only on past and present facts and data, but also giving the right relevance to future forecasts. The estimate of future losses must initially be made with reference to expected losses over the next 12 months, and subsequently, with reference to total losses in the life of the loan Expected losses in the next 12 months are the portion of losses that would be incurred in the event of a counterparty default event within 12 months of reporting dates, and are given by the product between the maximum loss and the probability that a default event will occur.
The total losses during the life of the financial asset are the present value of the average future losses multiplied by the probability that a default event occurs in the life of the financial asset.
IFRS 9 introduces a model of hedge accounting aimed at reflecting in the balance sheet risk management activities carried out by the companies, focusing on the fact that if a risk element can be identified and measured, regardless of the type of risk and / or object, the instrument put in place to "hedge" such risks may be denominated in hedge accounting, with the simple limit that such risk may impact the profit and loss account or other components of the comprehensive income statement (OCI).
In addition, the standard makes it possible to use information produced internally within the company as a basis for hedge accounting, without having to demonstrate compliance with complex criteria and metrics created exclusively for accounting purposes. The main changes concern:

- effectiveness test: the 80-125% threshold is abolished and replaced by an objective test that verifies the economic relationship between the hedged instrument and the hedging instrument (for example, if there is a loss on the first there must be a profit on the second);
- hedged items: not just financial assets and liabilities but each element or group of elements provided the risk is separately identifiable and measurable;
- hedging cost: the time value of an option, the forward points, the spread on a currency can be excluded from hedge accounting and immediately recognised as the cost of the hedge and therefore all mark to market fluctuations can then be temporarily recorded in the other components of the comprehensive income statement (OCI);
- disclosure: more comprehensive descriptive information is provided on the risks covered and on the instruments used, and the current disclosure is based on the distinction between cash flow hedge and fair value hedge instruments, accounting terminologies that often confuse investors, which are clearly more interested in risks and how they are covered compared to the accounting categories of the same instruments.

The new standard will apply from 1 January 2018 and early application is permitted.

Acea has undertaken an analysis for an assessment of the impact deriving from the application of IFRS9. Based on the results of this work, Acea did not report significant expected impacts due to the adoption of the new standard.

IFRS 15 REVENUES FROM CONTRACTS WITH CUSTOMERS

On 29 May 2014, IASB and FASB jointly published - after a study and consultation activity lasting more than a decade - the new provisions for the accounting of revenues. The new standard will replace, in 2017, IAS 18 (Revenues) and IAS 11 (Contract work).
The steps considered fundamental for the accounting of revenues are:

- to identify the contract, defined as an agreement (written or verbal) having commercial substance between two or more parties that creates rights and obligations with the customer legally protected;
- to identify the (clearly identifiable) obligations contained in the contract;
- to determine the price of the transaction, as consideration that the company expects to receive from the transfer of goods or from the provision of services to the customer, consistently with the techniques envisaged by the Standard and according to the possible presence of financial components;
- to allocate the price to each "performance obligation";
- to note the revenue when the obligation is settled, taking into consideration the fact that the services could be rendered not at a specific time, but also over a period of time.

The principle must not make particular differences in the accounting of the most common transactions considered. Greater differences in the timing of the survey and in the quantitative determination must be found in medium-long term service contracts and in agreements containing several bonds, on which the operators had highlighted the main critical issues of the current discipline. The disclosure on revenues must be improved by means of a broader qualitative and quantitative disclosure so as to allow stakeholders to obtain a clear understanding of the content and elements relevant for determining revenues.
The standard applies from 1 January 2018 but early application is permitted.
In April 2016, the IASB published some clarifications mainly consisting of:

- identifying a performance obligation (the promise to transfer a good or service to a customer) in a contract;
- in determining whether a company is the client (the supplier of a good or service) or an agent (responsible for the organisation of the good or service to be provided); and
- in determining whether the revenue deriving from the asset under concession must be recognised at any given moment or during the entire duration of the concession.

In addition to clarification, the changes include two additional findings to reduce costs and complexity for a company when it first applied the new standard.
Also for clarifications the first application will take place starting from 1 January 2018 but early application is permitted.

Acea has undertaken an analysis for an assessment of the impact deriving from the application of IFRS15. Based on the results of this work, Acea did not report significant expected impacts due to the adoption of the new standard.

IFRS 16 LEASES

Issued in January 2016, replaces the previous leasing standard, IAS 17 and related interpretations, identifies the criteria for the recognition, measurement and presentation as well as the information to be provided with reference to the leasing contracts for both parties, the lessor and the lessee. IFRS 16 marks the end of the distinction in terms of classification and accounting treatment, between operating leases (whose information is off-balance sheet) and financial leasing (which is shown in the financial statements). The right of use of the leased asset (so-called "right of use") and the commitment assumed will emerge in the financial data in the financial statements (IFRS 16 will apply to all transactions involving a right of use, regardless of the contractual form, i.e.leasing, rent or rental). The main novelty is represented by the introduction of the concept of control within the definition. In particular, in order to determine whether a contract represents a lease or not, IFRS 16 requires verification of whether the lessee has the right to control the use of a given asset for a certain period of time.
There will be no accounting metering with tenants: the accounting treatment will continue to be different depending on whether it is an operating lease or a finance lease contract (based on the existing guidelines) Based on this new model, the lessee must recognise:
a) in the Balance Sheet, assets and liabilities for all lease contracts with a term of more than 12 months, unless the underlying asset is of modest value; and
b) in the profit and loss account, the depreciation of assets relating to leases separately from interest relating to related liabilities.
On the lessor's side, the new standard must have a minor impact on the financial statements (unless the so-called "sub-leases" are implemented) as the current accounting will not change, except for the financial disclosure that must be quantitatively and qualitatively higher than the previous one. The standard, which ended its endorsement process in October 2017, applies from 1 January 2019, however early application is permitted if IFRS 15 - Revenue from contracts with customers is also adopted.

"AMENDMENTS TO IFRS 2: CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS"

The document issued in June 2016:

- clarifies that the fair value of a payment transaction based on cash settled at the valuation date (i.e. on the grant date, at the end of each accounting period and on the adjustment date) must be calculated taking into consideration market conditions (for example: a target price of shares) and conditions other than maturation, ignoring the conditions for remaining in service and the conditions for achieving results other from those of the market;
- clarifies that share-based payments with the liquidation feature net of withholding tax must be classified entirely as transactions settled with shares (provided that they would have been classified as such even without the characteristic of payment net of withholding tax);
- provides forecasts on the accounting treatment of changes to the terms and conditions that determine the change in classification from payments based on cash-settled actions to payments based on shares governed by the issue of shares.

Amendments will be applicable, subject to approval, from the financial years beginning on or after 1 January, 2018. The Group does not envisage any impact deriving from the future application of the new provisions.

"IFRIC 22 - FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION"

The interpretation, issued by the IASB in December 2016, provides clarifications for the purposes of determining the exchange rate to be used in the initial recognition of an asset, costs or revenues (or part of them), the date of the transaction is that in which the company records any non-monetary assets (liabilities) due to advances

paid (received). Amendments will be applicable, subject to approval, from the financial years beginning on or after 1 January, 2018.

"AMENDMENTS TO IAS 40 - TRANSFERS OF INVESTMENT PROPERTY"

The document, issued in December 2016, clarifies that transfers to or from real estate investments must be justified by a change in use supported by evidence; the simple change of intention is not sufficient to support this transfer. Changes have expanded the examples of change of use to include the activities under construction and development and not just the transfer of completed properties. Amendments will be applicable, subject to approval, from the financial years beginning on or after 1 January, 2018.

"IFRIC 23 – UNCERTAINTY OVER INCOME TAX TREATMENTS"

The interpretation provides clarifications on the recognition and measurement of IAS 12 - Income Taxes regarding the accounting treatment of income tax in the event of regulatory uncertainty, also aiming at improving transparency. IFRIC 23 does not apply to taxes and duties that do not fall under the scope of IAS 12 and will be effective starting from the financial years with effect on 1 January 2019 but early application is permitted.

IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (2014-2016 CYCLE)

On 8 December 2016, the IASB published the document "*Annual Improvements to IFRSs: 2014-2016 Cycle*".
The document introduces changes to the following principles:

- **IFRS 1 First – *time Adoption of International Financial Reporting Standards***: the amendment eliminates the limited exemption envisaged for the transition of new users to IFRS 7, IAS 19 and IAS 10. These transition provisions were available for past reporting periods and therefore no longer apply.
- **IAS 28 *Investments in Associates and Joint Ventures***: the change allows companies with share capital, mutual funds, trust units and similar entities to choose to enter their investments in associates or joint ventures, classifying them as fair value through profit or loss (FVTPL). The Board clarified that such assessments must be made separately for each shareholder or joint venture at the time of initial enrollment.

These changes must be applied retrospectively for annual periods beginning on or after 1 January 2018. Early application is allowed.

IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (2015-2017 CYCLE)

On 12 December 2017, the IASB published the document "Annual Improvements to IFRSs: 2015-2017 Cycle".
The document introduces changes to the following principles:

- **IFRS 3 - *Business Combinations***: The IASB added paragraph 42A to IFRS 3 to clarify that when an entity obtains control of an asset that is a joint operation, it must recalculate the value of that asset, since such transaction would be considered as a business combination achieved in stages and therefore to be counted on this basis;
- **IFRS 11 - *Joint Arrangements***: In addition, paragraph B33CA was added to IFRS 11 to clarify that if a party participates in a joint operation but does not have joint control, and subsequently obtains joint control over the joint operation (which constitutes an asset as defined in IFRS 3), it is not required to restate the value of this asset.
- **IAS 12 - *Income Taxes***: This amendment clarifies that the tax effects of income taxes arising from the distribution of profits (ie dividends), including payments on financial instruments classified as equity, must be recognised when a liability for payment of a dividend is recognised. The consequences of income taxes must be recognised in the profit and loss account, in the comprehensive income statement or in the shareholders' equity in consideration of the nature of the transactions or the past events that generated the distributable profits or as they were initially recognised.
- **IAS 23 - *Borrowing Costs***: The amendment clarifies that in calculating the capitalisation rate for loans, an entity must exclude the financial charges applicable to loans made specifically to obtain an asset, only until the asset is ready and available for its intended use or the sale. Financial charges related to specific loans that remain after the asset is ready for intended use or for sale must subsequently be considered as part of the entity's overheads of borrowing.

These changes must be applied retrospectively for annual periods beginning on or after 1 January 2019. Early application is allowed.

INCOME STATEMENT

Ref. Note	PROFIT AND LOSS ACCOUNT	2017	Related Parties	2016	Related Parties	Change
1	Income from sales and services	164,402,779	164,163,693	172,761,892	168,903,126	(8,359,113)
2	Other income	16,534,450	6,762,904	11,724,726	8,110,638	4,809,724
	Net revenue	**180,937,229**	**170,926,597**	**184,486,618**	**177,013,764**	**(3,549,389)**
3	Work costs	49,676,289		47,232,084		2,444,205
4	External operating costs	149,275,568	82,773,463	143,850,505	87,038,435	5,425,063
	Operating costs	**198,951,857**	**82,773,463**	**191,082,589**	**87,038,435**	**7,869,268**
	EBITDA	**(18,014,628)**	**88,153,133**	**(6,595,971)**	**89,975,330**	**(11,418,657)**
5	Depreciation, provisions and write-downs	20,741,412	0	24,565,384	0	(3,823,973)
	Operating profit	**(38,756,040)**	**88,153,133**	**(31,161,355)**	**89,975,330**	**(7,594,684)**
6	Financial income	114,362,960	113,204,564	89,784,351	87,324,953	24,578,609
7	Financial expenses	64,810,466	218,385	102,829,838	182,810	(38,019,372)
8	Income from shares held	219,012,875	219,012,875	146,246,661	146,246,661	72,766,214
9	Expenses from shares held	0	0	408,097	408,097	(408,097)
	Earnings before taxes	**229,809,330**	**420,152,187**	**101,631,722**	**322,956,036**	**128,177,608**
10	Income tax	3,230,018	75,508,785	(6,978,398)	110,680,427	10,208,416
	Net result of negotiating activities	**226,579,312**	**344,643,402**	**108,610,120**	**212,275,610**	**117,969,192**
	Risultato Netto	**226,579,312**	**344,643,402**	**108,610,120**	**212,275,610**	**117,969,192**

Figures in Euro

STATEMENT OF COMPREHENSIVE INCOME

COMPREHENSIVE INCOME	2017	2016	Change
Net Result	**226,579**	**108,610**	**117,969**
Reclassifiable components in the income statement			
Provision for exchange rate difference	14,800	(10,051)	24,851
Tax on exchange rate difference	(3,552)	2,412	(5,964)
Gains/losses from exchange rate difference	**11,248**	**(7,639)**	**18,887**
Effective portion of the profit/(loss) on hedging instruments ("cash flow hedge")	(11,734)	9,916	(21,650)
Tax effect on the other profit/(loss) on hedging instruments ("cash flow hedge")	2,816	(2,380)	5,196
Actuarial profit/(loss) deriving from the effective part of the hedging instruments net of the tax effect	**(8,918)**	**7,536**	**(16,454)**
Non-reclassifiable components in the income statement			
Actuarial gains / (losses) on employee benefits recorded in equity	815	(1,466)	2,281
Tax effect on the other actuarial profit/(loss) on staff benefit plans	273	378	(105)
Actuarial profit/(loss) on defined benefit pension plans net of tax	**1,088**	**(1,088)**	**2,176**
Total of the comprehensive income components, net of tax	**3,418**	**(1,191)**	**4,609**
Total comprehensive income/(loss)	**229,997**	**107,420**	**122,578**

Amounts in €/thousand

STATEMENT OF FINANCIAL POSITION

Ref. Note	ASSETS	31 December, 2017	Related Parties	31/12/2016	Related Parties	Change
11	Property, plant and equipment	95,852,276	0	93,301,175	0	2,551,100
12	Investment property	2,547,404	0	2,605,762	0	(58,358)
13	Other intangible fixed assets	11,623,698	0	13,138,131	0	(1,514,433)
14	Investments in subsidiaries and affiliate companies	1,784,245,718	0	1,781,227,062	0	3,018,657
15	Other equity investments	2,352,061	0	2,350,061	0	2,000
16	Deferred tax assets	32,479,386	0	28,368,892	0	4,110,494
17	Net financial position	237,975,029	237,849,529	237,624,785	237,499,285	350,245
18	Other non-current assets	560	0	505,744	0	(505,184)
	NON-CURRENT FIXED ASSETS	**2,167,076,133**	**237,849,529**	**2,159,121,611**	**237,499,285**	**7,954,522**
19.a	Works in progress on request	0	0	270,461	0	(270,461)
19.b	Trade receivables	953,897	526,640	4,517,468	826,051	(3,563,571)
19.c	Intercompany trade receivables	98,771,878	98,771,878	57,496,399	57,496,399	41,275,479
19.d	Other Current Assets	14,317,846	1,942,792	25,377,834	2,344,743	(11,059,989)
19.e	Current financial assets	105,647,961	0	5,617,294	0	100,030,668
19 (f)	Infra-group current financial assets	1.918.406.576	1.918.406.576	1.499.970.797	1.499.970.797	418,435,779
19.g	Other non-current assets	45,777,097	4,288,048	77,372,271	36,052,908	(31,595,174)
19.h	Cash and cash equivalents	527,422,879	0	577,333,987	0	(49,911,108)
19	**CURRENT ASSETS**	**2,711,298,133**	**2,023,935,935**	**2,247,956,510**	**1,596,690,898**	**463,341,623**
	TOTAL ASSETS	4,878,374,266	2,261,785,464	4,407,078,122	1,834,190,182	471,296,144

Figures in Euro

Ref. Note	LIABILITIES	31 December, 2017	Related Parties	31/12/2016	Related Parties	Change
	Shareholders' equity					
20.a	Share capital	1,098,898,884	0	1,098,898,884	0	0
20.b	Legal reserve	100,618,656	0	95,188,150	0	5,430,506
20.c	Treasury shares reserve	0	0	0	0	0
20.d	Other reserves	72,756,998	0	69,100,401	0	3,656,597
	Profit (loss) of previous years	56,107,204	0	84,707,292	0	(28,600,088)
	Profit (loss) for the year	226,579,312	0	108,610,120	0	117,969,192
20	**SHAREHOLDERS' EQUITY**	**1,554,961,053**	**0**	**1,456,504,846**	**0**	**98,456,206**
21	Severance pay benefits and other defined benefit plans	24,463,827	0	26,443,781	0	(1,979,954)
22	Provisions for risks and charges	14,984,287	0	37,002,454	0	(22,018,167)
23	Financial debts and liabilities	2,482,564,141	0	2,516,727,243	0	(34,163,102)
24	Other payables	0	0	0	0	0
25	Provision for deferred taxes	8,856,367	0	4,796,132	0	4,060,234
	NON-CURRENT LIABILITIES	**2,530,868,622**	**0**	**2,584,969,611**	**0**	**(54,100,989)**
26.a	Financial payables	542,975,181	28,428,777	105,192,198	81,507,899	437,782,983
26.b	Trade payables	191,783,800	99,017,161	206,553,391	97,497,909	(14,769,591)
26.c	Tax payables	35,447,666	24,621,448	36,543,734	9,129,171	(1,096,068)
26.d	Other current liabilities	22,337,944	23,902	17,314,341	0	5,023,603
26	**CURRENT LIABILITIES**	**792,544,591**	**152,091,287**	**365,603,664**	**188,134,979**	**426,940,927**
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,878,374,266	152,091,287	4,407,078,122	188,134,979	471,296,144

Figures in Euro

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2016

€ thousand	Share capital	Legal reserve	Demerged capital gains reserve	Reserve for exchange differences	Valuation reserve for financial instruments	Reserve for actuarial gains and losses	Other Miscellaneous reserves	Profits (losses) accumulated	Profit (loss) or the year	Total net assets
Balance as at 1 January 2016	**1,098,899**	**87,908**	**102,567**	**9,548**	**(32,903)**	**(9,781)**	**2,791**	**52,656**	**145,606**	**1,457,291**
Allocation of 2015 profits:										
Distribution of balance, dividends									(106,274)	(106,274)
Legal reserve		7,280							(7,280)	0
Profits carried forward / to cover losses								32,051	(32,051)	0
Other changes							(1,932)			(1,932)
Net income / (loss) recorded during the year:										
Profits and losses recognised directly in equity				(7,639)	7,536	(1,088)				(1,191)
Distribution of advances on dividends										0
Profits of the year									108,610	108,610
Total at 31 December 2016	**1,098,899**	**95,188**	**102,567**	**1,909**	**(25,367)**	**(10,868)**	**860**	**84,707**	**108,610**	**1,456,505**

Amounts in thousands of Euro

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2017

€ thousand	Share capital	Legal reserve	Demerged capital gains reserve	Reserve for exchange differences	Valuation reserve for financial instruments	Reserve for actuarial gains and losses	Other Miscellaneous reserves	Profits (losses) accumulated	Profit (loss) for the year	Total net assets
Balance as at 1 January 2017	**1,098,899**	**95,188**	**102,567**	**1,909**	**(25,367)**	**(10,868)**	**860**	**84,707**	**108,610**	**1,456,505**
Allocation of 2016 profits:										
Distribution of balance, dividends								(28,694)	(103,086)	(131,780)
Legal reserve		5,431							(5,431)	0
Profits carried forward / to cover losses								93,879	(93,879)	0
Other changes							239			239
Net income / (loss) recorded during the year:										
Profits and losses recognised directly in equity				11,248	(8,918)	1,088				3,418
Distribution of advances on dividends										0
Profits of the year									226,579	226,579
Balance as at 31 December 2017	**1,098,899**	**100,619**	**102,567**	**13,157**	**(34,285)**	**(9,780)**	**1,098**	**56,107**	**226,579**	**1,554,961**

Amounts in thousands of Euro

STATEMENT OF CASH FLOW

Ref. Note		31/12/2017	Related Parties	31/12/2016	Related Parties	Change
	Cash flow for operating activities					
	Profit before tax	229,809		101,632		128,178
5	Depreciation	24,142		16,163		7,979
5	Write-ups / write-downs	(213,484)		(141,868)		(71,616)
22	Changes in the risk provision	(22,018)		(5,784)		(16,234)
21	Net changes in severance pay (TFR)	(1,226)		(5,049)		3,823
8	Realised capital gains	268		0		268
6-7	Net financial interest expense	(49,552)		13,045		(62,598)
	Taxes paid	0		0		0
	Financial flows generated by operating activities before changes	**(32,061)**	**0**	**(21,861)**	**0**	**(10,200)**
19.b-19.c	(Increase) / Decrease in receivables included in current assets	(43,241)	(40,976)	37,012	41,523	(80,253)
26.b	Increase / (Decrease) of payables included in the current liabilities	(14,770)	1,519	50,867	46,780	(65,636)
19.a	Increase / (decrease) of stocks	270		0		270
	Changes in the net working capital	**(57,740)**	**(39,457)**	**87,879**	**88,303**	**(145,619)**
	Change in other operating assets / liabilities	**43,808**	**31,789**	**(42,482)**	**(11,444)**	**86,290**
	TOTAL MONETARY FLOW OF ASSETS FOR THE PERIOD	**(45,994)**	**(7,668)**	**23,536**	**76,859**	**(69,530)**
	Cash flow from investing activities					
11-13	Purchase / sale of tangible and intangible assets	(25,120)		42,299		(67,419)
14-15	Investments	(2,782)		(13,848)		11,066
26.a	Collections / payments deriving from other financial investments	(427,874)	(418,786)	(308,532)	(419,912)	(119,342)
	Collected dividends	231,810	231,810	128,310	128,310	103,501
	Interest income received	25,145	(103,892)	11,985	(93,233)	13,160
	TOTAL	**(198,820)**	**(290,868)**	**(139,787)**	**(384,835)**	**(59,034)**
	Cash flow from financing activities					
23	Repayment of loans and long-term financial debts	391,948		590,257		(198,310)
26.a	Provision of mortgages / other debts and medium to long term	(450,000)		(500,000)		50,000
26.a	Decrease / increase in other short-term financial debts	437,726	(53,079)	27,561	27,693	410,165
	Interest expense paid	(52,991)	(3,037)	(91,472)	(4,787)	38,481
	Payment of dividends	(131,780)	(131,780)	(106,274)	(106,274)	(25,506)
	TOTAL MONETARY FLOW	**194,903**	**(187,896)**	**(79,927)**	**(83,368)**	**274,830**
	Changes in shareholders' equity, net of profit	0	0	0	0	0
	Monetary flow of the period	**(49,911)**	**(486,432)**	**(196,178)**	**(391,343)**	**146,266**
	Initial net monetary availability	**577,334**	**0**	**773,512**	**0**	**(196,178)**
	Final net monetary availability	**527,423**	**(486,432)**	**577,334**	**(391,343)**	**(49,911)**

Amounts in thousands of Euro

NOTES TO THE INCOME STATEMENT

REVENUE

1. Revenues from sales and services - €164,403k

Revenues from sales and services are as follows:

€ thousand	2017	2016	Change
Revenue from services to customers	**60,126**	**72,367**	**(12,240)**
of which Roma Capitale public lighting service	59,887	68,508	(8,620)
of which public lighting service of the Municipality of Naples	48	3,637	(3,590)
of which other revenues	192	221	(30)
Revenues from intra-group services	**104,276**	**100,395**	**3,881**
of which service contracts	102,978	94,759	8,219
of which other services	1,298	5,636	(4,338)
Revenues from sales and services	**164,403**	**172,762**	**(8,359)**

The decrease in revenues from services to customers of €12,240k, is attributable to the decrease in the fee related to the public lighting service performed in the Municipality of Rome and the elimination of fees for work carried out as part of the management of the public lighting service carried out in the Municipality of Naples.
On 17 June 2016, the agreement modifying the service contract for the management of the public lighting service was signed with Roma Capitale, within which the plan for the massive replacement of the lighting bodies with LEDs financed by Roma Capitale was launched. which is attributable to the increase in revenues, more than offset by the reduction in other fees provided for in the contract (partly due to the progressive progress of the installations).
On October 31, 2016, the contract for the management of the public lighting service in the Municipality of Naples was completed, extended from July 2015.

Revenues from infragroup services recorded a total increase of €3,881k. This change derives from (**i**) the increase in fees for service activities rendered in the interest of Group companies, mainly of an administrative, financial, legal and technical nature (**ii**) by the overall decrease in revenues deriving from other services provided to subsidiaries (- €4,388k) mainly due to the elimination of revenues from services not included in the service contract relating to the facility management division of Acea sold in 2016 by the subsidiary Acea Elabori.

With reference to service activities, the increase is attributable to the IT services generated by the management of the "Template Acea2.0", partly offset by the absence of the service contract quota for the activities from the last two months of 2016. of facility management subject to sale.

2. Other income - €16,534k

This item increased by €4,810k compared to 31 December 2016, mainly due to the effect of greater non-existent liabilities offset by minor recoveries for personnel seconded to Group companies. Below is the composition.

€ thousand	2017	2016	Change
Contingent assets and other revenues	10,033	3,945	6,088
Seconded staff	2,951	4,146	(1,195)
Reimbursement of charges for corporate offices	2,750	2,839	(89)
Real estate income	734	756	(22)
Refunds for damages, penalties, collateral	66	39	27
Other income	**16,534**	**11,725**	**4,810**

COSTS

3. Cost of labour - €49,676k

€ thousand	2017	2016	Change
Labour cost gross of capitalised costs	54,160	53,759	401
Staff employed in projects	(3,929)	(5,142)	1,213
Capitalised costs	(554)	(1,385)	831
TOTAL	**49,676**	**47,232**	**2,444**

The increase in the cost of labour, including capitalised costs of €401k, derives from the decrease in the partial release of the amounts set aside for the third cycle of the Medium / Long-term Incentive Plan. Exuberant results offset in part by the reduction in outstanding amounts average, as also highlighted in the table below.
The cost of personnel is netted, as well as capitalised costs, also €3,929k (+ €1,213k compared to 31 December 2016) representing the total amount of personnel costs used in the Acea 2.0 project for all group companies participating in the "communion" of the IT platform.
The following table shows the average and final number of employees by category, compared to the previous year.

	Average consistency of the period			Final consistency of the period		
Level	2017	2016	Change	2017	2016	Change
Managers	51	54	(3)	52	52	0
Executives	149	143	6	153	143	10
Employees	372	404	(32)	374	363	11
Workers	15	22	(7)	15	15	0
TOTAL	**587**	**624**	**(37)**	**594**	**573**	**21**

4. External costs - €149,276k

Compared to 31 December 2016, total external costs increased by €5,425k (+ 3.77%); The following is the composition and changes in external costs by nature.

€ thousand	2017	2016	Change
Cost of equipment	552	1,107	(555)
Costs for services and work	132,819	126,512	6,307
Costs for use of third party goods	7,087	10,747	(3,659)
Taxes and duties	1,801	2,862	(1,061)
Overhead costs	7,016	2,623	4,393
TOTAL	**149,276**	**143,851**	**5,425**

€ thousand	2017	2016	Change
Cost of equipment	**552**	**1,107**	**(555)**
Costs for services and work	**132,819**	**126,512**	**6,307**
Infragroup services	47,413	48,348	(935)
- of which Public Lighting, Roma Capitale	43,790	44,044	(254)
- of which Public Lighting, Municipality of Naples	0	4,056	(4,056)
Electric and Water Consumption	22,659	31,099	(8,440)
- of which Electricity Consumption Roma Capitale Public Lighting Service	20,298	28,291	(7,993)
Consulting and professional services	24,700	10,478	14,222
Works	1,380	4,158	(2,779)
Maintenance fees	9,074	8,504	571
Staff services	4,698	3,186	1,512
Surveillance services	2,965	3,316	(351)
Advertising and Sponsorships	3,652	2,877	775

€ thousand	2017	2016	Change
Cleaning, transport and porterage costs	262	2,657	(2,396)
Seconded staff	7,708	4,748	2,960
Postal charges	1,115	1,736	(621)
Bank charges	1,287	1,657	(370)
Governing Bodies	626	664	(38)
Telephone expenses	1,322	1,205	116
Insurance expenses	409	399	10
Travel costs and subsistence	418	426	(8)
Coordinated and continuous collaborations	185	304	(119)
Technical and administrative services	760	462	298
Typographical expenses	21	54	(33)
Other	2,165	232	1,933
Costs for use of third party goods	**7,087**	**10,747**	**(3,659)**
Rent charges	4,564	7,089	(2,525)
Other Rentals and Fees	2,524	3,658	(1,134)
Taxes and duties	**1,801**	**2,862**	**(1,061)**
Overhead costs	**7,016**	**2,623**	**4,393**
Total External Costs	149,276	143,851	5,425

The increase in external costs of € 5,425k goes through phenomena of the opposite sign including:

- the increase in external costs for professional services, of which IT (+ € 11,195k) are due to the management costs of the "Template Acea2.0";
- the sustaining of costs for debt recovery + €1,241k;
- the decrease in the total cost of the public lighting management service in the Municipality of Rome is essentially due to electricity consumption related to the service (- € 5,868k) generated by the efficiencies generated by the installation of LEDs instead of traditional lighting fixtures. On the other hand, the other costs remained substantially unchanged as a consequence of the combined effect of the increase in the cost for the massive replacement of the lighting bodies with LEDs financed by Roma Capitale and the decrease of the other fees provided for in the contract;
- the loss of the costs of the management of the public lighting service carried out in the Municipality of Naples (- € 4,056k);
- savings on the warehouse rent fees of - € 2,332k;
- the elimination of external costs relating to the management of the facility management service subject to the sale in 2016 by the subsidiary Acea Elabori, partly offset by the costs of the service contract for the management of facility management for the portion relating to Acea (€ 2,558k);
- the increase in ordinary contingent liabilities equal to + € 3,689k.

Please note that other rentals and charges refer mainly to hardware and software for the company data centre.

Please note that, pursuant to Article 149-duodecies of the CONSOB Issuer Regulations, the fees accrued by the PwC Auditing Company are shown in the table below.

€ thousand	Audit Related Service	Audit Services	Non Audit Services post	Non Audit Services ante	Total
Acea SpA	66,813	272,430	417,552	573,479	1,330,243

Please note that the above fees refer to assignments for the year 2017 entrusted up to 31 December 2017. It is also specified that pursuant to Art. 10 of Regulation (EU) 537/2014 non-audit services provided to the Parent Company or its subsidiaries during the 2017 financial year refer to:

1. assistance in carrying out the 262/05 tests identified by Acea;
2. benchmark analysis of some services provided between related parties and,
3. assistance in the implementation and maintenance of non-economic-financial systems (SAP HCM and SAP JAM).

5. Depreciation, provisions and write-downs - € 20,741k

€ thousand	2017	2016	Change
Depreciation of tangible and intangible assets	14,603	16,163	(1,560)
Impairment losses	9,539	0	9,539
Bad Debts	5,529	4,787	742
Provision for risks	(8,930)	3,615	(12,545)
TOTAL	20,741	24,565	(3,824)

Depreciation totalled € 14,603k and refers to € 8,555k for intangible assets and € 6,048k for property, plant and equipment. The decrease in depreciation is essentially due to the portion of the investment of the registered office sold to the subsidiaries areti and Acea Ato2.

Impairment losses on fixed assets of € 9,539k refer to the adjustment of the value of the Autoparco which, following the ruling by the Court of Rome with ruling no. 11436/2017, published on 6 June, 2017, essentially declares the nullity of the purchase agreement entered into with the company Trifoglio Srl on October 22, 2010; therefore Acea summarises, now by then, the ownership of the building complex at the net accounting value to which the asset was registered at the time of its sale. For more details, refer to the paragraph "Update of legal disputes".

The write-downs of receivables amount to a total of € 5,529k and mainly refer to risks associated with the recoverability of receivables for interests registered with Roma Capitale.
The change compared to the previous year is due to allocations to other companies of the group, in particular Sienergia SpA in liquidation.

The provisions for risks were equal to - € 8,930k The following are their composition by nature and their effects:

€ thousand	2017	2016	Change
Investees	48	137	(90)
Release investees	(22,127)	(460)	(21,667)
Redundancy and mobility	12,000	5,502	6,498
Legal	619	522	97
Legal release	(809)	0	(809)
Staff disputes	0	24	(24)
Contributive and in respect of Public Bodies	25	(2,418)	2,444
Release of contributory risks	(30)	20	(50)
Procurement and supplies	1,371	0	1,371
Tax dispute risk	0	288	(288)
Release of tax litigation	(12)	0	(12)
Release of insurance deductibles	(15)	0	(15)
TOTAL PROVISIONS	**(8,930)**	**3,615**	**(12,545)**

Compared to the previous year, there was an increase in the level of provisions related to the charges necessary to deal with voluntary and outgoing mobility procedures (+ € 6,498K) as well as greater releases for exuberant funds for € 20,115 thousand. The release of the investee fund of € 22,127k relates to the subsidiary Gori.

For further details, see the paragraph in the update of the main legal disputes of this document.

6. Financial income - € 114,363k

€ thousand	2017	2016	Change
Income from intragroup relations	108,368	83,137	25,231
Interest and income from relationships with banks	190	360	(170)
Default interest towards subsidiaries	0	0	0
Interest due to third parties	0	938	(938)
Recovery of discounting costs	753	863	(110)
Revenue from Fair Value Hedge	0	298	(298)
Financial income from public lighting contracts	276	274	2
Interest due to Roma Capitale	4,560	3,914	646
Other financial income	215	0	215
Total financial income	**114,363**	**89,784**	**24,579**

The increase in financial income for € 24,579k is attributable for € 25,231k to income from intra-group transactions. This change is mainly due to:

- the increase in interest income on the revolving credit line for € 22,095k,
- the increase in interest income on long-term loans with respect to some subsidiaries for € 3,108k.

On the contrary, the financial income deriving from the fair value hedge valuation of the derivative signed on the Bond of € 600 million placed on the market in September 2013, which changed sign by shifting among the charges, is no longer valid.

7. Financial charges - € 64,810k

€ thousand	2017	2016	Change
Interest on bonds	59,194	65,869	(6,675)
Charges for repurchase obligations	0	32,065	(32,065)
Charges on Interest Rate Swaps	1,266	1,342	(76)
Interest on short-term indebtedness	1	19	(18)
Interest on medium-long term indebtedness	1,630	2,350	(720)
Charges from intragroup relations	0	0	0
Financial Charges from Public Lighting Contract	172	171	1
Other Financial Charges	450	849	(399)
Losses / (Profit) on Foreign Exchange	1,784	148	1,635
Interest expense on Equitalia and INPS installments	12	17	(5)
Valuation Charges at Fair Value Hedge	302	0	302
Total financial charges	**64,810**	**102,830**	**(38,020)**

The reduction in financial charges for € 38,020k, derives from the presence on the charges for 2016 of the share premium buyback paid to withdraw from the market two tranches of bonds (€ 31,382k plus € 683 thousand in expenses and fees) and lower interest on bonds (€ 6,675k). This change includes the effect of the early repayment of two tranches of bonds for a total of € 346,836 million in bonds issued on 24 October 2016, offset in part by the interest on the new loan issued at the same time (- € 6,675k). The charges net of the income on interest rate swaps on bonds, remain substantially unchanged. The financial charges deriving from the fair value hedge valuation of the derivative signed on the Bond of € 330 million (originally equal to € 600 million) placed on the market in September 2013 and which changed sign are added.
With reference to the average cost of Acea's debt, there was a decrease compared to the previous year, having risen from 2.67% in 2016 to 2.25% in 2017.

8. Income from investments - € 219,013k

This item recorded an increase of € 72,766k (€146,247k) and is summarised in the following table.

€ thousand	2017	2016	Change
Dividends	**218,745**	**146,247**	**72,498**
Acea Ato2	59,150	63,735	(4,585)
ANNEX	3,582	0	3,582
areti	126,408	44,057	82,352
Acea Elabori	8,629	7,229	1,401
Environment Area	11,622	13,446	(1,824)
Acque Blu Fiorentine	0	5,092	(5,092)
ACIP	4,035	6,804	(2,769)
Aquaser	3,433	2,431	1,002
Acea800	215	394	(179)
Consorcio Agua Azul	1,205	1,539	(334)
Acea Dominicana	0	335	(335)
Intesa Aretina	315	412	(97)
GEAL	121	0	121
Umbria Distribuzione Gas	0	22	(22)
Acque Blu Arno Basso	0	718	(718)
Ingegnerie Toscane	30	35	(5)
Gains on the sale of shares in Acea Gori Servizi	**268**	**0**	**268**
Total	**219,013**	**146,247**	**72,766**

9. Expense from investments - € 0k

The zero entry as at 31 December 2017, in 2016, included the write-downs of the investment held in Acea Servizi Acque in liquidation for € 408k.

10. Taxes - € 3,230k

Taxes totaled € 3,230k In particular, the tax calculation is affected by the tax law applicable to the tax treatment of the collected dividends, the provisions for the provision for risks, as well as the deductibility of the interest expense of Acea for the Group tax consolidation. Income taxes for the year have an impact on the pre-tax result of 1.4%.
The balance consists of the algebraic sum of the following items.

CURRENT TAXES

Current taxes amounted to € 71,318 thousand (€ 97,007k at 31 December 2016) and refer to consolidated Ires calculated on the sum of taxable income and tax losses of the companies consolidated on a tax basis and Irap.
It should be noted that this effect is cancelled by the recognition of income deriving from the attribution of the taxable income of the companies participating in the tax consolidation. This effect is summarised in the table below and shows the reconciliation between the theoretical and actual rates.

DEFERRED TAXES

Net deferred tax assets decreased by € 1,061 thousand and consisted of the algebraic sum of provisions (€ 9,880k) mainly on the provision for risks, the allowance for doubtful accounts and provisions for defined benefit plans and utilisations (€ 8,819k) . Deferred tax liabilities increase taxes for € 548k and consist of the algebraic sum of uses (€ 585k) relating to the taxable portion of dividends collected and provisions for the year which amount to € 1,133k.

CHARGES AND INCOME FROM TAX CONSOLIDATION

These amount to € 67,575k and represent the positive balance between the tax charges that the Parent Company has towards tax consolidation companies against the transfer of tax losses (€ 4,038k) and the tax income recorded as a counterpart of the taxable income transferred to the consolidated company (€ 71.614k). The compensation for the loss, as per the general consolidation regulation, is determined by applying the current IRES rate to the amount of the tax loss transferred.

The table below shows the reconciliation between the theoretical and actual tax rates.

	2017	%	2016	%
Pre-tax result of operating activities	229,809		101,632	
Theoretical taxes calculated on pre-tax profit	55,154	24.0%	27,949	27.5%
Permanent differences*	(51,981)	22.6%	(34,625)	34.1%
IRES payable for the year**	3,173	1.4%	(6,676)	6.6%
IRAP payable for the year**	57	0.0%	(302)	0.3%
Taxes on the operating income of operating assets	**3,230**	**1.4%**	**(6,978)**	**6.9%**

** They mainly include the taxed portion of dividends*
*** Including deferred tax*

NOTES TO THE BALANCE SHEET - ASSETS

11. Property, plant and equipment - €95,852k

€ thousand	31/12/2017	31/12/2016	Change
Land and buildings	81,362	77,554	3,808
Systems and equipment	6,814	6,139	676
Industrial and commercial tools	753	831	(78)
Other assets	6,892	8,746	(1,855)
Current fixed assets in course of acquisition and advance payments	31	31	n.s.
Total property, plant and equipment	**95,852**	**93,301**	**2,551**

There is an increase of €2,551k compared to the value of 31 December, 2016.

The change mainly refers to the net effect between investments, totalling €3,925k, other changes amounting to €14,250k, the impairment of fixed assets equal to €9,539k and depreciation rates which amounted to €5,990k.
Investments during the period include the Telecontrol devices of the public lighting network in the Municipality of Rome, created by Acea at the request of Roma Capitale in fulfilment of the service contract. Other investments during the period mainly relate to extraordinary maintenance work on the plants and premises held under lease and to the investments related to the hardware required for technological development projects under Acea2.0 as well as to the improvement and evolution of the IT network.

Other changes represent the recovery of the sales value of Autoparco amounting to €14,250k among assets. This recovery was made following the ruling by the Court of Rome with ruling no. 11436/2017, published on 6 June, 2017, which stated the nullity of the purchase agreement entered into with the company Trifoglio Srl on 22 October, 2010. The impairment of fixed assets, equal to €9,539k, refers to the adjustment of the value of Autoparco to the net book value at which the asset was recorded at the time of the transfer.
The table below summarises the changes occurred in the period.

€ thousand	31/12/2016			CHANGES					31/12/2017		
Property, plant and equipment	Historical cost	Accumulated depreciation	Net value	Increases	Reclassifications / Other changes	Write-ups / write-downs	Divestments / Disposals	Depreciation	Cost	Accumulated depreciation	Net value
Land and buildings	94,161	(16,607)	77,554	370	13,875	(8,330)	(32)	(2,074)	101,201	(19,839)	81,362
Systems and equipment	17,191	(11,053)	6,139	2,367	(17)	(839)	(56)	(779)	19,053	(12,239)	6,814
Industrial and commercial tools	13,210	(12,379)	831	0	392	(370)	0	(101)	13,386	(12,633)	753
Other assets	51,049	(42,302)	8,747	1,188	0	0	(7)	(3,036)	52,255	(45,363)	6,892
Current fixed assets in course of acquisition and advance payments	31	0	31	0	0	0	0	0	31	0	31
Total property, plant and equipment (non-recurrent tangible assets)	**175,643**	**(82,341)**	**93,301**	**3,925**	**14,250**	**(9,539)**	**(95)**	**(5,990)**	**185,926**	**(90,074)**	**95,852**

12. Real estate investments - €2,547k

These amount to €2,547k, a reduction of €58k due to the depreciation of the year and consist mainly of land and buildings not used for production and held for rental purposes.

13. Intangible assets - €11,624

€ thousand	31/12/2017	31/12/2016	Change
industrial patents and intellectual property rights	11,132	13,138	(2,006)
Concessions and rademarks	100	0	100
Current fixed assets in course of acquisition and advance payments	392	0	392
Total Intangible Fixed Assets	**11,624**	**13,138**	**(1,514)**

Below is a summary of the changes occurred during the period:

€ thousand	31/12/2016	Changes in the year					31/12/2017
Intangible fixed assets	Net value	Increases	Reclassifications / Other changes	Write-ups / write-downs	Divestments / Disposals	Depreciation	Net value
Industrial patents and intellectual property rights	13,138	6,851	0	0	(339)	(8,518)	11,132
Concessions and trademarks	0	136	0	0	0	(36)	100
Fixed assets in progress	0	392	0	0	0	0	392
Total property, plant and equipment (non-recurrent tangible assets)	**13,138**	**7,379**	**0**	**0**	**(339)**	**(8,555)**	**11,624**

Investments mainly concerned the purchase and development of software to support the development of systems for managing IT platforms, corporate security and administrative management.
The investment in Concessions and brands refers to the direct costs incurred for the new brand of Acea group.

14. Investments in subsidiaries and associates - €1,784,246k

These recorded an increase of €3,019k and is as follows:

€ thousand	31/12/2017	31/12/2016	Change
Shares held in subsidiaries	1,757,919	1,769,085	(11,166)
Shares held in affiliate companies	26,327	12,142	14,185
Total shares held	**1,784,246**	**1,781,227**	**3,019**

Shares held in subsidiaries

Changes for 2017 are summarised below.

Shares held in subsidiaries	Historical cost	Reclassifications and other changes	Write-ups / write-downs	Disposals	Net value
Values at 31 December, 2016	**3,146,010**	**(363,946)**	**(62,885)**	**(950,094)**	**1,769,085**
Changes in 2017:					
- changes in share capital	0	80	0	(10,385)	(10,305)
- acquisitions / formations	12,993	0	0	0	12,993
- disposals / distributions	0	0	0	0	0
- reclassifications and other changes	0	(12,641)	0	0	(12,641)
- write-downs / write-ups	0	0	(1,212)	0	(1,212)
Total changes in 2017	**12,993**	**11,644**	**(1,728)**	**(10,385)**	**14,524**
Values at 31 December, 2017	**3,159,003**	**(376,507)**	**(64,097)**	**(960,479)**	**1,757,919**

The changes occurred mainly concern:

- €12,993k are related:
  1. to the increase (€8,909k) of the share capital of Acea International following the sale of 100% of the equity investments held by Acea in Aguas de San Pedro and Acea Dominicana;
  2. to the purchase from Ambiente Srl of the 1.30% stake and from Servern Trent Water & Services Limited the 0.90% stake in Umbriadue Servizi Idrici Scarl (€2,869k);
  3. to the purchase of 51% of Acque Industriali Srl from Acque SpA (€1,203k);
  4. to the purchase of 100% of the share capital of Severn Trent Italia SpA from Severn Trent Luxembourg Overseas Holdings, at the same time changing its company name to Technologies for Water Services SpA (€11k);
- €12,993k for the reclassification of some investments, including Umbra Acque and Consorcio Agua Azul, among the investments in associate companies.

We also report the write-down for adjustment to the exchange rate of foreign equity investments (€1,212k).
For purposes of verifying the recoverable value of investments, the impairment test was carried out substantially on all its direct and indirect subsidiaries.
The impairment procedure of investments compares the accounting value of the investment with its economic value.
The verification of the maintenance of the value of an equity investment can be conducted by determining the difference between the recoverable value, identified as the highest value between the value in use and the fair value, net of selling costs, and the carrying amount.
The value in use represents the present value of expected cash flows that are expected to derive from the continuous use of all assets relating to the investment. The fair value, net of sales costs, represents the amount obtainable from the sale in a free transaction between knowledgeable and willing parties.
The 2017 impairment process provides the estimate of an interval relative to the recoverable value of individual investments in terms of value in use in methodological continuity with respect to the previous year, or through the financial method that recognises the ability to generate cash flows the essential element for assessing the reference entity. For the purpose of discounting operating cash flows, the weighted average cost of post-tax capital is used.

The estimate of the recoverable value of investments - expressed in terms of value in use - was estimated by the combined use of the financial method and sensitivity analyses.
The application of the financial method for determining the recoverable value and the subsequent comparison with the respective accounting values, therefore, entailed the estimate of the post-tax wacc, of the value of operating flows (VO) for each investment subject to impairment test and the value of the terminal value (TV) and, in particular, the growth rate used to project flows beyond the timescale, the value of the net financial position (NFP) and the value of ancillary activities (ACC).

For purposes of determining operating flows and the Terminal Value, the estimates and projections of the 2018-2022 Business Plan approved by the Board of Directors were used. The recoverable value of the investments was determined as the sum of the present value of cash flows of the Plan and of the current value of the Terminal Value.
The following table shows the operating segments to which the investments recorded in the financial statements of the Parent Company refer. For each operating segment, the type of recoverable value considered, the discount rates used and the time scale of cash flows are specified.

Industrial Area	Recoverable value	WACC	Terminal value	Cash flow period
Energy Infrastructures Area				
areti	**value in use**	**5.6%**	**Residual value**	**up to 2022**
Acea Produzione	value in use	5.5%	two-stages	up to 2022
Ecogena	value in use	5.5%	two-stages	up to 2022
Water Area	**value in use**	**5.4%**	**Residual value**	**up to 2022**
Commercial and Trading Area:				
Acea Energia	value in use	6.9%	Perpetuity without growth	up to 2022
Environment Area	**value in use**	**6.6%**	**two-stage**	**up to 2022**

The Terminal Value was determined:
- for Acea Produzione: two-stage. The first stage concerns a normalised flow for the 2023-2032 period while the second stage includes the residual value corresponding to the net invested capital of 2032;
- for the Environment Area: two-stage. The first stage concerns the 2023-2032 period while the second stage includes the residual value corresponding to the net invested capital of 2032;
- for areti: the current value of the RAB at the expiry of the concession calculated according to the regulations for the fifth regulatory period;
- for the Water Area: the current value of the Residual Value in the event of a takeover at the end of the concession.

We also inform you that the WACC has been subjected to a sensitivity analysis. It must be noted that:
- the 0.5% increase in the discount rate leads to a deficit in the Acea Ato2 SpA and Acea Ato5 SpA investment. With regard to Acea Ato2, the slightness of the surplus is motivated by having identified only the value of regulatory assets as a Terminal Value (the so-called RAB) without considering the realisable value of working capital. With regard to Acea Ato5, the Company's investment plan is being revised with positive effects on future cash flows,
- the increase of 1.0% in the discounting rate leads to a deficit in the investment of areti SpA.

The result of the impairment test confirms the recoverability of the value of investments recorded.

Shares held in affiliate companies

These amount to €26,327k and increase due to the reclassification of some investments, including Umbria Acque, from investments in subsidiaries to associates. In 2017, 19.20% of the shares in GEAL were acquired from the shareholder Veolia Eaux (€2,000k). We also report the write-down for adjustment to the exchange rate of foreign equity investments (€515k).
The changes occurred during the year are shown below.

Shares held in associate companies	Historical cost	Reclassifications	Write-ups / write-downs	Disposals	Net value
Values at 31 December, 2016	**92,570**	**899**	**(79,861)**	**(1,467)**	**12,142**
Changes in 2017:					
- changes in share capital	0	59	0	0	59
- acquisitions / formations	2,000	0	0	0	2,000
- disposals / distributions	0	0	0	0	0
- reclassifications and other changes	0	12,641	0	0	12,641
- write-downs / write-ups	0	0	(515)	0	(515)
Total changes in 2017	**2,000**	**12,700**	**(515)**	**0**	**14,185**
Values at 31 December, 2017	94,570	13,600	(80,376)	(1,467)	26,327

15. Other investments - €2,352k

"Other equity investments" refer to investments in equity securities that do not constitute control, association or joint control. In 2017 an investment was acquired in Green Capital Alliance Società Benefit S.r.l for the value of €2k.

16. Deferred tax assets - €32,479k

This item increased by €4,110k compared to 31 December, 2016. The following table shows the changes and the balance as at 31 December, 2017 with reference to both the assets for prepaid taxes and the provision for deferred taxes.

With regard to the recoverability of deferred tax assets, it must be noted that the valuation of deferred tax assets was carried out on the basis of Acea's business plans and, with regard to the time scale, considering a reasonable estimate of the reversal period.

€ thousand	31/12/2016	IRES / IRAP uses	Changes in Equity	IRES / IRAP advances	31/12/2017
Pre-paid taxes					
Remuneration of members of the BoD	0	0	0	5	5
Provision for risks and charges	4,390	(8,182)	0	6,698	2,906
Bad Debts	6,517	0	0	1,559	8,077
Purchase of tangible and intangible assets	1,180	0	0	439	1,619
Defined benefit plans / defined contribution	6,392	(444)	234	1,595	7,778
Other	9,889	(193)	2,816	(416)	12,096
Total	**28,369**	**(8,819)**	**3,050**	**9,880**	**32,479**
Deferred taxes					
Deferred taxes on dividends	325	(197)	0	39	167
Depreciation of tangible and intangible assets	(12)	0	0	0	(12)
Defined benefit plans / defined contribution	176	74	(40)	0	210
Other	4,308	(463)	3,552	1,094	8,492
Total	**4,796**	**(585)**	**3,512**	**1,133**	**8,856**
Net total	**23,573**	**(8,234)**	**(462)**	**8,746**	**23,623**

17. Non-current financial assets - €237,975k

This item increased by €350k compared to 31 December 2016, as it amounted to €237,625k and is broken down as follows:

€ thousand	31/12/2017	31/12/2016	Change
Receivables due to Roma Capitale	22,168	25,638	(3,471)
Rceivables due to subsidiaries	187,958	179,623	8,335
Receivables due from others	27,849	32,364	(4,514)
TOTAL	**237,975**	**237,625**	**350**

The item **Financial receivables due from Roma Capitale** shows a decrease of €3,471k and refers to investments in the public lighting service, such as plant redevelopment, energy saving, regulatory compliance and technological innovation, which will be paid to Acea , equal to the tax depreciation, beyond the year 2017, in accordance with what was agreed in the Supplementary Agreement to the service contract signed on 15 March, 2011.

Financial receivables from subsidiaries increased by €8,335k compared to 31 December, 2016 due to the disbursement of two new tranches of the medium- and long-term interest bearing loan to the subsidiary Acea Ato5 (for a total of €13,866k), offset in part from the reclassification to short-term financial receivables of the portion falling due in 2018 of the non-interest bearing credit in respect of the latter based on the repayment plan that will be completed in 2028 (€1,096k).
In 2017, receivables from the subsidiaries Acea Ambiente and Ombrone SpA were repaid.

These receivables are considered entirely recoverable.

€ thousand	31/12/2017	31/12/2016	Change
Receivables from financing			
Acea Ato5	180,845	168,075	12,770
Acea Ambiente Srl (formerly ARIA)	0	3,604	(3,604)
Crea Gestioni Srl	3,870	3,870	0
Ecomed Srl	33	33	0
Ombrone SpA	0	831	(831)
Total	**184,748**	**176,413**	**8,335**
Other Financial Receivables			
Acea Ambiente Srl (formerly ARIA)	3,210	3,210	0
Total non-current financial receivables from subsidiaries	**187,958**	**179,623**	**8,335**

The item Receivables from others, amounting to €27,849k, is composed of €27,724k from the application of the financial asset model envisaged by IFRIC 12 regarding services under concession. This receivable represents all the investments made up to 31 December, 2010 related to the service itself.

18. Other non-current assets - €0k

This item does not record substantial changes compared to the end of the previous year.

19. Current assets - €2,711,298k

These recorded an increase of €463,342k (€2,247,957k as at 31 December, 2016) and are broken down as follows.

19.a - Contract work in progress - €0k

The construction works of the public lighting systems, carried out as part of the service contract with Roma Capitale, were launched at the end of the year. The balance as at 31 December, 2017 is of zero.

19.b - Trade receivables - €954k

Trade receivables decreased by €3,564k compared to €4,517k at 31 December, 2016.

Receivables from customers

These amounted to €915k net of the allowance for doubtful accounts amounting to €5,763k and decreased by €3,564k.
Receivables included under this item refer to positions accrued in respect of private and public entities for services rendered, with particular reference to public lighting services for the Municipality of Naples. It must be noted that during the first months of 2017, Acea collected €1,659k in receivables from the Municipality of Naples. In March 2017, €1,029k of receivables were collected from ATER following the sentence handed down by the Court of Cassation in 2016 concerning our injunctions of 1992 and 1994, with which Acea had ordered IACP to make the payment of what was due.

Provision for doubtful debts

This stands at €5,763k and increased by €281k compared to the previous year.
The allowance for doubtful accounts is calculated on the basis of specific analytical assessments, supplemented by valuations deriving from historical analyses that concerned losses on amounts owed by customers, in relation to the age of the receivable, average collection times, and type of shares. of recovery undertaken and the status of the receivable (ordinary, in dispute, etc.).

19.c - Intragroup Trade Receivables - €98,772k

This item recorded an increase of €41,023k compared to 31 December, 2016 (€57,748k) and is composed as follows:

€ thousand	31/12/2017	31/12/2016	Change
Receivables due to the parent company - Roma Capitale	93	624	(530)
Receivables from subsidiaries	97,224	54,814	42,409
Receivables from affiliate companies	1,455	2,310	(855)
Total intragroup trade receivables	**98,772**	**57,748**	**41,023**

Receivables due to the parent company - Roma Capitale

These decreased by €530k, compared to 31 December, 2016.
The following table shows together the amounts resulting from the relations with Roma Capitale from Acea, both with regard to the borrowing and lending due within and beyond the following year, including items of a financial nature.

€ thousand	31/12/2017	31/12/2016	Change
Receivables for services invoiced	93	119	(26)
Receivables for services to be invoiced	0	0	0
Total Trade Receivables	**93**	**119**	**(26)**
Financial receivables for invoices issued	118,228	106,317	11,912
Financial receivables for invoices to be issued	17,314	15,328	1,986
Total Financial Receivables due to Public Lighting	**135,542**	**121,644**	**13,898**
Total receivables due within the next financial year (A)	**135,635**	**121,764**	**13,872**

€ thousand	31/12/2017	31/12/2016	Changes
Trade payables	0	0	0
Total receivables due within the next financial year (A)	**0**	**0**	**0**

Total (A) - (B)	**135,635**	**121,764**	**13,872**
Other receivables / (payables) of a financial nature	3,330	9,088	(5,758)
Other Receivables / (Payables) of a commercial nature	(24)	444	(468)
Total other receivables / (payables) (C)	3,306	9,532	(6,226)
Net Balance	**138,942**	**131,296**	**7,646**

The change in receivables and payables is determined by the accrual of the period and by the effects resulting from the compensation and / or collections.
The stock of receivables as at 31 December 2017 recorded an increase of €13,872k compared to the previous year, to be entirely attributed to financial receivables from public lighting. The increase refers to the accrual of the annual fee, to the modernisation of the safety net, to the extra ordinary maintenance and finally to receivables deriving from the agreement relating to the LED Plan regarding the replacement of old generation road lamps.

In 2017 a total of €57,211k were collected. The types of receivables collected are listed below:

- €31,326k for credits accrued in relation to the items of the new LED Plan agreement, of which €15,081k recorded as at 31 December, 2016;
- €24,911k for receivables relating to the public lighting contract, of which €16,102k were already recorded as at 31 December, 2016 (fees from September 2016 to March 2017, adjustment pursuant to regulations and 2015 pro-rata);
- €974k from credit reimbursements for public lighting works and nursery service.

On the payables side, there was a total decrease of €2,237k, mainly due to the decrease in the debt relating to the advances from Roma Capitale for the LED Plan. This down payment concerning the entire plan to replace the luminaires with LED luminaires is progressively reduced with the progress of installations and the corresponding payment accrual.

Please note that in June the coupon relating to dividends accrued for 2016 was paid for €67,339k (payables recorded following the shareholders' meeting resolution of 27 April 2017).

Receivables from subsidiaries
These totalled €97,224k and decreased by €42,409k compared to the previous year. They mainly refer to the services rendered as part of service contracts. The change compared to the previous year is affected by the recognition of receivables deriving from the allocation of the costs incurred for the Acea2.0 Programme. Below is their composition:

€ thousand	31/12/2017	31/12/2016	Change
Acea Ato2	21,286	11,387	9,899
Acea Ato5	13,468	4,457	9,011
Areti	14,940	8,205	6,735
Acea Energia	10,267	5,082	5,185
Publiacqua	6,259	2,772	3,487
Umbra Acque	5,298	3,665	1,633
Gesesa	4,783	3,693	1,089
GORI	4,790	1,834	2,957
Acque	5,004	3,954	1,050
Acquedotto del Fiora	2,910	2,004	906
Crea Gestioni	2,959	2,208	751
Acea8cento	455	273	182
Acea Elabori	449	988	(539)
Sarnese Vesuviano	767	782	(14)
Acea Ambiente (ex ARIA)	725	1,499	(774)
Acea Dominicana	452	333	120
Ingegnerie Toscane	428	141	287
Aquaser	52	100	(48)
Coema	119	119	0
Acque Industriali	111	45	66
Ombrone	22	16	5
Agua de San Pedro	692	628	64
Umbriadue Servizi Idrici	328	0	328
Other	659	631	28
TOTAL	**97,224**	**54,814**	**42,409**

Receivables from affiliate companies
These total €1,455k and show a reduction of € (855) k compared to 31 December, 2016. The change refers to the write-down of the receivable due from Sienergia in liquidation. Below is their composition:

€ thousand	31/12/2017	31/12/2016	Change
Marco Polo	1,236	1,236	0
Azga Nord	0	15	(15)
Sogea	46	150	(104)
Sienergia	0	639	(639)
Umbriadue	0	66	(66)
Geal	169	200	(31)
Le Soluzioni	4	4	0
TOTAL	**1,455**	**2,310**	**(855)**

The total of trade receivables, gross of the allowance for doubtful accounts, to customers and intragroup, including those to Roma Capitale, amounted to €107,989k; the age of these receivables is as follows:

- Trade receivables to expire: €75,461k;
- Outstanding trade receivables: €32,528k of which:
  - Within 180 days: €8,653k,
  - Between 180 and 360 days: €9,671k,
  - Beyond the year: €14,204k.

19.d - Other current receivables and assets - €14,318k

These recorded a decrease of €11,060k and are made up as follows.

€ thousand	31/12/2017	31/12/2016	Change
Receivables due to the transferee Autoparco	500	10,250	(9,750)
Receivables due to the transferee Area Laurentina	6,000	6,000	0
Accrued income and prepayments	3,294	2,366	927
Other receivables	1,164	2,313	(1,149)
Receivables for the re-entry of the Marco Polo branch for payables to employees	1,931	2,116	(184)
Equitalia	802	773	29
Receivables from national insurance institutions	375	741	(366)
Receivables linked to the sale of the photovoltaic branch	146	397	(251)
Receivables due to severance pay for individual stransfers	11	229	(218)
Advances to suppliers and deposits with third parties	94	192	(98)
TOTAL	**14,318**	**25,378**	**(11,060)**

Receivables linked to the sale of the photovoltaic division, recorded for the sale of the photovoltaic business to RTR Capital at the end of 2012, have changed compared to the previous year due to the exercise of the repurchase option of the ASI Latina plant carried out by Acea Produzione. It is recalled that this receivable refers to the establishment of an escrow account corresponding to the value of some plants that had to be subjected to formal controls by the transferor company.

The receivable from the transferee Autoparco which represented the balance of the sale was reversed in compliance with the ruling of the Court of Rome with ruling no. 11436/2017, published on 6 June, 2017, which stated the nullity of the purchase agreement entered into with the company Trifoglio Srl on 22 October, 2010. Instead, the receivable relating to the consideration for holding the property paid in 2011 was recorded and subsequently deducted from the amount of the deposit received to be returned.
Accrued **income and prepaid expenses** mainly include maintenance fees, insurance premiums and leases.

19.e - Current financial assets - €105,648k

These recorded an increase of €100,031k due to a new short-term deposit due on 3 April, 2018. Information on the balance at 31 December, 2017 is shown below.

€ thousand	31/12/2017	31/12/2016	Change
Receivables for managing the public lighting service	5,320	5,328	(8)
Receivables on short-term deposits	100,000	0	100,000
Accrued income on short-term deposits	4	0	4
Receivables from /SEIN from settlement of Acea ATO5 Servizi	274	274	0
Accrued income on bank account and post office	50	16	34
TOTAL	**105,648**	**5,617**	**100,031**

19.f - Intra-group current financial assets - €1,918,407k

This item recorded a growth of €418.688k. Please note that comparative values have been reclassified with respect to published data in order to better understand the changes. Information is provided in the table below.

€ thousand	31/12/2017	31/12/2016	Change
Receivables due to parent companies - Roma Capitale	117,472	108,134	9,337
Receivables from subsidiaries	1,800,613	1,388,467	412,146
Receivables from affiliate companies	322	3,117	(2,795)
TOTAL	1,918,407	1,499,719	418,688

Receivables from parent companies - Roma Capitale
These amount to a total of €117,472k and refer to receivables due from Roma Capitale relating to the public lighting service contract as anticipated in the section of this document "Trade receivables due from Roma Capitale".

Receivables from subsidiaries
These amount to €1,800,613k (€1,388,467k at 31 December, 2016) and are composed as follows:

€ thousand	31/12/2017	31/12/2016	Change
Receivables from cash pooling relationships	1,667,751	1,255,525	412,226
Accrued current financial assets on loans and cash pooling relationships	103,579	93,037	10,542
Receivables from subsidiaries for loans	14,711	5,250	9,461
Other receivables from subsidiaries	4,871	17,937	(13,066)
Receivables for commissions on guarantees given	9,701	16,718	(7,017)
TOTAL	1,800,613	1,388,467	412,146

The change with respect to the end of the previous year mainly derives from the increase in current account balances with the group companies that have joined a revolving loan line, to cover the needs for working capital and investments, which accrues interest at a fixed rate, defined on the basis of the rates applied on the capital market for the so-called issues. hybrid in the utilities sector updated on an annual basis, increased by a spread linked to the level of exposure and the reversal of the parent company's rating costs.
Receivables for dividends from subsidiaries were mainly reduced due to the distribution of dividends relating to prior years not collected during the years of resolution (€16,066k).

Receivables from subsidiaries for loans increased; this increase is mainly due to Acea's takeover of TWS loans granted by Severn Trent PLC and existing at the time of acquisition of the investment (€9,000k).

Receivables from affiliate companies
At 31 December 2017, these amount to €322k and are in line with the values for 2016.

19.g - Current tax assets - €45,777k

These decreased by €31,595k compared to the end of the previous year and the composition is shown below:

€ thousand	31/12/2017	31/12/2016	Change
IRAP and IRES receivables for payments on account	18,853	2,157	16,696
VAT receivables	22,145	37,075	(14,930)
Other tax receivables	491	2,130	(1,639)
Total receivables from the tax authorities	**41,489**	**41,362**	**127**
Tax consolidation receivables due from subsidiaries	4,288	36,010	(31,722)
Total tax credits	45,777	77,372	(31,595)

VAT receivables derive from the Group VAT settlement procedure; the amount represents the receivable for the side paid at the end of December 2017.
The IRES receivable of €17,294k derives from excess payments made during the year compared to the tax calculated for the 2017 financial year.

19.h - Cash and cash equivalents - €527,423k

These recorded a reduction of €49,911k (€577,334k as at 31 December, 2016) and represent the balance of bank and postal current accounts opened at the various credit institutions as well as at Ente Poste.

NOTES TO THE BALANCE SHEET - LIABILITIES

20. Shareholders' equity - €1,554,961k

€ thousand	31/12/2017	31/12/2016	Change
Share capital	1,098,899	1,098,899	0
Legal reserve	100,619	95,188	5,431
Reserve for own shares in portfolio	0	0	0
Other reserves	72,757	69,100	3,657
Profits carried forward	56,107	84,707	(28,600)
Profit (loss) for the year	226,579	108,610	117,969
TOTAL	**1,554,961**	**1,456,505**	**98,456**

Shareholders' equity increased by €98,456k compared to 31 December, 2016. This change is mainly due to the profit reported in the year and to the effects generated by the allocation of the result achieved in 2016, as well as the changes in other reserves.
The composition and changes per item are shown below:

20.a - Share capital - €1,098,899k

It amounts to €1,098,899k and is represented by 212,964,900 ordinary shares of €5.16 each as shown in the Register of Shareholders and is currently underwritten and paid in the following measures:

- Roma Capitale: 108,611,150 for a total nominal value of €560,434k,
- AMA: 1,000 for a total nominal value of €5k,
- Market: 103,935,757 for a total nominal value of €536.309k,
- Treasury Shares: 416,993 ordinary shares with a total nominal value of €2,151k.

20.b - Legal reserve €100,619k

It includes 5% of the profits of the previous financial years as required by Article 2430 of the Italian Civil Code.
At 31 December, 2017 there was an increase of €5,431k compared to the previous year, due to the allocation of profit achieved in 2016.

20.c - Reserve for treasury shares in portfolio - €0k

Pursuant to Art. 2428 of the Italian Civil Code, there are 416,993 treasury shares in the portfolio, with a nominal value of € 5.16 each (€2,151k in total) and correspond to 0.196% of the share capital.
The reserve for treasury shares amounted to €3,853k at 31 December,, 2017; the amount of the reserve coincides with the value of shares in the portfolio accounted for as a reduction of the Shareholders' Equity in accordance with IAS 32.

20.d - Other reserves - €72,757k

The composition of the Item and the changes for the period are provided below:

€ thousand	31/12/2017	31/12/2016	Change
Extraordinary reserve	180	180	0
Demerged capital gains reserve	102,567	102,567	0
Reserve for exchange differences	13,157	1,909	11,248
Valuation reserve for financial instruments	(34,285)	(25,367)	(8,918)
Reserve for actuarial gains and losses	(9,780)	(10,868)	1,088
Other Miscellaneous reserves	918	679	239
TOTAL	**72,757**	**69,100**	**3,657**

The reserve for differences in exchange records an increase of €11,248k and represents the effect of the valuation at the exchange rate on 31 December, 2017 of the *private placement* in YEN signed in 2010.
The *cash flow hedge* reserve is negative and stands at €34,285k. This reserve includes €3,333k for the negative difference deriving from the delta of conversion rates between that provided for in the hedging contract and that recorded on the adjustment date of the bond (3 March 2010).
Changes occurring during the year include the effect related to the transfer of equity investments of Agua de San Pedro and Acea Dominicana to Acea International (€239k).
The table below shows available and unavailable reserves.

€ thousand

Nature / Description	Amount	Possibility of use	Share available	Summary of uses made in the three preceding years	
				To cover losses	For other reasons
Capital reserves:					
Reserve deriving from the ARSE spin-off	6,569	A, B, C	6,569		
Profit reserves from the profit and loss account					
Legal reserve	100,619	A, B	100,619		
Extraordinary reserve	180	A, B, C	180		
Demerged capital gains reserve	102,567	A, B,C	102,567		
Profits carried forward	56,107	A, B, C	56,107		
Profit reserves from O.C.I.:					
Cash flow hedge reserve	(34,285)		(34,285)		
Reserve for exchange differences	13,157		13,157		
Reserve for actuarial gains and losses	(9,780)		(9,780)		
Other reserves					
Increased acquisition cost Umbra Acque	(3,173)		(3,173)		
Increased acquisition cost SAMACE	(785)		(785)		
Increased acquisition cost Kyklos	(1,932)		(1,932)		
Reservation reserve Acea International	239		239		
Reserve foravailable treasury shares	0	A, B, C	0		
Reserve for own shares in portfolio	3,853	Guarantee of treasury shares	3,853		
TOTAL	**233,336**		**233,336**		
Non-distributable share			67,912		
Remaining distributable share			165,425		

*Key:
A:=*for capital increase* - B= *to cover losses* - C= *for distribution to shareholders.*

21. Severance pay benefits and other defined benefit plans - €24,464k

It decreased by €1,980k and reflects severance indemnities and other benefits to be paid subsequently to the performance of the work activity to employees. Within the obligations that make up this item, we need to highlight the defined contribution plans and defined benefit plans. The following table shows the composition:

€ thousand	31/12/2017	31/12/2016	Change
Benefits due at the time of termination of employment			
- Severance Payments	7,214	7,465	(251)
- Additional monthly payments	1,263	1,236	26
LTIP plans	1,219	780	440
Total	**9,696**	**9,481**	**215**
Benefits following the employment relationship			
- Tariff reductions	14,768	16,963	(2,195)
TOTAL	24,464	26,444	(1,980)

With regard to the calculation method, it must be noted that the benefits due at the time of termination of the employment relationship are determined according to actuarial criteria; with reference to post-employment benefits, the calculation is based on the " projected unit credit method " which is based on assessments that express corporate liability as the current average value of future benefits, pro rated based on the service provided by the employee at the time calculation with respect to that corresponding at the

time of payment of the service.
The change is affected by

1. the provisions for the period,
2. by expenditures that occurred during the period and
3. only marginally by the decrease in the rate used to measure liabilities.

In particular, with regard to the economic-financial scenario, the discounting rate used for the valuation was of 1.30% against a rate used last year of 1.31%.
As required by paragraph 78 of IAS 19, the interest rate used to determine the current value of the obligation was determined with reference to the yield on the valuation date of securities of primary companies in the financial market to which Acea belongs and to the return on outstanding government bonds on the same date with a duration comparable to the residual duration of the collective of workers analysed; it must be noted that, due to internal consistency of assessment and alignment with the requirements of IAS 19, the same technical bases have been maintained for the various types of plans.
Furthermore, the parameters used for the evaluation are shown below:

	December 2017	December 2016
Discount rate	1.30%	1.31%
Income growth rate (average)	1.59%	1.59%
Long-term inflation	1.50%	1.50%

With reference to the evaluation of the Group's Employee Benefits (TFR, additional monthly salaries, tariff subsidies for assets and pensioners), a sensitivity analysis was carried out to appreciate the changes in liabilities resulting from both positive and negative flat rate changes in the interest rate curve. (+ 0.5% - -0.5% shift). The results of this analysis are summarised below.

Plan type	Discount rate	
€k	0.50%	-0.50%
TFR severance pay	-416	450
Tariff reductions	-1,176	20
Additional monthly payments	-80	64
LTIP	960	946

Furthermore, a sensitivity analysis was carried out in relation to the age of the collective, assuming a collective younger than one year compared to the effective one.

Plan type	
€k	-1 year of age
TFR severance pay	-60
Tariff reductions	-1,351
Additional monthly payments	55

No sensitivity analyses were carried out on others variables such as, for example, the rate of inflation.

22. Provision for risks and charges - €14,984k

The table below details the composition by nature and the changes compared to the end of the previous year:

€ thousand	31/12/2016	Uses of provisions	Reclassifications / Other changes	Release due to surplus funds	Provisions	31/12/2017
Investees	31,193	(85)	(3,870)	(22,127)	48	5,158
Legal	2,391	(649)	54	(809)	619	1,606
Risks contributing and relating to national insurance and welfare institutions	936	0	0	(30)	25	931
Procurement and supplies	1,473	(1,169)	50	0	1,371	1,725
Redundancy and mobility	551	(7,028)	0	0	12,000	5,523
Code	299	(288)	0	(12)	0	0
Other risks and charges	159	0	(104)	(15)	0	40
Total	**37,002**	**(9,218)**	**(3,870)**	**(22,993)**	**14,063**	**14,984**

The main changes concerned:

- the provision for risks associated with legal disputes was used for €649k for unfavourable rulings, while generating a redundancy issue of €809k and a provision for the year of €619k,
- the provision set aside for redundancy and mobility plans used for €7,028k as the relevant procedures have been completed. In addition, €12,000k have been set aside for the same plan,
- the use of the tax risk provision of €649k was used for payment of tax assessments,
- during the year, €1,169k were used for contracts and supplies, of which €600k for the restoration of the warehouse location after the release of the building used in December 2017.

It must also be noted that the reserve for investee risks, equal to €5,158k, as at 31 December, 2016 was €31,193k and included €22,127k relating to the subsidiary Gori. This fund was fully released due to the absence of the reasons that generated it.

23. Non-current payables and financial liabilities - €2,482,564k

Please note that comparative values have been reclassified with respect to the published data in order to better understand the changes and are composed of:

€ thousand	31/12/2017	31/12/2016	Changes
Medium and long-term bonds	1,695,028	2,019,447	(324,418)
Medium and long-term loans	787,536	471,014	316,522
TOTAL	2,482,564	2,490,460	(7,896)

Medium and long-term bonds

Medium-long term bonds decreased by €324,418k. This change is essentially due to the reclassification between current financial liabilities of the residual bond issue issued by Acea at the beginning of September 2013, with a duration of 5 years expiring on 12 September 2018. The above payable, net of the positive fair value allocated to the financial management of the profit and loss account for €919k, amounts to €328,827k (including the residual portion of costs related to the signing). The bonds pay a gross annual coupon of 3.75% and have been placed at an issue price of 99.754. The effective gross yield on maturity is therefore equal to 3.805% corresponding to a yield of 230 basis points above the reference rate (mid - swap at 10 years). The bonds are governed by English law. The settlement date was 12 September 2013. The portion of interest accrued in the period is €12,390k.

They are broken down and allocated under this item as follows:

- **€594,949k** (including the long-term portion of the costs attached to the contract) relating to the 10-year bond issue issued by Acea issued by Acea, based on the Euro Medium Term Notes (EMTN) program of € 1.5 billion. The bonds, which have a minimum denomination of 100,000 Euro and expire on July 15, 2024, pay an annual gross coupon of 2.625% and were placed at an issue price of 99.195%. The effective gross yield at maturity is equal to 2.718%, corresponding to a yield of 128 basis points above the 10-year midswap rate. The bonds are governed by English law. The settlement date was 15 July, 2014. The portion of interest accrued in the period is €15,750k,
- **€491,754k** (including the long-term portion of the costs attached to the contract) relating to the bond issued by Acea in October 2016 for the EMTN programme for a total amount of €500,000k with a 10-year fixed-rate duration. The bonds, which have a minimum denomination of €100,000.00 and expire on 24 October, 2026, pay an annual gross coupon of 1% and were placed at an issue price of 98.377%. The bonds are governed by English law. The settlement date was 24 October 2016. The portion of interest accrued in the period is of €5,000k,
- **€422,251k** (including the long portion of costs associated with the contract) relating to the bond loan issued by Acea in March 2010, with a maturity of 10 years maturing on 16 March 2020. Bonds issued have a minimum denomination of €50k and pay an annual gross coupon of 4.5% and have been placed at an issue price of €99.779. The effective gross yield on maturity is therefore equal to 4.528% corresponding to a yield of 120 basis points above the reference rate (10-year mid-swap). Bonds are governed by English law. The settlement date was 16 March, 2010. The portion of interest accrued in the period is €19,025k. This residual debt, after the purchase and cancellation of bonds for a nominal value of €77,225k on October 24, 2016,
- €148,939 thousand relating to Private Placement which, net of the fair value of the negative hedging instrument for €38,349k, amounts to €**186,075k**. This fair value is allocated to a specific equity reserve. The exchange difference, negative for €17,311k, of the hedged instrument calculated as of 31 December, 2017 is allocated to a special exchange reserve. The exchange rate at the end of 2017 stood at €135.28 against € 122.97 as at 31 December,2016. The interest portion accrued in the period is of €3,871k This is a private bond (Private Placement) for an amount of 20 billion Japanese Yen) and with a maturity of 15 years (2025). The Private Placement was underwritten entirely by a single investor (AFLAC). Coupons are paid on a semi-annual basis every 3 March and 3 September applying a fixed rate in Yen of 2.5%. At the same time, a cross currency transaction was carried out to transform the Yen currency into Euro and the Yen rate applied in a fixed rate in Euro. The cross currency transaction requires the bank to pay Acea, with a deferred semi-annual maturity, 2.5% out of 20 billion Japanese Yen, while Acea must pay the bank the coupons on a quarterly basis postponed to a fixed rate of 5.025%. The loan agreement and the hedging contract contain an option, respectively, for the investor and the agent bank, connected to the trigger rating: the debt and its derivative can be recalled in their entirety in the event that Acea's rating falls below the level of investment grade or in the event that the debt instrument loses its rating. At the end of the year the conditions for the possible exercise of the option did not occur.

Medium / long-term loans

These amount to 787,536k and show a total change of €316,522k and represent the payable for the portion of the instalments not yet repaid at 31 December, 2017 and expiring beyond twelve months.

The main loans, whose values as at 31 December, 2017 are shown below, including short-term portions, amount to a total of €919,244k, and are described below:

- loan signed on 25 August 2008 for an amount of €200,000k

for the investment plan in the water sector (Acea Ato2) with a duration of 15 years. This loan at 31 December, 2017 amounted to €132,487k. The first tranche of €150,000k was disbursed in August 2008 and the interest rate is equal to the 6-month Euribor plus a spread of 7.8 basis points. During 2009, a second tranche was disbursed for an amount of €50,000k which provides for an interest rate equal to the 6-month Euribor plus a spread of 0.646%; the deadline is set at 15 June, 2019;

- loan agreement for an initial amount of €100,000k, entered on March 31, 2008 expiring on 21 December, 2021. The rate applied by the bank is a variable rate and the instalments are six-monthly and repayment will be made in half-yearly instalments; the first was paid on 30 June, 2010. The residual amount of the loan at 31 December, 2017 amounts to €36,760k. The risk of fluctuations in interest rates associated with the loan was hedged through the subscription of an Interest Rate Swap with the aim of transforming the cost of the underlying loan from variable to fixed. The swap follows the performance of the underlying depreciation plan. Based on IAS 39, the company has assessed the effectiveness of the hedging instrument according to the hedge accounting method based on the cash flow hedge model. The test result is 98.52% effective, which means that no portion is recorded in the profit and loss account that reflects the ineffectiveness of the instrument; in the appropriate equity reserve, the negative fair value of the hedging instrument equal to €3,432k was recorded;
- loan contracted by EIB in 2009 for an amount of €100,000k aimed at supporting the needs of the multi-year investment plan in the field of upgrading and expanding the electricity distribution network in Roman territory for a four-year plan. The interest rate applied is equal to 6-month Euribor with a 0.665% spread and the deadline is set for June 2018;
- loan contracted by the EIB on 23 December 2014 for €200,000k, aimed at supporting the needs of the long-term investment plan in the water area. The interest rate applied is equal to 6-month Euribor with a 0.45% spread and the deadline is set for June 2030;
- loan contracted by the EIB on 2 May 2017 for €200,000k under the Efficiency Network III Project. The interest rate is variable. The loan repayment plan includes a pre-depreciation period up to 15 June, 2021 and depreciation in constant instalments of semi-annual capital until 31 December, 2030;
- €150,000k loan line from Intesa SanPaolo SpA disbursed on 22 December 2017 with final maturity on 21 June 2019. The interest rate is fixed and the repayment is in a single payment;
- a €100,000k loan line disbursed on 28 December 2017 by UBI Banca SpA with final maturity on 2 January 2019. The interest rate is fixed and the repayment is in a single payment.

The table below provides details of the loans by type of interest rate and by maturity. It must be noted that the table also shows the short-term portion by 31 December, 2017 of €131,708k.

€ thousand	Total residual debt	By 31/12/18	from 31/12/18 as of 31/12/22	Beyond 31/12/22
Fixed rate loans	250,000	0	250,000	0
variable rate	632,484	123,370	176,614	332,500
variable vs fixed rate	36,760	8,338	28,422	0
Total medium - long and short - term loans	**919,244**	**131,708**	**455,036**	**332,500**

For information on financial instruments, please refer to the paragraph *"Supplementary information on Supplementary information on financial instruments and risk management policies"*.

24. Other non-current liabilities - €0k

These are zero at 31 December, 2017.

25. Deferred tax provision - €8,856k

These increased by €4,060k compared to 31 December, 2016. With regard to the composition of the balance, reference must be made to the table set out undeer the item "Deferred tax assets" of this document.

Current liabilities - €792,545k

The total increase of €426.941k. The increase is attributable to the reclassification of the short-term portion of the EIB loan of €100,000k maturing in June 2018 and of the bond issued by Acea at the beginning of September 2013, with maturity on September 12, 2018 of the total amount equal to to €328,827k (net of the positive fair value allocated in the financial management of the profit and loss account for €919k and including the residual portion associated with the contract).
The composition is shown below.

€ thousand	31/12/2017	31/12/2016	Change
Financial payables	542,975	131,459	411,516
Trade payables	191,784	206,553	(14,770)
Tax payables	35,448	36,544	(1,096)
Other current liabilities	22,338	17,314	5,024
TOTAL	**792,545**	**391,871**	**400,674**

26.a - Financial payables - €542,975k

These increased by €437,783k and are composed as follows:

€ thousand	31/12/2017	31/12/2016	Change
Payables from subsidiaries and associates	25,892	76,697	(50,805)
Short-term obligations	352,846	26,256	326,590
Payables due to banks for financing	131,708	23,405	108,303
Payables to Roma Capitale	767	3,040	(2,273)
Payables to banks for short-term credit lines	30,000	0	30,000
Payables due to others	1,761	2,060	(299)
TOTAL	**542,975**	**131,459**	**411,516**

Please note that comparative values have been reclassified with respect to published data in order to better understand the changes. Changes concerned payables to subsidiaries and associates mainly due to

1. cash pooling transactions which decreased by €50,805k due to the lower financial exposure for the Group companies in the year and for
2. the payment of the debt generated by the assignment of receivables for IRES and IRAP requested for reimbursement relating to the requests submitted by Group companies during 2013.

The following is a breakdown by type of debt due to investee companies:

€ thousand	31/12/2017	31/12/2016	Change
Payables for cash pooling relationships	25,892	64,180	(38,288)
Other financial payables	1	12,518	(12,517)
TOTAL	**25,892**	**76,697**	**(50,805)**

Payables to banks for mortgages and short-term bonds are reversed due to the repayment of the portions of mortgages maturing in 2017, mitigated by the recording of accruals accrued during the year. Financial payables to Roma Capitale decreased by €2,273k due to the reduction from the down payment towards Roma Capitale for the Led Plan due to the progress of the installation plan.

26.b - Payables to suppliers - €191,784k

Results are as follows.

€ thousand	31/12/2017	31/12/2016	Change
Payables to third party suppliers	93,392	109,626	(16,234)
Payables from subsidiaries and associates	98,392	96,927	1,465
TOTAL	**191,784**	**206,553**	**(14,770)**

Payables to third party suppliers show a decrease of €16,234k and the balance is shown below:

€ thousand	31/12/2017	31/12/2016	Change
Payables due to invoices received	50,579	60,320	(9,741)
Payables due to invoices to be received	42,813	49,306	(6,493)
TOTAL	**93,392**	**109,626**	**(16,234)**

With regard to payables to suppliers for invoices received for €50,579k, it must be noted that the expired component amounts to €11,083k, the remaining amount is due within the next twelve months.

With regard to relations with **subsidiaries and associates**, there was an increase of €1,465k, which is analysed in the following table:

€ thousand	31/12/2017	31/12/2016	Changes
Acea Illuminazione Pubblica	5,754	5,754	0
Acea Ato2	1,380	537	843
Acea Energia	10,808	8,990	1,819
Acea Produzione	245	25	220
areti	69,374	76,625	(7,250)
Ingegnerie Toscane	2,300	0	2,300
Citelum Acea Napoli	1,798	2,644	(846)
Aquaser	179	0	178
Acea8cento	65	477	(412)

(follows) € thousand	31/12/2017	31/12/2016	Change
Acea Elaboratori	5,490	604	4,885
Publiacqua	111	225	(113)
Abab	78	78	0
GORI	87	87	0
Other	723	882	(158)
TOTAL	98,392	96,927	1,465

26.c - Tax payables - €35,448k

These are reduced by €1,096k and are composed as shown in the following table.

€ thousand	31/12/2017	31/12/2016	Change
IRES and IRAP payables	620	16,956	(16,336)
Deferred VAT	8,532	8,537	(5)
Staff withholdings	1,668	1,767	(99)
Other tax payables	6	15	(9)
Total payables to tax authorities	**10,826**	**27,276**	**(16,450)**
Tax consolidation payables to subsidiaries	24,621	9,268	15,354
Total tax payables	35,448	36,544	(1,096)

26.d - Other current liabilities - €22,338k

These are composed as follows:

€ thousand	31/12/2017	31/12/2016	Change
Payables to pensions and nat. insurance institutions	3,159	2,873	286
Other payables from subsidiaries and associates	0	5	(5)
Other payables	19,179	14,437	4,742
stock of receipts from customers to be redeemed / returned	5,386	5,373	12
Payables due to municipalities	901	901	0
Insurance payables	563	579	(17)
Payable in installments with Equitalia	103	188	(85)
Accruals and deferrals	0	78	(78)
Other payables	4,374	252	4,122
TOTAL	22,338	17,314	5,024

For greater clarity, it must be noted that payables with a due maturity of more than five years are not recorded in the financial statements, other than those already indicated with respect to the item "Loans".
The item other payables contains €4,067k for the advance on the sale of Autoparco to be returned to the company Trifoglio Srl following the ruling by the Court of Rome that with ruling no. 11436/2017, published on 6 June, 2017, stated the nullity of the purchase agreement entered into with the company Trifoglio Srl on 22 October, 2010. This amount includes interest accrued as at 31 December, 2017.

INFORMATION ON RELATED PARTIES

ACEA AND ROMA CAPITALE

The controlling entity holds an absolute majority with 51% of Acea's shares.
There are commercial relations between Acea and Roma Capitale, as the company provides services to the Municipality with regard to maintenance and upgrading of public lighting systems.
With regard to the public lighting service, we inform you that it is provided exclusively in the Rome area. As part of the thirty-year free grant issued by the Municipality of Rome in 1998, the economic terms of the services subject to the concession are currently governed by a service contract between the parties in force since May 2005 and until the concession expires (31 December, 2027) , pursuant to the supplementary agreement signed between Acea and Roma Capitale on 15 March, 2011 modified in June 2016 with a private deed aimed at regulating commitments and obligations deriving from the implementation of the Led Plan.
The integrations of the supplementary agreement of 2011 concern the following aspects:

- alignment of the duration of the service contract at the end of the concession (2027), given the mere access function of the contract itself to the agreement;
- periodic updating of the fee components related to electricity consumption and maintenance;
- annual increase of the flat fee in relation to the new light points installed.

In addition, investments related to the service can be (i) requested and financed by the Municipality or (ii) funded by Acea: in the first case these interventions will be remunerated on the basis of a price list defined between the parties (and reviewed every two years) and will give rise to a percentage reduction of the ordinary fee; in the second case, the Municipality is not required to pay extra fees; however, Acea will be granted all or part of the expected savings in energy and economic terms according to predefined methods.
Among other things, it is expected that the quantitative and quantitative parameters be negotiated again during the course of 2018.
On the due or early termination date Acea is entitled to an indemnity corresponding to the residual book value of the assets that will be paid by the Municipality or the incoming operator upon express provision of this obligation in the call for tenders for the selection of the new operator.
Finally, the contract establishes a list of events that represent the cause of early revocation of the concession and / or the termination of the contract by the will of the parties; among these events, the one related to the needs arising from the public interest appears to be relevant, expressly included is that provided for by article 23 bis of Italian Legislative Decree no. 112/2008 repealed as a result of the referendum of 12 and 13 June 2011, which determines in favour of Acea the right to an indemnity commensurate with the product, discounted, between a defined percentage of the annual contract amount and the number of years missing at the expiry of the concession.
The supplementary agreement, exceeding the materiality thresholds defined by the Company in relation to Transactions with Related Parties, was submitted to the analysis of the Board of Directors and obtained approval at the meeting on 1 February, 2011, after obtaining the favourable opinion by the Committee for Transactions with Related Parties.
Reciprocal claims and liabilities - with reference to payment methods and terms - are governed by individual contracts:

a. for the public lighting service contract the payment is expected within sixty days from the submission of the invoice and, in the event of delayed payment, the legal rate is applied for the first sixty days and then the default rate as established from year to year by a special decree of the Minister of Public Works in agreement with that of the Minister of Economy and Finance,
b. for all other service contracts the payment deadline for Roma Capitale with reference to service contracts is sixty days from receipt of the invoice and in the event of late payment, the parties have agreed to apply the official discount rate in force over time.

The private agreement signed in June 2016 between Acea and Roma Capitale regulated commitments and obligations deriving from the implementation of the Led Plan modifying Art. 2.1 of the Supplementary Agreement signed in 2011.
In particular, this Plan provides for the installation of 186,879 reinforcements to be carried out at 10,000 per month with effect from thirty days after the signing of the agreement; the consideration is set at € 48 million for the entire Led Plan. The amount will be settled to the extent of 10% as down payment and the remaining part, on the basis of special bi-monthly SAL where Roma Capitale must pay 80% within thirty days after the closing of the SAL and the remaining 15% within fifteen days from verification of SAL.
The contract also provides incentive / penalty mechanisms for superior/inferior installations than those programmed for each two months as well as the reduction of the amount recognised by Roma Capitale equal to 50% of the economic value of the Energy Efficiency Certificates due to Acea for the Led Project.
As a result of the implementation of the Led Plan, the parties partially modified the price list and the composition of the fee for the management of the service.
New constructions and investments contribute to the increase in the lump-sum payment due to the annual rate calculated according to the mechanism of tax depreciation envisaged for the plants underlying the specific intervention and to the percentage reduction of the ordinary rent due from Roma Capitale whose amount is defined in the technical-economic project document.
A variable interest rate is envisaged to remunerate the invested capital.
With regards the extent of the relationship between Acea and Roma Capitale, reference must be made to what has been explained and commented on receivables and payables to the parent company in note no. 19.c of this document.
From the point of view of economic relations, instead, the costs and revenues at 31 December 2017 are summarised below with reference to the most significant transactions.

	REVENUE		COSTS	
€ thousand	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Service contract for public lighting	58,732	66,948	0	0
TOTAL	**58,732**	**66,948**	**0**	**0**

ACEA AND ROMA CAPITALE GROUP

Even with companies, special companies or institutions controlled by Roma Capitale, Acea has commercial relations.
The following table shows information on entries with the companies of the Roma Capitale Group.

	LIABILITIES	COST	CREDIT	REVENUE
€ thousand	31/12/17	31/12/17	31/12/17	31/12/17
AMA SpA	13	629	28	64
ATAC SpA	20	57	178	64
ROMA METROPOLITANE Srl	0	0	56	0
FONDAZIONE CINEMA PER ROMA	100	100	0	0
RISORSE PER ROMA R.P.R. SpA	6	0	0	0
ROMA MULTISERVIZI SpA	6	0	0	0
BIOPARCO	1	0	0	0
Total	**146**	**786**	**262**	**128**

ACEA AND ITS SUBSIDIARIES

Financial reports

Acea SpA, in its function as an industrial holding company, defines the strategic objectives at the Group and subsidiary level and coordinates its activities.
As part of the centralised management of financial services, the parent company Acea has long since adopted a Group inter-company treasury system, including an inter-company finance relationship, making it available to many Group companies with which a special multi-year inter-company finance contract was signed.
On 1 April, 2016 a new inter-company finance contract was approved for three years, considering the previous one obsolete under the renewal adopted according to the Acea2.0 project.
Based on this contract, Acea provides a medium-term revolving loan the so-called "Intercompany Finance Line", up to reaching a pre-established Plafond for financing the financial needs for (**i**) working capital requirements and for (**ii**) carrying out investments.
In addition, Acea makes credit lines available to its own companies for signature, for an amount equal to the Plafond for bank guarantees or through the direct issuing of corporate guarantees for an amount equal to the Plafond for Corporate Guarantees.
The operation of this contract provides that in a permanent and daily manner each company, holder of specific peripheral bank current accounts, daily credit or debit the Parent Bank's current account to zero the balance on its current accounts.
In the case of daily intercompany balance due by currency, companies recognise the interest expense calculated, for each year, on the basis of a market interest rate, defined as the weighted average of the rates applied on the capital market for the so-called issues. hybrid or similar in the utilities sector (revisable annually, possibly increased by an additional margin linked, substantially, to the level of exposure of the beneficiary company with respect to the total limits granted to companies with cash pooling). For 2017, the interest rate applied is between a minimum of 4.62% and a maximum of 5.78%.
In the case of a daily intercompany credit balance by currency, Acea recognises calculated interest rates for each quarter by applying the interest rate resulting from the arithmetic average of the "3 month EURIBOR" rates (source Bloomberg) in the previous quarter.
Contractual terms applied are, with the same credit standing and type of financial instrument, in line with those resulting from the reference market, also supported by the evidence of a benchmark developed by a leading consulting firm.

Reports of a commercial nature

Acea also provides subsidiaries and associated companies with administrative, financial, legal, logistics, management and technical services in order to optimise the resources available within the Company and to optimally use existing know-how in a logic of affordability. These services are governed by specific service contracts.
With regard to service contracts, starting from 1 January 2017 and with a three-year duration. These prices are aligned with market fees as resulting from the benchmarking activity carried out by a leading company in the sector specifically appointed. These contracts, such as those expired, are compliant for regulatory purposes and of the M.O.G.C and envisage SLAs (Service Level Agreements) with a view to improving the level of service offered, to relate to relevant KPIs (Key Performance Indicators).
As part of the Acea2.0 Acea project, companies in the area approved a contract that allows the implementation of the main technological development initiatives (cross-cutting and business) through the communion institute. The aforementioned contract contains rules of an economic - financial nature and of participation in the communion.
Acea also provides operating services, application management and maintenance related to accessing the Acea2.0 program regulated by a specific contract.
Contractual terms applied are, for the same type of service rendered, in line with those resulting from the market.

ACEA AND THE MAIN COMPANIES OF THE CALTAGIRONE GROUP

At the end of the 2017 financial year there were no financial transactions with companies of the Caltagirone Group and Acea SpA
The impact of relationships with related parties on the balance sheet, on the economic result and on the cash flow statement is shown below.

IMPACT ON THE BALANCE SHEET

Balance Sheet	31/12/2017	Of which related parties	% Incidences	31/12/2016	Of which related parties	% Incidences	Change
Financial assets	237,975	237,850	100.0%	237,625	237,499	100.0%	350
Trade receivables	954	527	55.2%	4,517	826	18.3%	(3,564)
Intragroup Trade Receivables	98,772	98,772	100.0%	57,496	57,496	100.0%	41,275
Other Current Assets	14,318	1,943	13.6%	25,378	2,345	9.2%	(11,060)
Infra-group current financial assets	1,918,407	1,918,407	100.0%	1,499,971	1,499,971	100.0%	418,436
Receivables for current taxes	45,777	4,288	9.4%	77,372	36,053	46.6%	(31,595)
Financial payables	542,975	28,429	5.2%	105,192	81,508	77.5%	437,783
Trade payables	191,784	99,017	51.6%	206,553	97,498	47.2%	(14,770)
Tax payables	35,448	24,621	69.5%	36,544	9,129	25.0%	(1,096)
Other current liabilities	22,338	24	0.1%	17,314	0	0.0%	5,024

IMPACT ON THE ECONOMIC RESULTS

Profit and Loss Account	31/12/2017	Of which related parties	% Incidences	31/12/2016	Of which related parties	% Incidences	Change
Income from sales and services	164,403	164,164	99.9%	172,762	168,903	97.8%	(8,359)
Other receipts and income	16,534	6,763	40.9%	11,725	8,111	69.2%	4,810
External operating costs	149,276	82,773	55.5%	143,851	87,038	60.5%	5,425
Financial income	114,363	113,205	99.0%	89,784	87,325	97.3%	24,579
Financial expenses	64,810	218	0.3%	102,830	183	0.2%	(38,019)
Income from shares held	219,013	219,013	100.0%	146,247	146,247	100.0%	72,766
Expenses from shares held	0	0		408	408	100.0%	(408)

IMPACT ON THE FINANCIAL STATEMENT

Financial Report	31/12/2017	Of which related parties	% Incidences	31/12/2016	Of which related parties	% Incidences	Change
Cash flow from operating activities	(46,508)	(7,668)	16.5%	23,536	76,859	326.6%	(70,044)
Cash flow of investment / disinvestment assets	(198,820)	(290,868)	146.3%	(139,787)	(384,835)	275.3%	(59,034)
Cash flow from financing activities	194,903	(187,896)	-96.4%	(79,927)	(83,368)	104.3%	274,830

LIST OF TRANSACTIONS WITH RELATED PARTIES

During 2017, there were no significant transactions with related parties.

OTHER ISSUES

Acea SpA, Acea Ato2 SpA and AceaElectrabel Produzione SpA (now Acea Produzione SpA) – E.ON. Produzione SpA

E.ON. Produzione SpA, as Enel's successor, introduced some concessions for the diverting public waters of Peschiera sources to generate energy, in order to obtain the conviction of the joint defendants (Acea, Acea Ato2 and AceaElectrabel Produzione) to pay the undervoltage compensation (i.e. compensation for damages due to unlawful undervoltage), which remained frozen to that agreed in the 1980s, to the extent of € 48.8 million (in addition to the sums due for the years 2008 and subsequent years) or in the alternative to the payment of the sum of € 36.2 million.
On 3 May 2014, the Administrative Court of Public Waters, with ruling no. 14/14, rejected the application of E.ON in full. considering the agreements of 1985 still in force and considering the claim limited only to the "undervoltage price" viewing that relating to the measure of adjustments as strange.
E.ON was ordered to reimburse the costs of litigation in the amount of €32k plus legal ancillary and CTU fees.
On 23 June 2014 E.ON. appealed before the TSAP with the first hearing set for 1 October, 2014. Following subsequent postponement of the procedure, at the hearing of 14 January 2015, the ruling was deferred to the first hearing of 10 May 2015. With ruling no. 243/2016 the appeal was rejected, convicting E.ON. to pay all legal costs.
With an appeal lodged before the United Sections of the Court of Cassation on 20 December, 2016, the counterparty challenged the sentence of the TSAP; Acea's counterclaim was notified on 27 January 2017.
The hearing is currently awaiting to be scheduled.

Acea SpA – SASI

With ruling 6/10, the TRAP accepted the claim for damages from illegitimate withdrawal of water from the river Verde, filed by Acea in 2006 against Società Abruzzese per il Servizio Integrato SpA (SASI) recognizing in favour of Acea, as compensation for damages, the sum of €9,002,920 plus interest, effective from 14 June, 2001 and until July 30, 2013.
The ruling, which is not provisionally enforceable, has been challenged by the SASI before the TSAP and Acea has lodged an incidental appeal. With a non-definitive sentence no. 117/13 of 11 June 2013, the TSAP, accepting one of the grounds for appeal, put the case back on trial ordering that the expert witness quantify the damage suffered by Acea for the 2001/2010 period. The TSAP established the hearing of 23 October 2013, then postponed it until the hearing on 27 November 2013; at that time, the same first level expert witness was appointed. After a series of postponements, ruling no. 16 was filed on 1 February, 2017 with which the TSAP also recognised in favour of Acea, the sum of € 6,063,361, in addition to the legal compensatory interest on the sum annually per annum revalued from 2001 to 2010 and the default interest from the decision on the balance. The SASI, with appeal notified before the United Sections of the Supreme Court on 5 April 2017, appealed the ruling of the TSAP; Acea's counterclaim was notified on 12 May, 2017 and the hearing is currently awaited.
Following the notice by Acea of the injunction, for the amount of € 7,383,398.66, on 5 March, 2018 SASI notified an appeal pursuant to Art. 373 of the Italian Civil Code, aimed at obtaining the suspension of the ruling's enforcement effectiveness; the first hearing for the discussion in chambers is scheduled for 11 April.

A.S.A. – Acea Servizi Acqua - SMECO

With a summons notified in autumn of 2011, Acea was summoned in court to answer for alleged damages in addition to the alleged non-compliance with unproven and non-existent obligations assumed under the shareholders' agreement relating to the subsidiary A.S.A. - Acea Servizi Acqua - by its minority shareholders and their respective shareholders. The petitum stands at over € 10 million.
The judge, accepting SMECO's request, deemed necessary to obtain accounting technical advice aimed at quantifying the costs incurred, the loss of earnings and any payment due through the sale option envisaged in the shareholders' agreements.
With ruling no. 17154/15 of 17 August 2015, the Court rejected the application in its entirety and sentenced the parties jointly and severally to the reimbursement in favour of Acea of expenses paid out at € 50,000.00 plus ancillary fees. On 1 October 2015, SMECO lodged an appeal to the 2nd Section of the Court of Appeals of Rome. At the hearing of February 3, 2016, the case was postponed awaiting clarification of conclusions to 11 April 2018.

Acea SpA - Milano '90

The issue concerns the non-payment of the sum of € 5 million from Milan '90, due to the balance of the purchase price of the area in the Municipality of Rome with access from Via Laurentina n. 555 completed on 28 February 2007 and with subsequent supplementary act dated 5 November 2008. With the supplementary deed, the parties have agreed to change the consideration from €18 million to € 23 million, at the same time eliminating the earn out, providing for the final payment date on 31 March, 2009.
Given the purchaser's inactivity, the procedure aimed at recovering sums due through the drafting of a formal notice and warning in Milan '90 was initiated and, therefore, through the filing of an appeal by injunction order, which, on 28 June 2012, was provisionally granted.
The aforementioned injunction decree was notified on 3 September, 2012 and on 23 November, the Judicial Officer was granted foreclosure to third parties for forced recovery of the sums owed.
The opposition of the injunction by Milan is still ènding before section X of the Court of Rome. As part of the trial, a further procedure was established pursuant to Art. 649 of the Italian Code of Civil Procedure aimed at suspending the provisional execution of the opposing injunction, suspension that was accepted by the judge. The executive procedure initiated after the provisional execution of the suspended decree has also been suspended.
At the hearing of 13 March, 2014, the judge reserved the request for investigation means.
With a provision dated 7 April 2014, the same judge, deemed necessary a technical investigation to assess the urban situation of the property and to admit the testimonial evidence worded by Acea, referred to the hearing of 18 December 2014 for the hearing of texts and the conferment of the assignment to the CTU. At the hearing of 15 June, 2017 the case awaits a decision. With ruling no. 3258, published on 13 February, 2018, the Court of Rome rejected the opposition and fully confirmed the injunction, condemning Milan 90 to bear all costs of the proceedings.

Acea SpA - Trifoglio Srl

The complex litigation consists of lawsuit as a plaintiff and defend-

ant, brought together in 2015 before the Judge where the case as plaintiff was pending.

Plaintiff: the question concerns the failure of Trefoil to pay the balance of the consideration (equal to € 10.3 million), referred to the purchase and sales contract concerning the property known as Autoparco whose payment date was to be 22 December, 2011.
In consideration of the fulfilment of Trifoglio, we served a formal notice to sign a voluntary resolution of the purchase contract of 22 December, 2010, and then to lodge an appeal with the Court of Rome, pursuant to Art. 702 bis of the Italian Civil Code. Also ATAC Patrimonio filed an appeal for the resolution of the purchase and sales contract of 22 December, 2010 for the part under its jurisdiction.

Defendant: Trifoglio notified Acea and ATAC Patrimonio of a summons document aimed at ascertaining the invalidity of the deed of sale and the recognition of compensation for damages of about € 20 million.

The Court of Rome, with ruling no. 11436/2017 of 6 June 2017, declared the sales / purchase contract null and void, essentially accepting Acea's request to dissolve from the contractual relationship with Trifoglio and to recover the ownership of the area, arranging the repayment to Trifloglio of the advance payment received (€ 4 million); rejected the claim for compensation for damages filed by Trifoglio and excluded any liability on the part of Acea with regard to the veracity of the contractual guarantees offered to Trifoglio. On 8 August 2017, Trifoglio notified a summons to the appeal; the first hearing was scheduled for 8 February, 2018. The hearing was postponed for conclusions to 13 September, 2018.
With regard to the accounting effects resulting from the aforementioned ruling, reference must be made to the matters explained in note no. 13 commentary on Property, plant and equipment.

Acea SpA - Kuadra Srl

As part of the dispute initiated by Kuadra Srl against the investee Marco Polo Srl in liquidation for an alleged failure due to the participation in the ATI for the management of the CONSIP contract, Kuadra Srl also sued shareholders of Marco Polo (and therefore: Acea, AMA and EUR) as well as Roma Capitale.
This summons is based on the counterparty's assumption that Marco Polo would be subject to the direction and coordination of all the direct and indirect Shareholders.
Acea believes that, also considering the generality of arguments presented by Kuadra Srl on the basis of the liability of Marco Polo's shareholders, the risk of losing referring to this summons must be considered remote, while the indirect risk, as a shareholder of Marco Polo, has already been included in the valuation of the investee company.
The case was adjourned to the hearing of 19 January, 2016 for a decision on the means of investigation. The judge reserved to make a decision on this point. Once the aforesaid reserve was dissolved, the judge rejected the preliminary requests requested by the plaintiffs, postponing the case to 4 October 2016 for clarification of the conclusions. As a result of the establishment of negotiations for the goodwill of the dispute, the hearing was postponed several times.
In view of the agreement reached between the parties for the abandonment of the case pursuant to Art. 309 of the Italian Civil Code, on 15 December 2017 Kuadra Srl filed an application for placing the case back on trial.
By order issued on January 25, 2018, the Judge therefore dismissed the case from trial by setting the hearing on 27 February, 2018. At the hearing, therefore, further postponement was provided pursuant to Art. 309 of the Italian Civil Code to 26 March 26, 2018.

Acea SpA and Acea Ato2 SpA – Province of Rieti

The Province of Rieti has notified Acea and Acea Ato2 of a summons with which it makes claim for damages (for various reasons) that the latter would suffer as a result of the lack of approval of the agreement on the so-called interferences.
Also summoned together with Acea and Acea Ato2, are the Province of Rome, the ATO2 Lazio Central Authority, Roma Capitale and the Lazio Region.
The value of the dispute is currently about € 90 million (€ 25 million up to 31 December 2005 and € 8 million per year for the next period), but the construction of the defensive system is rather fragile, especially against Acea. First of all the identification of the competent judge appears to be censurable: the Ordinary Court in place of the Regional Court of Public Waters; secondly, the liability for the delay in the approval of the interference agreement is certainly not attributable to Acea as it is not required to be carried out by the latter.
The trial, postponed to the hearing of 14 July, 2015 for admission of the investigative means requested by the parties in the terms granted, was postponed again for the clarification of the conclusions to 2 February, 2017, as it is a case in law with relevant preliminary exceptions. At the hearing a new postponement was scheduled for 19 September 2017. At the hearing, the case was awaiting a decision and therefore awaiting the ruling.
Finally, it must be noted that, with Resolution no. 30 of 25 January 2018, the Regional Council of Lazio approved the updated scheme of the mandatory Convention for the management of hydraulic interferences, which acknowledges the recent agreements between the AATO2 and AATO3 entities and that the conferences of auditors of both local authorities approved the scheme and signed, on 2 February, 2018, the convention for the management of hydraulic interferences of the Peschiera - Le Capore aqueduct system. It is specified that this agreement provides, in Art. 16, the waiver of pending judgments, including this one.

Acea SpA – Andrea Peruzy, Maurizio Leo and Antonella Illuminati

With appeals filed before the Employment Section Court, the former Acea Directors Peruzy and Leo summoned Acea to request the conviction of the Company to pay in their favour unpaid remuneration - amounting to € 190k and € 185k respectively - following the early termination of the office held, as well as the compensation for pecuniary and non-pecuniary damages, for various reasons, to be settled even on an equitable basis. Acea has established itself in order to object, first of all, to the inapplicability of employment legislation and therefore to the necessary re-submission of the ruling in ordinary session, as well as the groundlessness of the request. At the hearing of 25 February, 2016, the Court, by order of the same date, upheld that the specialised section had no jurisdiction and referred to the President of the Court for assignment to another section. The cases were summarised before the Companies' Section of the Court of Rome. The matter was defined with the signing, in April 2017, of two settlement agreements; the proceedings were therefore declared to have expired
In an appeal filed before the Employment Section Court, the former Director Antonella Illuminati summoned Acea to request the conviction of the Company to pay in its favour the remuneration not received - equal to approximately € 190k - following the early termination of the the position held, as well as the compensation for pecuniary and non-pecuniary damages, for various reasons, to be settled even on an equitable basis. As previously occurred for the former directors Peruzy and Leo, the matter was defined with the signing, in February 2018, of a settlement agreement; the proceedings are therefore terminated.

Acea SpA – COS disputes

Currently the following rulings are connected to the COS dispute, concerning the ascertainment of the illegality of the contract between ALMAVIVA Contact (formerly COS) and Acea and the consequent right of the lenders to be recognised as a subordinate employment relationship with Acea SpA.

It is specified that the majority of the rulings are transacted and that seven are those still pending in the various grades in order of the claim (that is, the ascertainment of non-validity of the contract and the right to the establishment of the relationship).

On the basis of the rulings relating to an debeatur victorious workers were then introduced (in favour of which a subordinate employment relationship was acknowledged with Acea) of the rulings of quantification of the claim, with which the conviction of Acea was requested for payment of salaries due as a result of the relationship established. These are multiple rulings, which are introduced by six workers, but with reference to different periods of accrual of the alleged receivables, which led to discordant pronunciations, which await various degrees of jurisdiction. Specifically, two quantification rulings currently await a decision in the Supreme Court.

On the other hand, with the ruling of the Court of Cassation no. 27461 of 20 November 2017, the request for emoluments filed by three applicants regarding the remuneration for March 2007 was rejected and therefore this dispute is definitively closed.

A further ruling was defined at first instance with ruling 5538/15 of 3 June 2015 which rejected the demand - relating to a certain time segment - on the importance, mainly, of the fact that the six lenders who remained in arrears pending the company ALMAVIVA Contact (formerly COS) and as such income users.

The value of the applications amounted to € 660k net of accessories, but Acea has not been condemned and therefore has not paid anything. However, unsuccessful workers appealed and the discussion hearing, scheduled for 18 September 2017, was postponed to 25 June 2018, since the Court of Appeals considered it appropriate to await the outcome of the rulings that the Cassation is to hand down on an debeatur of the claim.

Acea SpA and areti SpA – MP 31 Srl (formerly ARMOSIA MP Srl)

This is an opinion of opposition brought against the injunction issued by the Court of Rome - RG. 58515/14 in respect of areti for the amount of € 226,621.34, requested by Armosia MP as rental fees for the months of April-May-June 2014 for the property located in Rome - Via Marco Polo, 31. The injunction order was declared provisionally by an order dated 8 July, 2015.

At the hearing of 17 February 2016, the Judge gathered this opinion with another pending and registered under No. RG 30056/2014 before the Court of Rome - established by Acea and areti (assignee of the lease) in order to hear declaring the termination of the lease contract.

In this last ruling, MP 31 also filed a counterclaim for compensation for the damage suffered in consideration of the state of deterioration of the property at the time of the release by areti. The exposure is approximately € 9 million. At this request, at the hearing of 17 February 2016 both Acea and areti, objected. The Judge ordered the appointment of the expert witness, referring this to 14 March 14, 2016 for the conferment to the latter. With the sentence no. 22248/2017 of 27 November 2017, the Court upheld the claim of MP 31 against areti, condemning it to the payment of the previousinstalments in the amount of € 2,759,818.76 plus interest from the individual deadlines, as well as the payment of the fees up to contract expiry and therefore until 29 December, 2022. Acea filed an appeal, notified on 2 February 2018.

With the decree issued wiyhout prior hearing of the other side on 15 January, 2018 the provisional enforceability of the ruling of first degree was suspended; the collegiate hearing for the discussion of the application for suspension of the provisional execution of the appealed sentence was held on 8 February 2018 and as a result of the same, the Court of Appeals rejected the suspension motion. The hearing to discuss the appeal initially set for 15 March was postponed to 19 April, 2018.

Acea SpA and Acea Ato2 SpA - CO.LA.RI

With a writ of summons notified on 23 June, 2017, the Consorzio Co.La.Ri. and E. Giovi Srl - respectively the manager of the Malagrotta (RM) landfill and consortium executor - have summoned Acea and Acea Ato2 to obtain from the defendants the payment of the tariff quota for landfill access to be allocated to cover the costs of operating thirty years of the same - established with Italian Legislative Decree 36/2003 - allegedly due for the conferment of waste occurred during the period from the contractual validity of 1985 - 2009.

The main petitum stands at over € 36 million for the entire period of contract validity; in the alternative - in the event that the provision that sets the tariff is not considered by the court retroactively applicable - the plaintiffs request recognition of the credit right of about € 8 million, for the March 2003 - 2009 period, as well as the assessment , also through the expert witness, of the receivable relating to the previous 1985 - 2003 period.

The first appearance hearing, initially set for 23 February, 2018, was deferred to 8 October, 2018 for the integration of the dispute against the Optimal Territorial Area Authority 2 Central Lazio - Rome. At the moment, any evaluation on this matter appears premature.

The Directors believe that from the definition of the current litigation and of the other potential disputes, the Company should not derive any additional charges, compared to the allocations made (note No. 22 in the comment on the Provision for Risks and Charges).

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

SUPPLEMENTARY INFORMATION ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

CLASSES OF FINANCIAL INSTRUMENTS

The following is a breakdown of the financial assets and liabilities required by IFRS 7 divided into the categories defined by IAS 39.

€ thousand	Financial instruments at fair value available for trading	Loans and financing	Financial instruments available for sale	Balance sheet value	Explanatory notes
Non-current fixed assets	**0**	**210,251**	**2,352**	**212,603**	
Other investments	0		2,352	2,352	15
Financial assets to parent companies, subsidiaries and associates	0	210,126	0	210,126	17
Financial assets to third parties	0	126	0	126	17
Current assets	**0**	**2,651,203**	**0**	**2,651,203**	
Receivables (commercial loans to) customers	0	954	0	954	19
Trade receivables from related parties	0	98,772	0	98,772	19
Financial assets to parent companies, subsidiaries and associates	0	1,918,407	0	1,918,407	19
Financial assets to third parties	0	105,648	0	105,648	19
Cash available	0	527,423	0	527,423	19
TOTAL FINANCIAL ASSETS	0	2,861,454	2,352	2,863,806	

€ thousand	Financial instruments held for trading	Liabilities at Fair Value	Liabilities at depreciated cost	Balance sheet value	Explanatory notes
Non-current liabilities	**0**	**3,432**	**2,479,132**	**2,482,564**	
Bonds	0	0	1,656,682	1,656,682	23
Bonds valued at the FVH	0	0	0	0	
Bonds valued at CFH	0		38,347	38,347	
Payables to banks (non-current portion)	0	0	784,104	784,104	23
Due to banks (non-current portion) valued at CFH	0	3,432		3,432	
Current liabilities	**0**	**(919)**	**735,702**	**734,783**	
Amounts due to banks	0	0	30,000	30,000	26
Bonds (current portion)	0	(919)	353,765	352,846	26
Payables to banks (current portion)	0	0	131,708	131,708	26
Financial payables to parent company, subsidiaries and associates	0	0	28,429	28,429	26
Financial payables to third parties	0	0	(8)	(8)	26
Trade payables	0	0	93,392	93,392	26
Trade payables to parent companies, subsidiaries and associates	0	0	98,416	98,416	26
TOTAL FINANCIAL LIABILITIES	0	2,513	3,214,834	3,217,347	

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of securities not listed on an active market is determined using the valuation models and techniques prevailing on the market or using the price provided by several independent counterparties.
The fair value of medium / long-term financial receivables and payables is calculated on the basis of the risk-less and risk-less adjusted rates.
It must be noted that for trade receivables and payables with contractual expiry within the financial year, the fair value has not been calculated as their book value approximates the same.
Furthermore, it must be noted that the fair values of financial assets and liabilities for which the fair value cannot be determined have not been calculated.

TYPES OF FINANCIAL RISKS AND RELATED HEDGING ACTIVITIES

Exchange rate risk

Acea is not particularly exposed to this type of risk which is concentrated on the conversion of the financial statements of foreign subsidiaries.
With regard to the Private Placement of 20 billion yen, the exchange risk is hedged by a cross currency described with respect to the interest rate risk.

Liquidity risk

As part of the Group's policy, the objective of managing liquidity risk, for Acea, is to have a financial structure that, in line with the business objectives and with the limits defined by the Board of Directors, ensures a level of liquidity appropriate to the financial needs, maintaining a correct balance between duration and composition of the debt.
The liquidity risk management process, which uses financial planning tools for outflows and receipts suitable to manage treasury hedges and to monitor the trend of consolidated financial debt, is carried out both through cash pooling management both through the support and assistance provided to the subsidiaries and associated companies with which there is no centralised finance contract.
At 31 December, 2017, the Parent Company had uncommitted credit lines for € 769 million, of which € 739 million not used. No guarantees were issued to obtain these lines.
At the end of the financial year, Acea has no outstanding investments in deposits with maturity and the like.

Finally, we note that, under the *EMTN* program for the amount of € 1.5 billion, resolved in 2014, Acea can place bond issues up to the total amount of € 400 million by 2019 since in October 2016 they were placed bonds to the program for € 500 million, which reduced the availability until the program expires.

Interest rate risk

Acea Group's approach to managing interest rate risk, taking into account the asset structure and the stability of the cash flows of Acea Group, has so far been essentially aimed at preserving funding costs and stabilising financial flows, in such a way as to guarantee the margins and the certainty of the aforementioned cash flows deriving from ordinary operations.
Therefore, the Group's approach to the management of interest rate risk is prudent and its management method tends to be static.
In particular, for static management (to be opposed to the dynamic one) we mean a type of management of interest rate risk that does not provide for daily operations on the markets but an analysis and control of the position carried out periodically on the basis of specific needs. This type of management therefore envisages operations on the markets not for trading purposes but rather oriented towards medium / long-term management with the objective of hedging the exposure identified.
Acea has so far chosen to optimise the risk of fluctuating interest rates by choosing a range of debt mix between fixed and variable rates.
As a matter of fact, the fixed rate indebtedness allows an operator to be immune to the cash flow risk since it stabilises the financial charges in the profit and loss account while it is very exposed to the fair value risk in terms of changes in the market value of the debt stock.
The analysis of the consolidated debt position shows that, as the risk to which Acea is exposed, most of it is represented by fair value risk being composed at 31 December, 2017 for about 71.0% of fixed rate debt considering the instruments thus hedging to a lesser extent the risk of variability in future cash flows.
Acea complies with its decisions regarding the management of interest rate risk, which essentially aims both at managing and controlling this risk and at optimizing the cost of debt, the interests of the stakeholders and the nature of the Group's activities, and having compliance with the principle of prudence and consistency with market best practices. The main objectives of these guidelines are as follows:

- identifying, from time to time, the optimal combination of fixed and variable rates,
- pursuing a potential optimization of the cost of debt within the limits of risk assigned by the competent bodies and consistently with the specifics of the reference business,
- managing derivative transactions for hedging purposes only, if Acea decides to use them, in compliance with the decisions of the Board of Directors and, therefore, of the approved strategies and taking into account (ex ante) the economic and equity impact of such transactions, favoring those instruments allowing hedge accounting (typically cash flow hedges and, at certain market conditions, fair value hedges).

Please note that Acea has:

- the fixed-rate loan underwritten on 27 December, 2007 of € 100 million through a swap. The IRS plain vanilla swap was signed on 24 April 2008 with effect from 31 March 2008 (date of the draw of the underlying) and expires on 21 December 2021,
- finalized a cross currency transaction to convert into Euro-through a DCS plain vanilla type swap - the currency of the Private Placement (yen) and the yen rate applied in a fixed rate in Euro via an IRS plain vanilla swap,
- variable rate debt, € 300 million on € 330 million of the fixed rate bond placed on the market in September 2013, with a duration of 5 years through a swap.

All the derivative instruments contracted by Acea listed above are non-speculative and their fair value is respectively

- negative for € 3.4 million (negative for € 5.3 million at 31 December 2016),
- negative for € 38.3 million (negative for € 24.8 million at 31 December 2016) e
- positive for € 0.9 million (positive for € 1.2 million in 2016).

The fair value of medium / long-term debt is calculated on the basis of the risk-less and risk-adjusted rate.

€ thousand	Amortised cost	FV RISK LESS	Delta	FV RISK ADJUSTED	Delta
Bank Loans:	(A)	(B)	(A) - (B)	(C)	(A) - (C)
Bonds	2,047,874	2,180,307	(132,432)	2,123,924	(76,050)
fixed rate	250,000	250,553	(553)	248,824	1,176
variable rate	632,484	645,205	(12,721)	643,344	(10,860)
variable vs fixed rate	36,760	37,326	(566)	36,876	(116)
Total	**2,967,118**	**3,113,390**	**(146,272)**	**3,052,968**	**(85,849)**

This analysis was also carried out with the «risk adjusted» curve, i.e. a curve adjusted for the level of risk and the business sector of Acea. In fact, the curve populated with fixed rate bonds denominated in EUR was used, issued by national public service companies and having a composite rating of between BBB + and BBB-. Medium / long-term financial liabilities were subjected to a sensitivity analysis based on the Stress Testing method, or by applying a spread to the riskless interest rate curve for all the nodes of the latter.

In this way it is possible to assess the impacts on the Fair Value and on the evolution of future Cash Flows, with reference both to the individual instruments constituting the portfolio under analysis and to the overall portfolio.

The table shows the overall changes in terms of fair value of the debt portfolio considering parallel shifts (positive and negative) between - 1.5% and + 1.5%.

Constant spread applied	Changes of Present Value (€ million)
-1.50%	(212.3)
-1.00%	(138.8)
-0.50%	(68.1)
-0.25%	(33.7)
0.00%	0.0
0.25%	30.1
0.50%	65.6
1.00%	128.8
1.50%	189.7

With regard to the type of hedging of which the fair value is determined and with reference to the hierarchies required by the IASB, it should be noted that, since these are composite instruments, the level is type 2 and that during the period there were no reclassifications from or to other levels of fair value as defined by IFRS 13.

COMMITMENTS AND POTENTIAL RISKS

These amounted to € 770,957k and decreased by € 236,845k compared to 31 December 2016 (€ 1,007,802k).

GUARANTEES AND GUARANTEES ISSUED AND RECEIVED

These have a negative net balance of € 49,990k, as the endorsements and guarantees issued amounted to € 3,980k while those received amounted to € 50,969k.
These recorded a reduction of € 220,635k compared to the end of the previous year. The change is mainly attributable to the extinction of bank guarantees for the total value of € 200,000 issued by Cassa Depositi e Prestiti in the interest of the European Investment Bank for the two loans signed by Acea.

LETTERS OF PATRONAGE ISSUED AND RECEIVED

The balance is positive for € 569,305k, consisting of letters of patronage issued for € 569,508k and letters of patronage received for € 203k.
During the year they underwent a total reduction of € 16,209k.

The main changes concerned:
- the reduction of the counter-guarantee to Cassa Depositi e Prestiti for the loan granted to areti for € 28,095k,
- the increase in guarantees to various companies on behalf of Acea Energia including EDF Trading, Enel Trade and ERG Power Generation SpA offset by the reduction towards Eni Trading & Shipping for a total of € 11,633k.

THIRD PARTY ASSETS UNDER CONCESSION

These amount to € 86,077 thousand and have not changed since 31 December, 2016 and refer to assets related to public lighting.

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

Dear shareholders,
in inviting you to approve the financial statements that you submit to it, we propose to allocate the profit for the year ended on 31 December 2017, equal to € 226,579,312.00, as follows:
- € 11,328,965.60, equal to 5% of profit, to the legal reserve,
- € 133,905,181,40 to shareholders, corresponding to a unit dividend of € 0.63,
- € 81,345,165.00 for new earnings.

The dividend (coupon No. 19) of € 133,905,181.40, equal to € 0.63 per share, will be paid starting from 20 June, 2018 with coupon detachment on 18 June and record date 19 June.
On the date of approval of the financial statements, treasury shares amounted to no. 416,993.

Acea SpA

The Board of Directors

ANNEXES TO THE EXPLANATORY NOTES OF WHICH THEY FORM AN INTEGRAL PART THEREOF

ANNEX 1 - NET FINANCIAL POSITION AT 31 DECEMBER 2017

€ thousand	31/12/2017	Related Parties	31/12/2016	Related Parties	Change
Non-current financial assets	126	0	126	0	0
Non-current infragroup financial assets	210,126	210,126	205,261	205,261	4,865
Non-current payables and financial liabilities	(2,440,786)	0	(2,487,904)	0	47,118
Financial Assets (Liabilities) from valuation of derivative instruments	(41,778)	0	(28,823)	0	(12,955)
Medium-long term financial position	**(2,272,313)**	**210,126**	**(2,311,341)**	**205,261**	**39,028**
Cash and securities	527,423	0	577,334	0	(49,911)
Current financial assets (liabilities)	(410,668)	(1,769)	(19,837)	(1,770)	(390,830)
Current (intragroup) financial assets (liabilities)	1,891,747	1,891,747	1,417,438	1,417,438	474,309
Short-term financial position	**2,008,502**	**1,889,978**	**1,974,935**	**1,415,668**	**33,568**
Total Net financial position	(263,811)	2,100,103	(336,406)	1,620,929	72,595

ANNEX 2 - CHANGES IN HOLDINGS AS AT 31 DECEMBER 2017

€ thousand	31/12/2016	CHANGES FOR THE PERIOD					31/12/2017
		Purchases	Disposals	Reclassifications	Increases / Decreases	Write-downs / losses	
Subsidiaries							
areti SpA	683,861	0	0	0	0	0	683,861
Acea ATO2 SpA	585,442	0	0	0	0	0	585,442
Acea8Cento SpA	120	0	0	0	0	0	120
Consorcio Agua Azul	4,970	0	0	(4,970)	0	0	0
Acea Elabori SpA	4,814	0	0	0	0	0	4,814
Ecomed Srl	118	0	0	(118)	0	0	0
Acea Energia SpA	277,044	0	0	0	0	0	277,044
Acea ATO5 SpA	13,934	0	0	0	0	0	13,934
Aguazul Bogotà SA	644	0	0	(644)	0	0	0
Consorcio Acea-Acea Domenicana	43	0	0	0	0	0	43
Acea Domenicana SA	610	0	(610)	0	0	0	0
Acque Blu Arno Basso SpA	14,663	0	0	0	0	0	14,663
Ombrone SpA	19,383	0	0	0	0	0	19,383
Acque Blu Fiorentine SpA	43,911	0	0	0	0	0	43,911
Acea Ambiente Srl	32,573	0	0	0	0	0	32,573
Umbra Acque SpA	6,851	0	0	(6,851)	0	0	0
Aquaser Srl	5,417	0	0	0	0	0	5,417
Crea Gestioni Srl	6,127	0	0	0	0	0	6,127
Gori Servizi Srl	1,659	0	(1,659)	0	0	0	0
Parco della Mistica	60	0	0	0	0	0	60
Sarnese Vesuviano Srl	163	0	0	0	0	0	163
Acea Illuminazione Pubblica SpA	4,590	0	0	0	0	0	4,590
Ingegnerie Toscane Srl	58	0	0	(58)	0	0	0
Acea Liquidation and Litigation Srl	9,821	0	0	0	0	0	9,821
Acea Produzione SpA	43,441	0	0	0	0	0	43,441
Acea Energy Management Srl	50	0	0	0	0	0	50
Aguas De San Pedro SA	8,117	0	(8,117)	0	0	0	0
Acea International SA	600	8,909	0	0	(1,212)	0	8,297
Crea SpA in liquidation	0	0	0	0	0	0	0
Hydreco Scarl in liquidation	0	0	0	0	0	0	0
UmbriaDue Servizi Idrici scarl	0	2,869	0	0	7	0	2,877
Acque Industriali Srl	0	1,203	0	0	19	0	1,222
TWS SpA	0	11	0	0	54	0	64
Total - subsidiaries	**1,769,085**	**12,993**	**(10,385)**	**(12,641)**	**(1,132)**	**0**	**1,757,919**

CHANGES FOR THE PERIOD

€ thousand	31/12/2016	Purchases	Disposals	Reclassifications	Increases / Decreases	Write-downs / losses	31/12/2017
Associates							
Aguas De San Pedro SA	(0)	0	0	0	0	0	(0)
Consorcio Agua Azul	0	0	0	4,970	(442)	0	4,529
Aguazul Bogotà SA	0	0	0	644	(74)	0	570
Ecomed Srl	0	0	0	118	0	0	118
Umbra Acque SpA	0	0	0	6,851	0	0	6,851
Ingegnerie Toscane Srl	0	0	0	58	0	0	58
Intesa Aretina Scarl	11,505	0	0	0	0	0	11,505
GEAL SpA	0	2,000	0	0	59	0	2,059
Umbria Distribuzione Gas SpA	318	0	0	0	0	0	318
Marco Polo SpA in liquidation	0	0	0	0	0	0	0
Citelum Napoli Pubblica Illuminazione Scarl.	306	0	0	0	0	0	306
Sienergia SpA in liquidation	0	0	0	0	0	0	0
DI.T.N.E. Scarl.	12	0	0	0	0	0	12
Total associates	**12,142**	**2,000**	**0**	**12,641**	**(457)**	**0**	**26,327**

CHANGES FOR THE PERIOD

€ thousand	31/12/2016	Purchases	Disposals	Reclassifications	Increases / Decreases	Write-downs / losses	31/12/2017
Other companies							
Polo Tecnologico Industriale Romano SpA	2,350	0	0	0	0	0	2,350
WRC PLC	0	0	0	0	0	0	0
Green Capital Alliance Società Benefit Srl	0	2	0	0	0	0	2
Total - Other companies	**2,350**	**2**	**0**	**0**	**0**	**0**	**2,352**

ANNEX 3 - SIGNIFICANT NON-RECURRING TRANSACTIONS PURSUANT TO CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

It must be noted that no non-recurring significant transactions were carried out during the period.

ANNEX 4 - POSITIONS OR TRANSACTIONS DERIVING FROM UNUSUAL AND / OR ATYPICAL OPERATIONS

Pursuant to the Consob Communication of July 28, 2006, it should be noted that during 2017 Acea SpA has not performed atypical and / or unusual transactions, as defined by the Communication itself.

ANNEX N. 5 - SEGMENT REPORTING (IFRS 8)

€ thousand	Public Lighting	Corporate	TOTAL ACTIVITIES IN OPERATION	DISCONTINUING OPERATIONS	TOTAL
Investments	**641**	**10,663**	**10,663**	**0**	**10,663**
Sector activities					
Property, plant and equipment	1,791	96,609	98,400	0	98,400
Intangible fixed assets	0	11,624	11,624	0	11,624
Financial assets	0	1,786,598	1,786,598	0	1,786,598
Other non-current commercial activities					32,480
Other non-current financial assets	49,892	188,083	237,975		237,975
Raw materials	0	0	0	0	0
Trade receivables	675	279	954	0	954
Trade receivables from the parent company	0	93	93	0	93
Receivables due from parent company / associates	767	97,911	98,679	0	98,679
Other Current Commercial Activities	647	59,448	60,095		60,095
Other current financial assets	122,792	1,901,262	2,024,055	0	2,024,055
Bank deposits					527,423
Total assets					**4,878,374**

€ thousand	Public Lighting	Corporate	TOTAL ACTIVITIES IN OPERATION	DISCONTINUING OPERATIONS	TOTAL
Sector payables					
Trade payables	94	93,297	93,392	0	93,392
Payables from the parent company	0	0	0	0	0
Payables from the parent company / subsidiaries / associates	79,374	19,018	98,392	0	98,392
Other non-current commercial payables					57,786
Other current commercial payables	767	542,208	542,975		542,975
Defined benefit plans	0	24,464	24,464	0	24,464
Other provisions	0	14,984	14,984	0	14,984
Provision for deferred taxes					8,856
Other non-current commercial payables					0
Other non-current financial payables					2,482,564
Shareholders' equity					1,554,961
Total liabilities					**4,878,374**

€ thousand	Public Lighting	Corporate	TOTAL ACTIVITIES IN OPERATION	DISCONTINUING OPERATIONS	TOTAL
Revenue from third parties	60,205	16,456	76,661	0	76,661
Intersectorial sales	0	104,276	104,276	0	104,276
Work costs	0	(49,676)	(49,676)	0	(49,676)
External costs	(64,799)	(84,477)	(149,276)	0	(149,276)
EBITDA	(4,594)	(13,421)	(18,015)	0	(18,015)
Depreciation and write-downs of receivables	(4,641)	(16,100)	(20,741)	0	(20,741)
Write-downs / recovery of fixed assets	0	0	0	0	0
Operating profit	(9,235)	(29,521)	(38,756)	0	(38,756)
(Charges) / Financial Income					49,552
(Charges) / Income from investments					219,013
Net result Discontinued operations					0
Earnings before taxes					229,809
Taxes					(3,230)
Net Profit (Loss)					**226,579**

Board of Statutory Auditors' Report to the Shareholders' Meeting

(pursuant to art. 153 of Legislative Decree. 58/1998)

Dear Shareholders,
in accordance with art. 153 of Legislative Decree 58/1998 (hereinafter also "TUF"), the Board of Auditors of Acea SpA (hereinafter also "Acea" or "Company"), is called to report to the Shareholders' Meeting called to approve the financial statements, on the activity of supervision carried out during the period and on possibly relevant omissions or criticisable facts. The Board of Auditors is also called to put forward its proposal concerning the financial statements and approval thereof, as well as on the matters of its competence.
This report concerns the activity carried out by the Board of Auditors of Acea SpA in the financial year closing on 31 December 2017.

Preamble

During the financial year which closed on 31 December 2017, the Board of Auditors carried out the activity of supervision provided by the law, considering the principles of conduct recommended by the National Council of Chartered Accountants and Accounting Experts, Consob provisions regarding corporate controls and the indications contained in the Self-Governance Code for listed companies issued by Borsa Italiana SpA.
The activities described hereunder which were also performed jointly with the Control and Risks Committee have been acknowledged in the minutes of the 18 meetings of the Board of Auditors which were held over 2017.
The Board of Auditors has always attended the meetings of the Board of Directors and the Control and Risks Committee. It also attended the meetings of the Appointments and Remuneration Committee.
By board resolution of 27 April 2017, PricewaterhouseCoopers SpA (hereinafter also "PwC" or "Audit Company") was assigned the statutory audit of the financial statements and consolidated financial statements for the period 2017-2025.

Appointment of the Board of Auditors

The Board of Auditors in office as at the date of this report was appointed by the Shareholders' Meeting of 28 April 2016 and is formed of Enrico Laghi (Chairman), Rosina Cichello (statutory member) and Corrado Gatti (statutory member).
Carlo Schiavone and Lucia Di Giuseppe are substitute auditors.

Supervision pursuant to art. 149 of the TUF

Pursuant to art. 149 of the TUF, the board of auditors oversees:
- the observance of the law and articles of association;
- respect of the principles of correct administration;
- the adequacy of the company's organisational structure as regards the aspects of competence, the internal control system and the administrative-accounting system, as well as the reliability of the latter to correctly represent facts of management;

- the procedures for correctly implementing the rules of corporate governance provided under the codes of conduct drawn up by management companies of regulated markets or category associations with which the company declares its compliance through public disclosure;
- the adequacy of the provisions required by the company of the subsidiaries pursuant to article 114, paragraph 2 of the TUF.

Supervision of the observance of law and the articles of association

The Board of Auditors acquired information instrumental to performing the supervisory duties attributed to it by means of attending meetings of the Board of Directors and the Committees internal to the board, listening to the Management of the Company and the Group, meetings with the Audit Company, as well as other control activities.

In particular, the Board of Auditors:

- obtained from the Directors, on at least a quarterly basis, information regarding the activity carried out and transactions of greater economic, financial and equity related relevance realised by the Company, as well as the Group's strategic guidelines. The Board of Auditors can reasonably assure that the transactions resolved and brought about are conform to the law and the articles of association and are not evidently imprudent or risky, in conflict of interest, contrasting with the resolutions undertaken by the Shareholders' Meeting and/or such as to compromise the integrity of the company's assets. Furthermore no atypical or unusual transactions were found;
- points out the following events of particular relevance in 2017:
  - The Shareholders' Meeting held on 27 April 2017 resolved that the number of Directors should be nine, it appointed the Board of Directors and the Chairman and it resolved that the term of office should be three financial periods and, in any case, until the Shareholders' Meeting that shall be called to approve the Financial Statements relating to financial year 2019. Therefore as of 31 December 2017 and to date, the Board of Directors is formed as follows: Luca Alfredo Lanzalone (Chairman), Stefano Antonio Donnarumma Managing Director since 3 May 2017), Michaela Castelli, Gabriella Chiellino, Liliana Godino, Alessandro Caltagirone, Massimiliano Capece Minutolo Del Sasso, Fabrice Rossignol and Giovanni Giani. Of the above directors in office, 2 are executive directors (the Chairman and the Managing Director), whereas the remaining 7 are non-executive directors. Again on 27 April 2017, the Meeting, by proposal of the Board of Directors and subject to the recommendation of the Board of Auditors, conferred PricewaterhouseCoopers SpA the assignment of auditing the Company's financial statements and the consolidated financial statements for a term of nine financial years (2017-2025), in other words until the approval of the financial statements of the last year of the said mandate - and established the relative fees;
  - On 17 May 2017, the Board of Directors appointed: (i) as members of the Control and Risks Committee the independent directors: Michaela Castelli (Chairman), Liliana Godino, Giovanni Giani and Massimiliano Capece Minutolo Del Sasso; (ii) as members of the Appointments and Remuneration Committee the independent Directors: Liliana Godino (Chairman), Gabriella Chiellino, Giovanni Giani and Massimiliano Capece Minutolo Del Sasso; (iii) as members of the Related-Party Transaction Committee the independent directors: Fabrice Rossignol (Coordinator) and Michaela Castelli and Massimiliano Capece Minutolo Del Sasso; (iv) as members of the Ethics and Sustainability Committee the independent Directors: Gabriella Chiellino (Chairman), Michaela Castelli and Giovanni Giani. The Board approved the organisational changes to the Company's macrostructure;
  - On 28 June 2017 the Board of Directors of Acea, subject to appraisal by the Appointments and Remuneration and Related-Party Transaction Committees, formed solely of independent Di-

rectors, with reference to the termination of the working relationship of Alberto Irace (former Managing Director of Acea), which began on 1st March 2007, approved payment to the latter of the amount due by way of severance;

- On 5 July 2017, the Region of Lazio issued presidential decree no. T00116 by which the state of natural disaster was declared throughout the territory due to the serious water crisis occurring due to the drought with the consequent difficulty of water procurement by the Municipalities. By the cited decree the Region of Lazio also asked the Presidency of the Council of Ministers, Civil Protection Department, given the intensity of the phenomenon arising and significant damages caused, to declare the state of emergency with consequent financial support and the adoption of urgent and extraordinary measures of the State, so that the serious situation of emergency could be properly dealt with;
- On 3 August 2017 the Board of Directors of Acea acknowledged the consensual termination, effective as from 1st September 2017 of the working relationship with Demetrio Mauro, Administration, Finance and Control Director and Financial Reporting Offers of Acea SpA pursuant to art. 154-*bis* of Legislative Decree 58/1998. During the same meeting the Board of Directors, subject to favourable opinion of the Board of Auditors and the prescribed declarations of integrity and absence of legal situations provided under art. 2382 of the civil code, resolved to appoint - effective as from 1st September 2017 - Giuseppe Gola as Financial Reporting Officer for Acea SpA, pursuant to art. 154 of Legislative Decree 58/1998, who also took the office of Administration, Finance and Control Director of Acea;
- As from September 2017, the Board of Directors integrated the Risk & Compliance Function into the macrostructure, strengthening safeguards for the governance and management of the internal control and risk management system;
- On 28 November 2017 the Board of Directors of the Company approved the business plan for Gruppo Acea 2018-2022;
- In December 2017 the Board of Directors of the Company approved the new Regulations for the Control and Risks Committee and the Ethics and Sustainability Committee.

Furthermore, as regards corporate bodies and functions, the Board of Auditors points out that:

- The Board of Directors held 14 meetings in 2017;
- The Control and Risks Committee met 11 times in 2017;
- The Appointments and Remuneration Committee met 14 times in 2017;
- The Ethics and Sustainability Committee met 7 times in 2017;
- The Party-Related Transactions Committee met 3 times in 2017;
- The Supervisory Body met 4 times in 2017.

With references to the facts occurred after the end of the period, we report as follows:

- In January 2018 a Post Audit Committee was established, chaired by the Director assigned to the internal control and risk management system, having the task of analysing corrective interventions identified by the management downstream of the internal audit activities and monitoring the realisation times thereof;
- On 23 January 2018 the Acea Board of Directors authorised the issue, pursuant to its own Euro Medium Term Notes Programme (hereinafter also "EMTN"), of one or more debenture loans, not subordinated, for a nominal comprehensive counter value of up to a maximum of 1 billion Euros, to be allocated to institutional investors and listed at the Luxembourg Stock Exchange, to be carried out by 15 July 2018;
- On 1st February 2018 Acea completed the placement of bond issues of an amount respectively equal to 300 million Euros and 5-year duration at variable rate [the "Bonds 2023") and 700 million Euros lasting 9 years and 6 months at fixed rate [the "Bonds" 2027"), pursuant to the 3 billion Euro EMTN programme, as amended last on 17 July 2017 and subsequently supplemented on 23 January 2018. The debenture loan is exclusively intended for intuitional investors of the Euromarket;

- The Board of Directors approved the new internal control and risk management system guidelines regarding Gruppo Acea in February 2018;
- With the attribution of office no. 3/2018 and effective as from 5 February 2018, Fabio Paris was appointed as responsible for the Administration and Budgets Unit of Acea SpA within the Administration, Finance and Control Department;
- On 14 March 2018 the Board of Directors of the Company: (i) appraised the adequacy of the internal control and risk management system, as well as the adequacy of the organisational, administrative and accounting structure of the Company and the subsidiary companies having strategic relevance, deeming the internal control system of Acea as comprehensively suited to allowing corporate objectives to be pursued; (ii) proceeded, as an integral part of said appraisal process, with self-assessing the composition and function of the Board and internal Committees. Such assessment concerned the independence, structure and composition of the Board of Directors, the operation of the Committees and the Board and the flow of information received from the Board and its Committees when exercising their functions. In order to fulfil the tasks of assessment, the Board availed of a specialised company in the sector. On the same date the Board of Directors confirmed, as in previous years, that the conditions do not exist, as provided under the Self-Governance Code, for the institution of a lead independent director, considering that the Chairman of the Board of Directors does not cover the role of main subject responsible for the company (chief executive officer) or dispose of controlling stake in the Company.

Supervision over the observance of principles of correct administration and the adequacy of the organisational structure

The Board of Auditors:
- became aware of and oversaw, inasmuch as competent, the adequacy of the organisational structure of the Company and observance of the principles of correct administration, by direct observation, collecting information from company function managers and meetings with the Audit Company with a view to reciprocal exchange of relevant data and information and in relation thereto has no particular observations to make, deeming the Company's organisational structure substantially adequate for the requirements of the latter and suited to guaranteeing observance of the principles of correct administration;
- appraised and supervised the adequacy of the administrative-accounting system and the related reliability thereof to correctly represent facts of management, by means of obtaining information from the competent corporate department managers, examining corporate documents and the results of the work carried out by the Audit Company and in relation thereto has no particular observations to make.

The Board of Auditors has established that adequate documentation supporting the items subject matter of discussion during board of directors meetings has been made available to the Directors and Auditors in good time.

On the basis of the acquired information, the Board of Auditors states that managerial choices are made according to the principle of correct information and reasoning and that the Directors are aware of the riskiness and effects of the executed transactions.

The Board of Auditors did not find significant atypical and/or unusual transactions, including those that are intergroup or with intergroup and non intergroup related parties.

The Board also appraised the adequacy of the information given within the management report concerning the inexistence of significant atypical and/or unusual transactions during 2017.

Supervision over the effective implementation of corporate governance regulations

In relation to the provisions under art. 149, paragraph 1, letter c-*bis*, of the TUF regarding the Board of Auditor's supervision "*over the processes of effective implementation of the corporate governance reg-*

ulations provided under the codes of conduct drawn up by regulated market management or by category associations with which the company declares its compliance through public disclosure", the Board of Auditors reports that it has overseen:

- The processes of effective implementation of the corporate governance regulations provided under the codes of conduct drawn up by regulated market management or by category associations with which the company declares its compliance through public disclosure. Pursuant to art. 123-*bis* of the TUF, the Company has drawn up the annual Report on Corporate Governance and the Ownership Structure related to 2017, approved on 14 March 2018, which provides information concerning (i) corporate governance practices effectively applied by the Company; (ii) the main characteristics of the existing internal control and management systems, also in relation to the financial disclosure process, also consolidated; (iii) the operational mechanisms of the Shareholders' Meeting, its main powers, Shareholders' rights and the methods for exercising the latter; (iv) the composition and operation of the management and control bodies and their committees, as well as the other information required under art. 123-*bis* of the TUF;
- The adoption of the Remuneration Policy for Directors and Key Managers, in line with the provisions under the Self-Governance Code of listed companies issued by Borsa Italiana SpA, as well as the subsequent Remuneration Report as per art. 123-*ter* of the TUF;
- The application, during the period, of the procedure for assigning duties to the audit companies within Gruppo Acea, approved by the Acea Board of Directors on 7 October 2014, effective as of 1st November 2014.

The Board of Auditors states, moreover: (i) that it has verified, as recommended by the Self-Governance Code of Borsa Italiana SpA, that its members possess the same requirements of independence as requested for the directors of said Code; (ii) that it has established the correct application of the criteria and procedures for ascertaining the requisites of independence adopted by the Board of Directors in order to annually assess the independence of its members, as well as an appraisal performed by the Board of Directors which is based on the substantial profiles and consistently with decisions taken on the matter of identifying Acea's related parties and has no observations to make in relation thereof.

Supervision over the adequacy of the provisions laid down by the company for the subsidiary companies

Pursuant to article 114, paragraph 2, of the TUF: (i) the listed issuers lay down the necessary provisions for the subsidiaries to provide all information required in order to fulfil the obligations of communication provided by the law; (ii) the subsidiaries send the required information in a timely manner.

The Board of Auditors has monitored the adequacy of the provisions laid down for the subsidiaries, having established that the Company is able to promptly and regularly comply with the obligations of communications provided under the law. This is also by means of collecting information from the organisational function managers and holding periodic meetings with the Audit Company, for the purposes of a reciprocal exchange of relevant data and information. In relation thereto, there are no particular observations to make. Furthermore, Directors and/or Managers from the Parent Company are present in the Boards of Directors of the subsidiaries, with operational delegation, thus guaranteeing coordinated management and an adequate flow of information, also supported by accounting information.

Intergroup or related parties transactions

Pursuant to art. 2391-*bis* of the civil code and Consob resolution no. 17221 of 12 March 2010 bearing "Related parties transactions regulation" subsequently amended by Consol resolution no. 17389 of 23 June 2010, on 11 November 2010 the Acea Board of Directors, subject to favourable opinion of the Committee established for such purpose and formed of only three independent Directors (appointed thereto pursuant to art. 4, paragraph 3, of the cited Regulation by specific resolution of the Board of

Directors), adopted the procedure for related parties transactions.
Thereafter, on 18 December 2013 the Acea Board of Directors, subject to the favourable opinion of the Related Parties Transactions Committee formed solely of independent Directors, unanimously approved the new procedure for related parties transactions (hereinafter also "Procedure"). The adoption of said new Procedure supersedes, effective as from 1st January 2014, the Procedure on the matter of related parties transactions approved by the Board of Directors with resolution no. 61 of 11 November 2010.
Pursuant to art. 4 of the cited Regulation, we point out that the Procedure adopted by the Company (i) is consistent with the principles contained in such Regulation and (ii) is published on the Company website (www.aceaspa.it).
On the basis of the received information, during financial year 2017 a series of related parties transactions took place, both intergroup and with third parties. Related parties transactions were executed, to our knowledge, also following the supervisory activities carried out, with substantial compliance to the Regulation and Procedure implemented by Acea. The intergroup transactions we examine prove to be of an ordinary nature, in that they essentially concern commercial services and reciprocal performance of administrative, financial and organisation services. The aforementioned relations were governed by applying normal conditions determined using standard parameters reflecting the effective use of the services and were carried out in the interest of the Company. Non intergroup related parties transactions that we examined also prove to be of an ordinary nature (inasmuch as falling within the normal exercise of the operational activity or the financial activities connected thereto) and concluded under equivalent conditions as those of the market or standard. The related parties transactions are described in the notes to the comment on the Company's financial statements and the consolidated financial statements, which also show the consequent economic effects.

Supervision pursuant to Legislative Decree 39/2010

Pursuant to art. 19 of Legislative Decree 39/2010, as amended by Legislative Decree 135/2016, the internal control and statutory audit committee, which, in entities of public interest (which includes listed companies) which adopt the traditional governance system is identified as the Board of Auditors, shall undertake:

a) To inform the governing body of the entity undergoing the audit of the outcome of the statutory audit and send such body the supplementary report pursuant to article 11 of European Regulation (Reg. EU 537/2014), enclosing any observations;
b) To monitor the financial disclosure process and present recommendations or proposals aimed at guaranteeing the integrity thereof;
c) To control the efficacy of the internal control systems on quality and corporate risk management and, where applicable, internal audit, inasmuch as pertaining to the financial disclosure of the entity undergoing the audit, without violating the independence of the latter;
d) To monitor the statutory audit of the financial statements for the period and the consolidated financial statements, also considering any results and conclusions of the quality controls performed by Consob according to article 26, paragraph 6 of the European Regulation, where available;
e) To verify and monitor the independence of the statutory auditors or the statutory audit company according to articles 10, 10-*bis*, 10-*ter*, 10-*quater* and 17 of this decree and art. 6 of the European Regulation, with particular regard to the adequacy of the performance of services other than the audit to the entity undergoing the audit, in compliance with art. 5 of such Regulation;
f) To be responsible for the procedure for selecting statutory auditors or statutory audit companies and recommend the statutory auditors or statutory audit companies to be designated pursuant to art. 16 of the European Regulation.

The Board of Auditors interacted with the Control and Risks Committee established within the Board of Directors for the purpose of coordinating the respective competencies and avoided overlapping activities.

Apropos the practice of attendance by the entire Board of Auditors was introduced in the activities of the Control and Risks Committee when the subject matter is of specific relevance for the purposes of Legislative Decree 39/2010, rendering fluidity in relations and facilitation the informatory exchange between the two bodies.

***

With specific reference to the activities provided under Legislative Decree 39/2010 we report as follows.

A) Information to the Board of Directors regarding the result of the statutory audit and the supplementary report pursuant to art. 11 of the European Regulation

The Board states that PwC issued on 29 March 2018 its supplementary report as per art. 11 of the European Regulation, which gives the results of the statutory audit and includes the declaration related to independence pursuant to art. 6, paragraph 2, letter a) of the Regulation, as well as the informatory documents required under art. 11 of such Regulation, finding some significant shortcomings in the internal control system with regard to the financial disclosure process which shall be mentioned later on. The Board of Auditors shall inform the Board of Directors about the results of the statutory audit, sending the supplementary report for such purpose, enclosing any observations, pursuant to art. 19 del Legislative Decree 39/2010.

B) Supervision of the financial disclosure process

The Board of Auditors has verified the existence of norms and procedures which safeguard the process of preparation and circulation of financial information. In relation thereto the Report on Corporate Governance and the Ownership Structure defines the guidelines of reference for the establishment and management of the administrative and accounting system for Acea and its subsidiaries, regulating the various steps and responsibilities.

Assisted by the Financial Reporting Officer, the Board of Auditors examined the procedures concerning the preparation of the financial statements for the Company and the consolidated financial statements, as well as the other periodic accounting documents. The Board of Auditors also had evidence of the process allowing the Financial Reporting Officer and the Director delegated to the latter to issue the declarations provided under art. 154-*bis* of the TUF.

The Board of Auditors has been informed that the administrative and accounting procedures for drawing up the financial statements and every other financial communication were prepared under the responsibility of the Financial Reporting Officer who, together with the Managing Director, certifies the adequacy and effective application thereof at the time of the financial statements and consolidated financial statements and the interim financial report.

The Internal Audit Function carries out interventions according to a plan approved by the Board of Directors that are aimed at verifying the adequacy of the design and operativity of the controls on companies and processes.

On 29 March 2018 the Board of Auditors received the supplementary report from the Audit Company, as per art. 11 of the European Regulation, the contents of which were subject matter of comparison prior to such date. The report outlines certain significant shortcomings in the internal control system in relation to the financial disclosure process brought to the attention of the Audit Company while the financial statements were being audited.

In particular, the significant shortcomings concern:

(i) The management of the assets register regarding which PwC suggests computerising the assets register management process both at accounting and fiscal level in order to eliminate exposure to potential errors

which could derive from annual management. With regard to such shortcoming, the Board of Auditors was informed by the management that corrective interventions have already begun on the related process. In particular, the transition to international accounting standards initiated in some of the Group's companies, consequently after the transposition process of the transitional adjustments on the accounting system of the interested companies the computerisation of the assets books shall be managed;

(ii) The consolidation process, regarding which PwC suggests computerising the consolidation process in order to eliminate exposure to potential errors which can derive from manual management. Moreover PwC stresses the opportunity to proceed with updating the Group accounting manual (and its translation into English so it can be used by foreign Subsidiaries) upon the introduction of accounting standards IFRS 9 and IFRS 15 effective as from 1st January 2018. Regarding such shortcoming, the Board of Auditors was informed by the Management that analysis and planning has begun of corrective interventions. In particular, there shall be a review of the consolidation process during 2018 in order to identify the areas of improvement and solutions most suited to allow the identified potential shortcomings to be dealt with;

(iii) The age of credit and debit balances, in relation to which PwC suggests introducing a control process (or a policy) which introduces, at process level, a periodic update of the credit and debit balances that are older than the foreseen operational cycles set out in the transactions which generated the recognition. Regarding such shortcoming, the Board of Auditors was informed by the Management that as early as 2017, activities of control were brought about on the highlighted items. In addition, the Management stated that during 2018 the process of analysis shall be strengthened with a view to a more efficient assessment of the balances in question.

The Board of Auditors thereby expresses an appraisal of substantial adequacy of the process of preparing financial disclosure as a whole, stating that, respect to the foregoing shortcomings, it shall monitor the implementation of the actions aimed at remedying them as well as the efficacy of such actions.

C) Supervision over the efficacy of the international control, internal audit and risk management systems

The Board of Auditors oversaw the adequacy and efficacy of the internal control and risk management system. Apropos, the Board of Auditors, also jointly with the Control and Risks Committee, periodically met with the Internal Audit Function Manager, becoming informed in relation to the results of the audit interventions aimed at verifying the adequacy and operativity of the internal control system, the observance of law, procedures and corporate processes as well as the implementation of the related improvement plans. It also received the audit plan for financial year 2017 as approved by the Board of Directors on 13 March 2017 (the content of which was positively assessed by the Risks and Control Committee and the board of Auditors existing on such date in the joint meeting of 8 March 2017) and was periodically updated on the state of progress of the plan and any identified corrective actions. It also received the Report by the Internal Audit Manager for 2017 on 9 March 2018, which outlines the main elements and function of the comprehensive internal control system and possible interventions of improvement are suggested. In particular, in 2017, with the establishment of the new Board of Directors, the Company launched a comprehensive review of the internal control and risk management system with the purpose of strengthening the efficacy and effectiveness thereof, also by means of identifying new subjects and methods of coordination among the various players and levels of control. Within this sphere, as mentioned hereabove, the Risk & Compliance Function was created, thus strengthening processes for governing and managing the internal control and risk management system. In the conclusions of the Internal Audit Function Report for 2017 it states that the single components of the internal control and risk management system, together with the result of the independent audits carried out by the Internal Audit Function, as provided by the activity plan approved by the Board of Directors or executed in relation to specific necessities, certify the function and adequacy of the fundamental elements for pursuing the

objectives of conformity, efficacy and efficiency of the activities and the reliability of the information and, therefore, highlight the comprehensive suitability of the system.
Furthermore, on a half-yearly basis, it received the report on completed activities from the Control and Risks Committee.

As regard the update of the Organisation, Management and Control Model as per Legislative Decree 231/2001 (hereinafter also "Model") we point out that the Board of Auditors, in its capacity as Supervisory Body pursuant to the recalled Decree (hereinafter also "OdV"), following the introduction of new alleged crimes of administrative liability and organisational changes intervening since the last approval of the Model, assigned the Internal Audit Function with supporting the Company in the project for updating it. The review of the Model considered: (i) changes to the organisational structures taking place up to the date of its approval; (ii) developments in the procedures included in the special part of the Model as at the date of approval thereof; (iii) the new specific cases of crime introduced up to the approval of the Model. The OdV steered and constantly monitored the project activities functional to updating the Model and, on 11 December 2017, having analysed the latter and compared it with the Internal Audit Function, it gave its opinion in favour of approving the new Model drawn up by the Company; thereafter the Board of Directors approved the update of the Model on 15 December 2017.
As regards the liability of entities as per Legislative Decree 231/2001, the Board of Auditors reports the existence of investigations and procedures in progress concerning some companies of the Group.
The Board of Auditors gives an appraisal of substantial adequacy of the internal control and risk management system as a whole, recalling in this context the finding as above with regard to the internal control system in relation to the financial disclosure process.

D) Supervision over the statutory audit of the financial statements and the consolidated financial statements
We report that:
- The accounting records were submitted for the controls provided by the normative and carried out by PwC;
- The Board of Auditors: (i) analysed the activity carried out by the Audit Company and, in particular, the methodological system, the used approach to auditing for the various significant areas of the financial statements and planning the audit work; (ii) shared the problems related to corporate risks with the Audit Company, thus being able to fathom the adequacy of the auditor's planned response in terms of their approach to auditing with the profiles, regarding structure and risk, of the Company and the Group;
- On 29 March 2018, PwC issued the supplementary report as per art. 11 of the European Regulation as described above;
- On 29 March 2018, PwC issued the report on the audit of the financial statements and the report on the audit of the consolidated financial statements. In relation thereto we state that:
    - Both reports contain: (i) a judgement of true and fair view of the equity and financial standing of Acea SpA and the Group as at 31 December 2017, the economic result and cash flows as of such date in compliance with the International Financial Reporting Standards adopted by the European Union, as well as the measures issued in implementation of art. 9 of Legislative Decree 38/05; (ii) a description of the key aspects of the audit and the audit procedures in response to the key aspects; (iii) a judgement of consistency of the management report and certain specific information on the Report on Corporate Governance and on the Ownership Structure with the financial statements and the consolidated financial statements as at 31 December 2017 as well as the conformity thereof with the norms of law; (iv) confirmation that the opinion on the financial statements and the consolidated financial statements expressed in the respective reports are in line with the indications in the supplementary report intended for the undersigned Board of Auditors, in its function as internal control and audit committee, drawn up pursuant to art. 11 of the European Regulation;

- The aforesaid reports contain requests for further disclosure, without remarks;
- In its report on the audit of the consolidated financial statements, PwC states that it has verified the effective approval of the non-financial disclosure on the part of the Directors.

E) Independence of the audit company, with particular regard to supplying non audit-related services

With regard to the annual confirmation of independence pursuant to art. 17, paragraph 9, letter a) of Legislative Decree 39/2010, the Board of Auditors states that it received said confirmation from the Audit Company with the transmission of the related letter on 28 March 2018.

The Board of Auditors monitored the independence of the audit company and, in particular, received periodic evidence of the various assignments other than auditing to be attributed (or attributed by effect of specific regulatory provisions) to the statutory auditor.

As deduced from the consolidated financial statements of Gruppo Acea, during financial year 2017 PricewaterhouseCoopers SpA performed the activities summarised below for the Group:

Company and period of reference *Amounts in Euros (thousands)*		**Audit Services**	**Audit related Services**	**Non audit Services post conferral or assignment**	**Non audit Services ante conferral or assignment**	**Total**
Acea SpA	2017	272,430	66,813	417,552	573,479	1,330,243
Gruppo Acea	2017	858,990	78,010	104,500		1,041,500
Total Acea SpA and Group		**1,131,420**	**144,823**	**522,022**	**573,479**	**2,371,743**

The Board of Auditors considers that the aforementioned payments are suited to the dimension, complexity and characteristics of the performed works and also deems that the assignments (and related payments) that are not audit services are not such as to affect the independence of the statutory auditor. In light of the above, the Board therefore deems that the Audit Company meets the requirement of independence.

Lastly, we report that on 10 March 2017 the Board of Auditors drew up its recommendation regarding the assignment of statutory auditing - pursuant to articles 13, paragraph 1, and 17, paragraph 1, of Legislative Decree 39/2010 as amended, respectively, by articles 16 and 18 of Legislative Decree 135/2016, art. 16 of European Regulation 537/2014 of the European Parliament and Council of 16 April 2014 - for the period 2017-2025, as well as approval of the related payment.

F) Statutory auditor selection procedure

The Company adopted the procedure for selecting the statutory audit company and the recommendation of the statutory audit companies to be designated pursuant to article 16 of the European Regulation.

Financial Statements, consolidated financial statements and management report

The financial statements for Acea, approved by resolution of the Board of Directors of the Company on 14 March 2018, were drawn up according to IAS/IFRS accounting standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, as well as in conformity with the measures issued in implementation of art. 9 of Legislative Decree 38/2005.

With specific regard to examining the financial statements for the year ended 31 December 2017, the consolidated financial statements and the management report, the Board of Auditors reports:

- That the financial statements for the Company and the consolidated financial statements have been drawn up according to the structure an layouts set out by the norms in force;
- That the financial statements include the management report in which the main risks and uncertainties are summarised and the business outlook is considered. It proves to comply with the norms in force and is consistent with the resolutions of the governing body and the findings in the financial statements. It also contains an adequate disclosure regarding related party transactions and was inserted, in compliance with IFRS standards, into the notes to the financial statements;
- That the Report on Corporate Governance and on the Ownership Structure and, pursuant to art. 123-*bis* of the TUF and the Report on Remuneration pursuant to art. 123-*ter* of the TUF, have been drawn up;
- That the financial statements were delivered to the Board of Auditors in good time for its related filing at the seat of the Company, enclosing this report;
- That it has verified the rationale of the evaluation procedures applied and their compliance with the logic of the international accounting principles;
- That it has verified the compliance of the financial statements to the facts and information of which it became aware following the fulfilment of the duties of its competence;
- That, to the knowledge of the Board of Auditors, when drawing up the Financial Statements the Directors did not deviate from the norms of law pursuant to art. 2423, paragraph 4 of the civil code;
- That the Board of Directors of Acea, consistently with the indications of the joint document of Banca d'Italia/Consob/ISVAP of 3 March 2010, approved the procedure and results of the impairment test autonomously and prior to the approval of the draft financial statements, ascertaining the compliance thereof with the prescriptions of international accounting standard IAS 36. Information and outcomes of the conducted evaluation processes are given in the notes to the financial statements.

Omissions or criticisable facts, other opinions given, actions taken

The Board points out that:

- Pursuant to art. 2389, paragraph 3 of the civil code, it has expressed its favourable opinion regarding the remuneration of directors vested with special duties;
- It has not issued the opinion required under art. 2386 of the civil code;
- It has not received complaints as per art. 2408 of the civil code;
- It issued the opinion required under art. 154-b/s, paragraph 1, of Legislative Decree 58/1998;
- As at the date of this report, it has not received reports pursuant to art. 151, paragraphs 1 and 2, of Legislative Decree 58/1998;
- In its capacity as Supervisory Body, it has assessed the profiles of interest pursuant to Legislative Decree 231/2001 and in relation thereto has not found anomalies or significant criticisable facts;
- It has held periodic meetings with the representatives of PwC with a view to exchanging with the latter, as prescribed under art. 150, paragraph 3, of the TUF, relevant data and information for fulfilling its assignment.

Consolidated non-financial report pursuant to Legislative Decree 254/2016 - Sustainability Report 2017

The Acea Board of Directors approved the consolidated non-financial report - sustainability report 2017, drawn up pursuant to Legislative Decree 254/2016.

On 29 March 2018 the Audit Company issued the report concerning the compliance of the information disclosed in the consolidated non-financial report respect to the norms of law and the adopted reporting standard.

The Board of Auditors monitored the observance of the provisions established in Legislative Decree 254/2016 and has no observations to make on the matter in this report.

Proposal to the Shareholders' Meeting

1. Financial Statements as at 31 December 2017

The Board of Auditors expresses its opinion in favour of approving the financial statements as at 31 December 2017 and has no objections to raise regarding the proposal of resolution presented by the Board of Directors regarding the allocation of profits.

2. Group remuneration policy

We inform you that the Board of Auditors has not objections to raise with regard to the Remuneration Policy submitted for the consultation of the Meeting.

* * *

Pursuant to art. 144 *quinquiesdecies* of the Issuers' Regulation, approved by Consob with resolution 11971/99 as amended, the list of assignments covered by the members of the Board of Auditors at the company pursuant to Book V, Title V, Chapters V, VI and VII of the civil code is published by Consob in its website (www.consob.it).

Rome, 29 March 2018

Prof. Enrico Laghi

Ms. Rosina Cichello

Prof. Corrado Gatti

INDEPENDENT AUDITOR'S REPORT
IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010 AND ARTICLE 10 OF REGULATION (EU) NO. 537/2014

ACEA SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Acea SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Acea SpA (the Company), which comprise the income statement, statement of comprehensive income, statement of financial position as of 31 December 2017, statement of changes in equity, statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw your attention to the paragraph "Trend of operating segments – Water segment" of the report on operations which describes:

- The uncertainties regarding the subsidiary Acea Ato 5 SpA related to the complex legal matter concerning the ongoing disputes with the Local Regulator which are mainly related to the termination of the concession agreement, the approval of the 2016-2019 tariffs, the contractual

penalties charged to the company for alleged instances of non-compliance, the recognition of receivables related to higher operating costs incurred in the 2003-2005 period (as per the settlement agreement of 27 February 2007) and the determination of the concession fees;

- The uncertainties related to the associate Gori SpA mainly concerning the approval of the petition for economic and financial rebalancing submitted to the relevant authorities, and to the entering into of an arrangement with the Campania Region about the set-off of the respective credit and debt entries through an appropriate repayment plan commensurate with the expected recovery of tariff adjustments due to the Company;

- The complex regulatory measures, with particular reference to matters underlying the approval process of water tariffs.

Our conclusions are not qualified for these matters.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
First year of audit	
On 27 April 2017, the shareholders meeting of Acea SpA appointed us to perform the statutory audit of the financial statements of Acea SpA. As this has been the first year of the audit engagement, within our activities obtaining an understanding of the Company, of the Acea Group and of its operating environment were of particular importance, specifically as regards the special regulations governing the sectors in which the Group operates, the related risks and the corporate processes and policies addressing those risks.	In performing our audit procedures, we held several meetings with the key representatives person of the Company (and of the Group) focusing in particular on understanding the organisation and the relevant regulatory framework, as specifically defined by the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA, formerly AEEGSI). We focused our audit procedures on understanding the accounting policies adopted by the Company by reading the accounting manual and discussion with the main corporate representatives in relation to sector-specific matters, in addition to

acquiring the supporting documentation and analysing the rationale behind the main accounting choices adopted within the financial statements for the year ended 31 December 2016. In this regard, for our in-depth examinations we involved PwC network experts who, within their different competences, deal with the Energy&Utilities sector.

In compliance with ISA Italia 510 – *First-year Audit Engagements - Opening Balances*), we performed specific tests on the opening balances in order to establish whether these contained significant errors that could affect the financial statements as of 31 December 2017.

For this purpose, we gained access to and analysed the working papers of the former auditors related to the financial statements as of 31 December 2016. In particular, we discussed with the former auditors the audit method used, the materiality applied, the analyses carried out in relation to the accounting choices adopted by the Company, as well as the findings that emerged from the audit performed.

Recoverability of the value of investments in subsidiaries and associates

Note 14 to the financial statements "Investments in subsidiaries and associates"

In the financial statements as of 31 December 2017 the Company recognised investments in subsidiaries and associates for an amount equal to Euro 1,784,246 thousand.

Annually, the Company, on the basis of its internal procedures, verifies the presence, if any, of impairment losses of investments in subsidiaries and associates comparing their book

We planned our audit procedures in order to:

- assess the consistency of the method for the estimate of the recoverable amount used by the Company with what envisaged by IAS 36 and valuation practice (analysis of valuation model used);
- verify if the types of cash flows used were appropriate and if these were consistent with the 2018-2022 Business Plan approved by the Board of Directors on 28

value with the estimated recoverable amount pursuant to IAS 36 (impairment test). The test is carried out on the main investments regardless of the existence of any impairment indicators emerging during the year. As part of our audit activities, we paid particular attention to the risk of the existence of any impairment losses of the abovesaid investments, as the process for estimating the recoverable amount is particularly complex and based on valuation assumptions affected by economic, financial and market conditions which are hard to forecast.	November 2017; and • verify the mathematical accuracy of the quantification of the recoverable amount. In particular, our audit activities focused on verifying the reasonableness of the main assumptions underlying the estimated future cash flows and the discounting rates used to perform the impairment test (also through comparison with the budget data deriving from external information sources). We compared the forecasts of the prior years with the corresponding actual figures and finally we verified the sensitivity analyses performed by the Company and carried out independent sensitivity analyses changing the main valuation assumptions used. As part of our audit activities, we were supported, where necessary, by valuation experts belongin to the PwC network.

Other matters

The financial statements of Acea SpA for the year ended 31 December 2016 were audited by another independent auditor that, on 4 April 2017, expressed an unqualified opinion thereon.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying

transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 27 April 2017, the shareholders meeting of Acea SpA appointed us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2017 to 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No.39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Acea SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Acea SpA as of 31 December 2017, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Acea SpA as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Acea SpA as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Rome, 29 March 2018

PricewaterhouseCoopers SpA

Signed by

Massimo Rota
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

Certification of separate financial statements in accordance with art.154-bis of Legislative Decree 58/98
(Translation from the original Italian text)

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

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

    of the administrative and accounting procedures for preparing the separate financial statements at 31 December 2017.

2. To this purpose, no significant issues were recorded.

3. It is also certified that:
    3.1 the separate financial statements:
        a) were drawn up in compliance the applicable international accounting standards recognised in European Community in accordance with EC regulation 1606/2002 of the European Parliament and the Council, of 19 July 2002,
        b) are consistent with the underlying accounting books and records,
        c) provide a true and correct view of the operating results and financial position of the issuer,
    3.2 the report on operations includes a reliable analysis of the operational performance and result, as well as the situation of the issuer, together with a description of the main risks and uncertainties to which they are exposed.

Rome, 29 March 2018

signed by: Stefano Donnarumma, The CEO

signed by: Giuseppe Gola, The Executive Responsible for Financial Reporting

This report has been translated into the English language solely for the convenience of international readers


CIRCLE
CROSS
TRIANGLE