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ACEA FINANCIAL STATEMENTS

FORM AND STRUCTURE

GENERAL INFORMATION

The financial statements of Acea SpA for the year ended 31 December 2019 were approved by resolution of the Board of Directors on 9 March 2020, which authorised their publication. Acea is an Italian public limited company, with a registered office in Italy, Rome, piazzale Ostiense 2, whose shares are traded on the Milan stock exchange.

COMPLIANCE WITH IAS/IFRS

The financial statements have been drafted in accordance with the International Financial Reporting Standards (IFRS) effective on the date of drafting the financial statements, approved by the International Accounting Standards Board (IASB) and adopted by the European Union, consisting of the International Financial Reporting Standards (IFRS), by the International Accounting Standards (IAS) and by the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), collectively referred to as "IFRS" and pursuant to art. 9 of Italian Legislative Decree no. 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.

BASIS OF PRESENTATION

The Financial Statements for the year ended on 31 December 2019 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows and the Statement of Changes in Equity – all drafted according to the provisions of IAS 1 – as well as the Explanatory and Supplementary Notes, drafted in accordance with applicable IAS / IFRS provisions.
It is specified that the Income Statement is classified based on the nature of the costs, the Balance Sheet and Financial Position based on the liquidity criterion with the subdivision of items between current and non-current, while the Cash Flow Statement is presented using the indirect method.
The financial statements for the year ended on 31 December 2019 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 content and meaning of the non-GAAP measures of performance and other alternative performance indicators used in these financial statements are illustrated below:

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

USE OF ESTIMATES

Drafting of the Financial Statements, in application of the IFRS, requires the making of estimates and assumptions that affect the values of revenues, costs, assets and liabilities in the financial statements and information on potential assets and liabilities reference date. The main sources of uncertainty that could have an impact on the evaluation processes are also considered in making these estimates. The actual amounts may differ from such estimates. 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. Current facts and circumstances influencing the assumptions on future development and events may change due to the effect, for example, of changes in market trends or the applicable regulations that are beyond the control of the Company. These changes in assumptions are also reflected in the financial statements when they occur.
In addition, it should be noted that certain estimation processes, particularly the more complex such as the calculation of any impairment of non-current assets, are generally performed in full only when drafting the annual financial statements, unless there are signs of impairment that call for immediate impairment testing.

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

ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

NON-CURRENT ASSETS HELD FOR SALE

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

EXCHANGE DIFFERENCES

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

REVENUE RECOGNITION

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.

Provision of services

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 Income Statement under the item financial income.

CONTRIBUTIONS

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

CONSTRUCTION CONTRACTS IN PROGRESS

Construction contracts in progress are assessed on the basis of the contractual fees accrued with reasonable certainty, according to the percentage of completion criterion (the so-called cost to cost), so as to attribute the revenues and the economic result of the contract to the individual financial years in proportion to the progress of the works. The positive or negative difference between the value of the contracts and the advances received is recorded respectively in the assets or in the liabilities side of the balance sheet.

Contract revenues, in addition to contractual fees, include variants, price revisions and recognition of incentives to the extent that they are likely to represent actual revenues and if these can be determined reliably. Ascertained losses are recognised regardless of the progress of orders.

COSTS RELATED TO BORROWING

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

EMPLOYEE BENEFITS

Benefits guaranteed to employees paid in connection with or following termination of employment through defined benefit and defined contribution plans (such as: Employee severance 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 Income Statement.

TAXES

Income taxes for the year represent the sum of current taxes (as per tax consolidation) and deferred taxes.

Current taxes are based on the taxable results for the year. Taxable income differs from the results reported in the Income Statement because it excludes positive and negative components that will be taxable or deductible in other financial years and also excludes items that will never be taxable or deductible. The liability for current taxes is calculated using the rates in force or in fact in force at the balance sheet date as well as taxation instruments allowed by tax legislation (national tax consolidation, taxation for transparency).

Deferred taxes are the taxes that are expected to be paid or recovered on temporary differences between the book value of assets and liabilities in the financial statements and the corresponding tax value used in the calculation of the taxable income, recorded according to the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, while deferred tax assets are recognised to the extent where it is probable that there will be future taxable results that allow the use of deductible temporary differences.
The carrying amount of deferred tax assets is revised at each balance sheet date and reduced to the extent that, based on the plans approved by the Board of Directors, the existence of sufficient taxable income is not considered likely to allow all or partly the recovery of these assets.
Deferred taxes are calculated based on the tax rate that is expected to be in effect at the time the asset is realised or the liability is relieved. Deferred taxes are charged directly to the Income Statement, with the exception of those relating to items recognised directly in equity, in which case the relevant deferred taxes are also recognised in equity.

TANGIBLE ASSETS

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

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

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

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

REAL ESTATE INVESTMENTS

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

INTANGIBLE ASSETS

Purchases separated or deriving from business combinations

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

Research and development costs

Research costs are allocated to the income statement when 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

Goodwill and other assets with an indefinite useful life are not amortised on a straight-line basis, but are tested for impairment at least once a year by the individual Cash Generating Units (CGUs) or groups of CGUs to which assets with an indefinite useful life can be reasonably allocated, in accordance with Group procedures. Every year, according to its own impairment procedure, Acea SpA carries out an analysis of the CGUs identified independently of the allocation of any goodwill or the presence or absence of impairment indicators.
The test consists of a comparison between the carrying amount of the asset and its estimated value in use – VIU. Given the nature of the activities carried out by the Acea Group, the method of determining the "VIU" is carried out by discounting the expected cash flows from use and, if significant and reasonably determinable, from disposal at the end of the useful life. However, where there is evidence of a reliable fair value (price traded in an active market, comparable transactions, etc.) the Group assesses the adoption of this value for impairment testing.
Cash flows are determined on the basis of the best information available at the time of the estimate, which can be inferred through the combined use of the financial method and sensitivity analyses.
The determination of the "VIU" is carried out using the financial method (Discounted Cash Flow – DCF) which considers the ability to produce cash flows as the fundamental element for the valuation of the entity of reference. The application of the financial method to determine the value in use of a CGU involves estimating the present value of net operating cash flows for tax purposes.
If the recoverable amount of an asset (or of a cash-generating unit) is estimated to be lower than the relative book value, it is reduced to the lower recoverable value. An impairment loss is immediately recognised in the Income Statement, unless the asset is represented by land or buildings other than real estate investments recorded at revalued values, in which case the loss is recognised in the respective revaluation reserve.

When an impairment no longer exists, the carrying amount of the asset (or cash-generating unit), with the exception of goodwill, is increased to its new estimated recoverable amount. The reversal must not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment charge been recognised for the asset in prior periods. The reversal of an impairment charge is recognised immediately as income in the income statement, unless the asset is carried at a revalued amount, in which case the reversal is recognised in the revaluation reserve.

Where an impairment charge is recognised in the income statement, it is included among amortisation, depreciation and impairment charges.

EQUITY INVESTMENTS

Investments in subsidiaries and associates are recorded in the 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 Income Statement when the right to receive payment is established only if they derive from the distribution of profits subsequent to the acquisition of the investee company. If, however, they derive from the distribution of reserves of the investee prior to the acquisition, these dividends are recorded as a reduction in the cost of the investment itself.

TREASURY SHARES

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

FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised when Acea 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 the amounts considered non-collectable is estimated based on the provisions of IFRS 9, or, through the application of the expected credit loss model for the evaluation of the recoverability of the financial assets based on a predictive approach, based on the prediction of the counterparty's default (so-called probability of default) and of the ability to recover if the default event occurs (so-called loss given default).
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 an 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 change 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 fulfil the obligation at the balance sheet date, and if the effect is significant.
When the financial effect of time is significant and the payment dates of the obligations can be reliably estimated, the provision is determined by discounting the expected future cash flows at the average rate of the company's debt taking into account the risks associated with the obligation; the increase in the provision associated with the passage of time is recognised in the Income Statement under the item "Financial income/(charges)".

ACCOUNTING STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS APPLIED AS OF 1 JANUARY 2019

IFRS 16 LEASES

Issued in January 2016, this standard replaces the previous standard on leases, IAS 17 and the related interpretations, identifies the criteria for the recognition, measurement, presentation and disclosures to be provided with reference to lease agreements for both the lessor and the lessee. IFRS 16 marks the end of the distinction in terms of classification and accounting treatment of operating leases (with off-balance sheet disclosures) and finance leases (recognised in the financial statements). The right to use the leased asset ("Right of Use") and the commitment made will result from financial data in the financial statements (IFRS 16 will apply to all transactions involving a right of use, regardless of the contractual form, i.e. lease, rental or hire purchase). The main new development is the introduction of the concept of control within the definition. More specifically, to determine whether a contract is a lease, IFRS 16 requires a lessee to verify whether it has the right to control the use of a given asset for a specified period of time.
There will be no accounting symmetry with the lessor, which will continue to apply a separate accounting treatment depending on whether the contract is an operating lease or a finance lease (on the basis of current guidelines).
On the basis of this new model, the lessee shall recognise:

a. in the balance sheet, the assets and liabilities for all leases that have a term exceeding 12 months, unless the underlying asset has a modest value;
b. in profit or loss, depreciation of the leased assets separately from interest on the related liabilities.

For the first-time adoption of the principle, the transition approach used by the Acea Group was the modified retrospective approach, and therefore the contracts whose leases – including renewals – will end within 12 months from the date of first application will not be included.
The Group has also used the possibility envisaged by the principle of not accounting separately for the non-lease component of mixed contracts, therefore choosing to treat these contracts as a lease.
For further details, reference should be made to the paragraph "*Effects deriving from the introduction of new accounting standards*".

"IFRIC 23 – UNCERTAINTY OVER INCOME TAX TREATMENTS"

The interpretation provides clarifications on the recognition and measurement of IAS 12 – Income Taxes regarding the accounting treatment of income tax in the event of regulatory uncertainty, also aimed at improving transparency. IFRIC 23 does not apply to taxes and duties that do not fall under the scope of IAS 12.

"Conceptual Framework"

The objective of the project on Conceptual Framework is to improve financial reporting by providing a more complete, clear and updated set of conceptual elements. The purpose of the Framework is to: a) assist the Board in the development of IFRS based on coherent concepts; b) assist the preparation of financial statements in the development of consistent accounting policies when no IFRS applies to a particular transaction or event or when a standard allows a choice of accounting policy; c) assist others in understanding and interpreting the standards.
The main changes compared to the 2010 version concern:

- a new chapter on valuation;
- better definitions and guidance, in particular with regard to the definition of liabilities;
- clarification of important concepts, like stewardship, prudence and uncertainty in valuations.

"Amendments to IAS 19"

On 7 February 2018 the IASB published its interpretation of "Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)" which requires companies to use up-to-date actuarial assumptions in order to determine pension charges following changes to defined benefits for employees.

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

On 12 December 2017 the IASB published the document *"Annual Improvements to IFRSs: 2015-2017 Cycle"*.
The document introduces amendments to the following standards:

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

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

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

"Amendments to IFRS 3 – Business Combination"
Issued on 22 October 2018 to resolve interpretative difficulties that arise when an entity needs to determine whether it has acquired a business or a group of businesses. The amendments are effective for business combinations for which the acquisition date is after 1 January 2020.

"Amendments to IAS 1 and IAS 8"
Issued on 31 October 2018 to clarify the definition of "material" and in order to align the definition used in the Conceptual Framework and in the standards themselves. The amendments are effective for periods beginning on or after 1 January 2020. Earlier application is permitted.

Effects deriving from the introduction of new accounting standards

With effect from 1 January 2019, the Group applied the new standard "IFRS 16 – Leasing" for the first time, issued in January 2016 and approved by the European Union with EU Regulation 2017/1986 of 31 October 2017.
The transition approach adopted by the Group was the modified retrospective approach, and therefore the contracts whose leases – including renewals – will end within 12 months from the date of first application will not be included. Moreover, the Group has also used the possibility envisaged by the principle of not accounting separately for the non-lease component of mixed contracts, therefore choosing to treat these contracts as a lease.
Therefore, the impact of the opening of the balance sheet at 1 January 2019 led to the recognition of an asset of € 19.2 million (so-called right of use) consisting of the right to use the underlying asset and an obligation of the same amount to make payments due for the lease, which has a negative impact on net financial debt. The effects deriving from the first application of IFRS 16 as at 1 January 2019 are shown in the table below:

ASSETS

€ thousand	31/12/2018	IFRS16	Data as at 01/01/19
NON-CURRENT ASSETS	2,153,566	19,209	2,172,774
of which Right of use	*0*	*19,209*	*19,209*

LIABILITIES

€ thousand	31/12/2018	IFRS16	Data as at 01/01/19
NON-CURRENT LIABILITIES	3,163,491	16,047	3,179,537
of which Borrowings and financial liabilities	*3,124,571*	*16,047*	*3,140,618*
CURRENT LIABILITIES	609,214	3,162	612,375
of which Financial debts	*377,675*	*3,162*	*380,837*

INCOME STATEMENT

Ref. Note	INCOME STATEMENT	2019	Related Parties	2018	Related Parties	Change
1	Revenue from sales and services	152,318,368	152,207,467	156,160,530	156,017,216	(3,842,162)
2	Other revenue and proceeds	30,915,643	9,318,616	15,662,724	7,740,641	15,252,920
	Net revenues	**183,234,011**	**161,526,082**	**171,823,253**	**163,757,856**	**11,410,757**
3	Personnel costs	60,096,050		57,195,964		2,900,086
4	Costs of materials and overheads	133,178,593	59,810,030	154,363,700	51,889,140	(21,185,108)
	Operating costs	**193,274,643**	**59,810,030**	**211,559,665**	**51,889,140**	**(18,285,021)**
	EBITDA	**(10,040,633)**	**101,716,052**	**(39,736,411)**	**111,868,717**	**29,695,779**
5	Net write-downs (write-backs) of trade receivables	2,748,515	0	(392,282)	0	3,140,798
6	Depreciation, amortisation a nd provisions	22,467,993	0	20,466,822	0	2,001,171
	Operating profit/loss	**(35,257,141)**	**101,716,052**	**(59,810,951)**	**111,868,717**	**24,553,810**
7	Financial income	145,918,943	139,096,589	130,272,501	128,985,136	15,646,442
8	Financial expenses	72,312,419	58,396	70,826,703	160,937	1,485,717
9	Income/(costs) from equity investments	181,633,668	181,633,668	162,073,516	177,966,381	19,560,152
	Profit/(loss) before tax	**219,983,051**	**422,387,913**	**161,708,364**	**418,659,297**	**58,274,687**
10	Income taxes	11,495,039	(73,944,831)	13,932,153	(80,144,970)	(2,437,114)
	Net result of negotiating activities	**208,488,012**	**496,332,744**	**147,776,211**	**498,804,266**	**60,711,801**
	Net profit/(loss)	208,488,012	496,332,744	147,776,211	498,804,266	60,711,801

Amounts in €

STATEMENT OF COMPREHENSIVE INCOME

€ thousand	2019	2018	Change
Net profit/(loss)	**208,488**	**147,776**	**60,712**
Reserve for exchange differences	(5,299)	(11,103)	5,804
Tax on exchange rate difference	1,272	2,665	(1,393)
Profit/loss deriving from exchange rate differences	**(4,028)**	**(8,438)**	**4,411**
Effective portion of profits/(losses) on hedging instruments ("cash flow hedges")	4,975	17,930	(12,956)
Tax effect of other gains/(losses) on hedging instruments ("cash flow hedges")	(1,194)	(4,303)	3,109
Profit/loss from the effective portion on hedging instruments net of tax effect	**3,781**	**13,627**	**(9,847)**
Actuarial gains/(losses) on employee benefits recognised in equity	(1,812)	1,059	(2,871)
Tax effect on the other actuarial profit/(loss) on staff benefit plans	(756)	(313)	(443)
Actuarial profit/(loss) on defined benefit pension plans net of tax effect	**(2,568)**	**746**	**(3,314)**
Total components of other comprehensive income, net of tax effect	**(2,815)**	**5,935**	**(8,750)**
Total comprehensive income/loss	205,673	153,711	51,962

All components are reclassifiable in the income statement.

STATEMENT OF FINANCIAL POSITION

Ref. Note	ASSETS	31/12/2019	Related Parties	31/12/2018	Related Parties	Change
11	Tangible fixed assets	98,885,234	0	97,469,362	0	1,415,872
12	Real estate investments	2,430,688	0	2,489,046	0	(58,358)
13	Other intangible fixed assets	24,283,493	0	11,762,938	0	12,520,556
14	Right of use	15,745,805		0	0	15,745,805
15	Investments in subsidiaries and affiliate companies	1,813,914,461	0	1,792,037,627	0	21,876,834
16	Other equity investments	2,352,061	0	2,352,061	0	0
17	Deferred tax assets	18,636,433	0	20,069,011	0	(1,432,578)
18	Financial assets	226,670,645	226,545,145	227,385,241	227,259,741	(714,596)
19	Other non-current assets	0	0	560	0	(560)
	NON-CURRENT ASSETS	**2,202,918,820**	**226,545,145**	**2,153,565,846**	**227,259,741**	**49,352,973**
20.a	Contract work-in-progress	0	0	0	0	0
20.b	Trade receivables	746,852	0	731,449	541,305	15,403
20.c	Intragroup trade receivables	98,372,275	98,372,275	88,212,898	88,212,898	10,159,377
20.d	Other current assets	32,435,439	1,986,459	31,900,595	1,931,369	534,844
20.e	Current financial assets	146,782,548	0	5,791,425	0	140,991,123
20.f	Intragroup current financial assets	2,539,759,149	2,539,759,149	2,074,601,428	2,074,601,428	465,157,721
20.g	Current tax assets	10,766,157	8,141,760	13,396,660	12,185,412	(2,630,503)
20.h	Cash and cash equivalents	688,144,677	0	978,551,644	0	(290,406,967)
20	CURRENT ASSETS	3,517,007,097	2,648,259,644	3,193,186,099	2,177,472,413	323,820,998
	TOTAL ASSETS	5,719,925,917	2,874,804,789	5,346,751,945	2,404,732,154	373,173,971

Amounts in €

Ref. Note	LIABILITIES	31/12/2019	Related Parties	31/12/2018	Related Parties	Change
	Shareholders' Equity					
21.a	Share capital	1,098,898,884	0	1,098,898,884	0	0
21.b	Legal reserve	119,336,432	0	111,947,621	0	7,388,811
21.c	Treasury shares reserve	0	0	0	0	0
21.d	Other reserves	75,157,426	0	77,972,583	0	(2,815,157)
	Retained earnings/(losses)	126,930,755	0	137,452,369	0	(10,521,614)
	profit (loss) for the year	208,488,012	0	147,776,211	0	60,711,801
21	**SHAREHOLDERS' EQUITY**	**1,628,811,508**	**0**	**1,574,047,668**	**0**	**54,763,840**
22	Severance pay benefits and other defined benefit plans	23,322,523	0	23,512,134	0	(189,612)
23	Provisions for risks and charges	15,881,547	0	15,407,726	0	473,821
24	Financial debts and liabilities	3,170,894,850	0	3,124,570,873	0	46,323,977
25	Other liabilities	0	0	0	0	0
	NON-CURRENT LIABILITIES	**3,210,098,920**	**0**	**3,163,490,734**	**0**	**46,608,186**
26.a	Financial payables	662,536,178	164,465,312	377,675,158	61,581,587	284,861,021
26.b	Trade payables	182,641,142	1,403,794	169,536,665	75,521,828	13,104,477
26.c	Tax payables	12,255,330	11,441,347	17,916,924	4,745,034	(5,661,594)
26.d	Other current liabilities	23,582,837	27,774	44,084,796	2,325	(20,501,959)
26	**CURRENT LIABILITIES**	**881,015,488**	**177,338,228**	**609,213,543**	**141,850,774**	**271,801,945**
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	5,719,925,917	177,338,228	5,346,751,945	141,850,774	373,173,971

Amounts in €

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2018

€ 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 shareholders' equity
Balances as at 31 December 2017	**1,098,899**	**100,619**	**102,567**	**13,157**	**(34,285)**	**(9,780)**	**1,098**	**56,107**	**226,579**	**1,554,961**
FTA reserve							(719)			**(719)**
Balances as at 1 January 2018	**1,098,899**	**100,619**	**102,567**	**13,157**	**(34,285)**	**(9,780)**	**1,098**	**56,107**	**226,579**	**1,554,961**
Allocation of 2017 profits:										
Distribution of balance, dividends								81,345	(215,250)	**(133,905)**
Legal reserve		11,329							(11,329)	**0**
Profits carried forward/ to cover losses										**0**
Other changes										**(719)**
Net income/ (loss) recorded during the year:										**0**
Profits and losses recognised directly in equity				(8,438)	13,627	746				**5,935**
Distribution of advances on dividends										**0**
Profit for the year									147,776	**147,776**
Total comprehensive profit/(loss)	0	0	0	(8,438)	13,627	746	0	0	147,776	**153,711**
Total as at 31 December 2018	1,098,899	111,948	102,567	4,718	(20,658)	(9,034)	379	137,452	147,776	1,574,048

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2019

€ 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 shareholders' equity
Balance as at 31 December 2018	**1,098,899**	**111,948**	**102,567**	**4,718**	**(20,658)**	**(9,034)**	**379**	**137,452**	**147,776**	**1,574,048**
FTA reserve							0			**0**
Balance as at 1 January 2019	**1,098,899**	**111,948**	**102,567**	**4,718**	**(20,658)**	**(9,034)**	**379**	**137,452**	**147,776**	**1,574,048**
Allocation of 2018 profits:										
Distribution of balance, dividends								(10,627)	(140,282)	**(150,909)**
Legal reserve		7,389							(7,389)	**0**
Profits carried forward/ to cover losses								106	(106)	**(0)**
Other changes						0				**0**
Net income/ (loss) recorded during the year:										**0**
Profits and losses recognised directly in equity				(4,028)	3,781	(2,568)				**(2,815)**
Distribution of advances on dividends										**0**
Profit for the year									208,488	**208,488**
Total comprehensive profit/(loss)	0	0	0	(4,028)	3,781	(2,568)	0	0	208,488	**205,673**
Total as at 31 December 2019	**1,098,899**	**119,336**	**102,567**	**691**	**(16,877)**	**(11,602)**	**379**	**126,931**	**208,488**	**1,628,812**

CASH FLOW STATEMENT

Ref. Note		31/12/2019	Related Parties	31/12/2018	Related Parties	Changes
	Cash flow from operating activities					
	Profit before tax	219,983		161,708		58,275
6	Depreciation/amortisation	15,155		13,125		2,030
5	Write-ups/write-downs	(178,885)		(162,466)		(16,419)
23	Change in provisions for risks	474		423		50
22	Net change in the provision for employee benefits	(3,091)		(507)		(2,585)
7-8	Net financial interest	(73,607)		(59,446)		(14,161)
	Income taxes paid	(92,937)		(56,638)		(36,299)
	Financial flows generated by operating activities before changes	**(112,909)**	**0**	**(103,800)**	**0**	**(9,109)**
20.b-20.c	(Increase)/Decrease in receivables included in current assets	(12,923)	(9,618)	11,174	10,544	(24,097)
26.b	Increase/Decrease in payables included in the working capital	3,752	(74,118)	(22,247)	(23,495)	25,999
	Change in working capital	**(9,171)**	**(83,736)**	**(11,073)**	**(12,951)**	**1,902**
	Change in other assets/liabilities during the period	**58,807**	**4,069**	**44,027**	**(7,919)**	**14,780**
	TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**(63,273)**	**(79,667)**	**(70,846)**	**(20,870)**	**7,573**
	Cash flow from investment activities					
11-12	Purchase/sale of tangible fixed assets	(8,087)		(8,514)		427
13	Purchase/sale of intangible fixed assets	(16,362)		(6,309)		(10,054)
15-16	Equity investments	(14,008)		(2,438)		(11,570)
26a	Collections/payments deriving from other financial investments	(596,096)	(464,443)	(26,395)	(145,605)	(569,701)
	Collected dividends	183,122	183,122	160,105	160,105	23,017
	Interest income collected	140,747	(9,220)	118,380	(22,636)	22,367
	Total	**(310,685)**	**(290,541)**	**234,829**	**(8,136)**	**(545,514)**
	Cash flow from financing activities					
24	Repayment of mortgages and long-term loans	(290,000)		(382,891)		92,891
24	Provision of mortgages/other debts and medium to long term	500,000		1,000,000		(500,000)
26.a	Decrease/increase in other short-term financial debts	18,257	102,884	(165,325)	33,153	183,582
	Interest expense paid	(70,911)	(2,277)	(30,014)	(2,832)	(40,897)
	Dividends paid	(73,795)	(73,795)	(133,905)	(133,905)	60,110
	TOTAL CASH FLOWS	**83,551**	**26,812**	**287,865**	**(103,584)**	**(204,314)**
	Changes in shareholders' equity, net of profit	0	0	(719)	0	719
	Cash flow for the period	*(290,407)*	*(343,396)*	*451,848*	*(132,590)*	*(742,255)*
	Net opening balance of cash and cash equivalents	*978,552*	*0*	*527,423*	*0*	*451,129*
	Net closing balance of cash and cash equivalents	*688,145*	*(343,396)*	*978,552*	*(132,590)*	*(290,407)*

Amounts in € thousand

NOTES TO THE INCOME STATEMENT

REVENUES

1. Revenue from sales and services – € 152,318 thousand

Revenues from sales and services are as follows:

€ thousand	2019	2018	Change
Revenue from customer services	**40,751**	**42,587**	**(1,837)**
of which Roma Capitale Public Lighting service	40,631	42,444	(1,813)
of which other revenues	120	143	(23)
Revenues from intragroup services	**111,568**	**113,573**	**(2,005)**
of which service contracts	107,971	108,165	(194)
of which other services	3,596	5,408	(1,812)
Revenue from sales and services	**152,318**	**156,161**	**(3,842)**

The reduction in revenues from customer services of € 1,837 thousand is attributable to the reduction in the consideration for the Public Lighting service performed in the Municipality of Rome. In July 2019 the transformation of the functional lights envisaged in the amending agreement for the management of the Public Lighting service contract with Roma Capitale was completed. In 2019, 12,014 conversions were performed out of a total of 182,556 (13,511 conversions in 2018). The reduction in revenues is also due to the drop in the efficiency fee generated by the progressive progress of the installations. Extraordinary maintenance and modernisation and safety activities agreed with Roma Capitale were carried out, thus creating 985 new lighting points.
Revenues from intragroup services recorded an overall decrease of € 2,005 thousand. This change is due to the reduction in fees for services provided to Group companies for facility management, offset by the increase in other administrative, financial, legal and technical services (a total of - € 194 thousand) and the reduction in revenues from other services provided to subsidiaries (- € 1,812 thousand) outside the service contract, including those relating to facility management.

2. Other proceeds – € 30,916 thousand

The increase of € 15,253 thousand compared to 31 December 2018 is mainly due to the recognition of out-of-period income of € 16,200 thousand as a result of the decision of the Regional Administrative Court which annulled the fine imposed by the Antitrust Authority served on 8 January 2019 and against which an appeal has been lodged. This increase was partially offset by a reduction in expenses. The increase in revenues is due to higher compensation for personnel seconded to Group companies. Below is the composition.

€ thousand	2019	2018	Change
Contingent assets and other revenues	22,368	8,499	13,869
Seconded personnel	4,888	3,510	1,377
Reimbursement of charges for corporate offices	2,815	2,847	(32)
Real estate income	795	748	46
Refunds for damages, penalties, collateral	50	58	(8)
Revenue from sales and services	**30,916**	**15,663**	**15,253**

COSTS

3. Personnel costs – € 60,096 thousand

€ thousand	2019	2018	Change
Staff costs including capitalised costs	65,465	60,059	5,406
Staff employed in projects	(3,306)	(2,588)	(718)
Costs capitalised	(2,062)	(274)	(1,788)
Total	60,096	57,196	2,900

The change in the cost of labour, including capitalised costs of € 5,406 thousand derives from the average outstanding amounts, as also highlighted in the table below, from the updating of the collective agreement and the costs for redundancy and mobility incentives (the latter amounting to € 2,044 thousand).
The cost of personnel is netted, as well as capitalised costs, also €3,306 thousand (+ € 718 thousand compared to 31 December 2018) representing the total amount of personnel costs used in the IT projects for all group companies participating in the "commun-ion" of the IT platform.
The following table shows the average and final number of employ-ees by category, compared to the previous year.

	Average number of employees			End-of-period composition		
Category	31/12/2019	31/12/2018	Change	31/12/2019	31/12/2018	Change
Senior executives	49	52	(3)	49	49	0
Middle managers	164	162	2	167	165	2
Clerical staff	429	421	8	429	419	10
Blue-collar workers	23	23	0	23	23	0
Total	**665**	**658**	**7**	**668**	**656**	**12**

4. Costs of materials and overheads – € 133,179 thousand

Compared to 31 December 2018, total external costs decreased by € 21,185 thousand (- 1.37%). The following is the composition and changes in external costs by nature.

€ thousand	2019	2018	Change
Cost of equipment	1,071	1,187	(116)
Costs for services and work	122,135	123,373	(1,238)
Costs for use of third-party goods	3,938	7,223	(3,286)
Taxes and duties	1,909	1,635	274
General expenses	4,126	20,945	(16,819)
Total	**133,179**	**154,364**	**(21,185)**

€ thousand	2019	2018	Change
Cost of equipment	**1,071**	**1,187**	**(116)**
Costs for services and work	**122,135**	**123,373**	**(1,238)**
Infragroup services	30,046	30,093	(47)
of which Public Lighting, Roma Capitale	*29,824*	*29,829*	*(4)*
Electric and Water Consumption	18,136	20,114	(1,978)
of which Electricity Consumption Roma Capitale Public Lighting Service	*15,540*	*16,991*	*(1,451)*
Consulting and professional services	28,096	28,275	(179)
Works	4,586	5,085	(499)
Maintenance fees	9,456	10,882	(1,426)
Staff services	4,778	4,228	551
Surveillance services	4,682	3,987	695
Advertising and Sponsorships	5,696	3,776	1,920
Cleaning, Transport and Porterage costs	2,876	2,820	56
Seconded personnel	5,347	5,415	(69)
Postal charges	1,141	1,237	(96)
Bank charges	1,019	1,011	8
Governing Bodies	842	738	104
Telephone expenses	951	853	98
Insurance expenses	651	638	12
Travel costs and subsistence	565	373	192
Coordinated and continuous collaborations	407	306	101
Technical and administrative services	1,876	925	950
Typographical expenses	88	64	24
Other	897	2,551	(1,654)
Costs for use of third-party goods	3,938	7,223	(3,286)
Rent charges	37	4,147	(4,109)
Other rentals and fees	3,900	3,077	824

(follows)

€ thousand	2019	2018	Change
Taxes and duties	1,909	1,635	274
Overhead costs	4,126	20,945	(16,819)
Total external costs	133,179	154,364	(21,185)

The reduction in external costs of € 21,185 thousand is due to:

- the registration in 2018 of a pecuniary administrative fine amounting to € 16,200 thousand imposed by the Antitrust Authority; for further details see what is specified in the section "*Update on major disputes and litigation*";
- lower costs for use of leased assets for € 3,286 thousand, of which € 4,792 thousand generated by the application of IFRS 16 for the first time;
- the decrease in costs for software and hardware maintenance fees (€ 1,426 thousand) relating to the management of the IT platform in common with other group companies.

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

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

€ thousand	Audit Related Service	Audit Services	Non-Audit Services	Total
Acea SpA	435	215	443	1,093

Please note that the above fees refer to assignments for the year 2019 entrusted up to 31 December 2019.

5. Net write-downs (write-backs) of trade receivables – € 2,749 thousand

Write-downs of receivables amount to a total of € 2,749 thousand and mainly refer to risks linked to the recoverability of interest receivables from Roma Capitale offset by the release to the income statement of redundancies in the provision for doubtful trade receivables from the Municipality of Naples and other group companies.

6. Depreciation, amortisation and provisions – € 22,468 thousand

€ thousand	2019	2018	Change
Amortisation and depreciation	15,155	13,125	2,030
Provision for risks	7,313	7,342	(29)
Total	22,468	20,467	2,001

Amortisation and depreciation totalled € 15,155 thousand and refer for € 3,842 thousand to intangible assets, € 6,730 thousand to tangible assets and € 4,583 thousand to depreciation generated by the application of IFRS 16.

Allocations to the provision for risks amount to € 7,313 thousand. The following are their composition by nature and their effects:

€ thousand	2019	2018	Change
Investees	0	1,000	(1,000)
Investee release	0	(432)	432
Early retirements and redundancies	6,036	5,225	811
Legal	1,256	192	1,064
Legal release	0	(346)	346
Contributive and in respect of Public Bodies	32	0	32
Release of contributory risks	0	(155)	155
Procurement and supplies	0	101	(101)
Release of procurement and supplies	(12)	(904)	892
Tax dispute risk	0	2,700	(2,700)
Release of tax disputes	0	0	0
Release of other risks and charges	0	(40)	40
TOTAL PROVISIONS	7,313	7,342	(29)

Compared to the previous year, there was a slight reduction in the overall level of provisions caused by the combined effect of lower and higher provisions as shown in the table.

For further details, see the information provided in the section "*Update on major disputes and litigation*".

7. Financial income – € 145,919 thousand

€ thousand	2019	2018	Change
Income from intragroup relations	139,020	124,496	14,524
Interest and income from relationships with banks	750	647	103
Default interest towards subsidiaries	0	0	0
Interest due to third parties	429	0	429
Recovery of discounting costs	526	640	(114)
Revenue from fair value hedge	0	0	0
Financial income from Public Lighting contracts	76	256	(179)
Interest due to Roma Capitale	5,117	4,233	884
Total financial income	**145,919**	**130,272**	**15,647**

The increase in financial income of € 15,647 thousand is attributable for € 14,524 thousand to income from intercompany transactions mainly due to the increase in interest income on the revolving credit line for € 14,251 thousand.

8. Financial costs – € 72,312 thousand

€ thousand	2019	2018	Change
Interest on bonds	64,448	66,296	(1,848)
Charges on interest rate swaps	5,191	2,090	3,101
Interest on short-term debt	0	8	(8)
Interest on medium-long term indebtedness	693	853	(160)
Financial charges from Public Lighting contract	58	160	(101)
Other financial charges	409	416	(7)
Losses /(profit) on foreign exchange	544	78	466
Interest expense on Equitalia and INPS instalments	447	6	441
Valuation charges at fair value hedge	0	919	(919)
IFRS 16 discounting charges	522	0	522
Total financial charges	**72,312**	**70,827**	**1,486**

The € 1,486 thousand increase in financial charges is due to higher charges on interest rate swaps (€ 3,101 thousand) partly offset by lower interest on bonds (€ 1,848 thousand).

The change in interest on bonds includes the effect of the loss of interest accrued on the bond repaid on 12 September 2018, partially offset by interest on new issues.
With reference to the average cost of Acea's debt, there was a decrease compared to the previous year, having risen from 1.94% in 2018 to 1.90% in 2019.

9. Income/Expenses from equity investments – € 181,634 thousand

Income from equity investments amounted to € 183,122 thousand, an increase of € 5,155 thousand (previously € 177,966 thousand). It is composed as summarised in the following table.

€ thousand	2019	2018	Change
Dividends	**183,122**	**156,720**	**26,402**
Acea Ato 2	64,190	45,500	18,690
areti	59,928	78,246	(18,318)
Acea Elabori	19,049	14,993	4,056
Acea Ambiente	23,540	7,992	15,548
Acque Blu Fiorentine	5,229	5,251	(23)
Acea Produzione	3,158	0	3,158
Aquaser	2,844	3,310	(466)
Acea800	378	808	(429)
Acea International	887	0	887
Acque Industriali	0	176	(176)
Intesa Aretina	638	0	638
Geal	269	230	38
Acque Blu Arno Basso	0	178	(178)

(follows)

€ thousand	2019	2018	Change
Ingegnerie Toscane	433	35	398
Agua Azul Bogotà	2,579	0	2,579
Revaluation of the Sarnese Vesuviano Srl shareholding	0	21,247	(21,247)
Total	183,122	177,966	5,155

Equity investment costs amounted to € 1,488 thousand as at 31 December 2019 while they were € 15,893 thousand as at 31 December 2018. This includes the write-downs of the investment in Acea Liquidation and Litigation Srl for € 1,481 thousand.

10. Taxes – € 11,495 thousand

Taxes totalled € 11,495 thousand. In particular, the tax calculation is affected by the tax law applicable to the tax treatment of the collected dividends, the provisions for the provision for risks, as well as the deductibility of the interest expense of Acea for the Group tax consolidation. Income taxes for the year have an impact on the pre-tax result of 5.2%.
The balance consists of the algebraic sum of the following items.

CURRENT TAXES

Current taxes amounted to € 84,685 thousand (€ 92,134 thousand as at 31 December 2018) 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.

In 2018 the amount of € 2,214 thousand referred to capital gains taxes paid to SUNAT as part of the project involving the transfer of foreign subsidiaries from Acea to Acea International.
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 € 513 thousand and consisted of the algebraic sum of provisions (€ 3,842 thousand) mainly on the provision for risks, the allowance for doubtful receivables and provisions for defined benefit plans and utilisations (€ 3,328 thousand). Deferred tax liabilities increase by € 1,267 thousand and relate only to provisions.

CHARGES AND INCOME FROM TAX CONSOLIDATION

These amount to € 73,945 thousand and represent the positive balance between the tax charges that the Parent Company has towards tax consolidation companies against the transfer of tax losses (€ 2,623 thousand) and the tax income recorded as a counterpart of the taxable income transferred to the consolidated company (€ 76,567 thousand).
The compensation for the loss, as per the general consolidation regulation, is determined by applying the current IRES rate to the amount of the tax loss transferred.
The table below shows the reconciliation between the theoretical and actual tax rates.

	31/12/2019	%	31/12/2018	%
Pre-tax result of operating activities	219,983		161,708	
Expected tax charge at 27.5% on profit before tax	52,796	24.0%	38,810	24.0%
Permanent differences*	(43,973)	(20.0%)	(30,775)	(19.0%)
IRES for the period**	9,204	4.2%	12,621	7.8%
IRAP for the period**	2,291	1.0%	1,311	0.8%
Taxes on the operating income of operating assets	**11,495**	**5.2%**	**13,932**	**8.6%**

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

NOTES TO THE BALANCE SHEET – ASSETS

11. Tangible fixed assets – € 98,885 thousand

€ thousand	31/12/2019	31/12/2018	Change
Land and buildings	78,337	79,883	(1,546)
Plants and machinery	12,272	10,243	2,029
Industrial and commercial equipment	972	670	302
Other assets	5,542	6,642	(1,100)
Assets under construction and advances	1,762	31	1,731
Total property, plant and equipment	**98,885**	**97,469**	**1,416**

There is an increase of € 1,416 thousand compared to the value of 31 December 2018.
The change mainly refers to the net effect between investments, totalling € 8,087 thousand, and the amortisation charges that amounted to € 6,671 thousand.
Investments during the period include the Telecontrol devices of the Public Lighting network in the Municipality of Rome, created by Acea at the request of Roma Capitale in fulfilment of the service contract.
The other investments of the period mainly relate to extraordinary maintenance on the offices used for business activities, in addition to the investments relating to the hardware required for technological development projects for the improvement and evolution of the IT network and computers.
The table below summarises the changes occurred in the period.

€ thousand	31/12/2018			CHANGES				31/12/2019		
Tangible fixed assets	Historic cost	Accumulated depreciation	Net value	Increases	Reclassifications/ Other changes	Divestments/ Disposals	Depreciation	Cost	Accumulated depreciation	Net value
Land and buildings	101,890	(22,007)	79,883	627	0	0	(2,173)	102,517	(24,180)	78,337
Plants and machinery	24,306	(14,063)	10,243	4,138	0	0	(2,109)	28,444	(16,172)	12,272
Industrial and commercial equipment	13,404	(12,734)	670	7	407	0	(112)	13,819	(12,847)	972
Other assets	54,911	(48,269)	6,642	1,176	0	0	(2,277)	56,088	(50,546)	5,542
Assets under construction and advances	31	0	31	2,138	(407)	0	0	1,762	0	1,762
Total tangible fixed assets	**194,542**	**(97,072)**	**97,469**	**8,087**	**0**	**0**	**(6,671)**	**202,629**	**(103,744)**	**98,885**

12. Investment property – € 2,431 thousand

These amount to € 2,431 thousand, a reduction of € 58 thousand due to the depreciation of the year and consist mainly of land and buildings not used for production and held for rental purposes.

13. Tangible fixed assets – € 24,283 thousand

€ thousand	31/12/2019	31/12/2018	Change
Industrial patents and intellectual property rights	16,076	9,322	6,755
Concessions and trademarks	9	54	(45)
Assets under construction and advances	8,198	2,387	5,811
Total intangible fixed assets	**24,283**	**11,763**	**12,521**

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

€ thousand	31/12/2018	Changes in the year				31/12/2019
Intangible Fixed Assets	Net value	Increases	Reclassifications/ Other changes	Divestments/ Disposals	Depreciation	Net value
Industrial patents and intellectual property rights	9,322	4,975	5,576	0	(3,797)	16,076
Concessions and trademarks	54	0	0	0	(45)	9
Fixed assets under construction	2,387	11,387	(5,576)	0	0	8,198
Total tangible fixed assets	11,763	16,362	0	0	(3,842)	24,283

Investments mainly concerned the purchase and development of software to support the development of systems for managing IT platforms, corporate security and administrative management.

14. Right of use – € 15,746 thousand

This item includes rights to use the assets of others, which as of 1 January 2019 are recognised as leased assets and amortised over the duration of the contracts following the application of the new IFRS 16 international standard (for further details, see the section "Effects of the introduction of new accounting standards"). At 31 December 2019 the net book value of these assets was € 15,746 thousand.

€ thousand	31/12/2019
Land and buildings	14,416
Cars and motor vehicles	1,330
Total	15,746

The table below shows the changes during the period:

€ thousand	Land and buildings	Cars and Vehicles	Total
Opening balance 01/01/2019	18,024	1,184	19,209
New contracts	329	790	1,119
Remeasurement	1	0	0
Depreciation/amortisation	(3,939)	(644)	(4,583)
Total 31/12/2019	14,416	1,330	15,746

There are also no guarantees on residual value, variable payments and leases not yet signed to which Acea has committed itself for a significant amount. Finally, it should be noted that costs relating to short-term leases and assets of modest value are recognised in the income statement item "leases and rentals" in line with the requirements of IFRS 16 and in continuity with previous years.

15. Investments in subsidiaries and associates – € 1,813,914 thousand

These recorded an increase of € 21,877 thousand and is as follows:

€ thousand	31/12/2019	31/12/2018	Change
Investments in subsidiaries	1,792,439	1,770,567	21,872
Shares held in affiliate companies	21,475	21,470	5
Total shares held	1,813,914	1,792,038	21,877

Shares held in subsidiaries

Changes for 2019 are summarised below.

Shares held in subsidiaries	Historical cost	Reclassifications and other changes	Write-ups/ write-downs	Disposals	Net value
Values at 31 December 2018	**3,163,397**	**(376,507)**	**(55,842)**	**(960,479)**	**1,770,568**
2019 changes:					
- changes in share capital	20,306	0	0	0	20,306
- acquisitions / formations	4,305	0	0	0	4,305
- disposals / distributions	0	0	0	0	0
- reclassifications and other changes	0	0	0	(962)	(962)
- write-downs / write-ups	0	0	(1,777)	0	(1,777)
Total changes in 2019	**24,611**	**0**	**(1,777)**	**(962)**	**21,872**
Values at 31 December 2019	3,188,007	(376,507)	(57,619)	(961,441)	1,792,440

The changes occurred mainly concern:

- € 20,306 thousand are related to:
  1. € 11,564 thousand relate to the recapitalisation of Acea Ato 5 through the creation of an equity reserve to cover operating losses by means of the remission of the interest receivable accrued as at 31 December 2018 on the loan for the same amount;
  2. € 8,742 thousand relate to the capital increase of Acea International through the creation of an equity reserve in order to finance the purchase of further shares in the company Consorcio Agua Azul.
- € 4,305 thousand are mainly related to:
  1. € 4,290 thousand for the acquisition on 18 March 2019 of 51% of the share capital of the company Pescara Distribuzione Gas, engaged in the distribution of methane gas in the Municipality of Pescara;
  2. € 10 thousand for the establishment of Acea Innovation Srl on 25 June 2019 with start of activity on 4 July 2019, which has the objective of researching innovations and start-ups to start experimental projects in order to apply innovative ideas to real cases, together with Group companies, as well as some collaborative initiatives in funded projects.
- € 1,481 thousand for the write-down of the investment in Acea Liquidation and Litigation.

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 for equity investments compares the carrying amount of the investment with its recoverable value, identified as the higher of value in use and fair value, net of selling costs. 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 2019 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 on the discount rate (WACC).
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 latest Business Plan approved by the Board of Directors were used. Specifically:

- the development of revenues for regulated businesses was drawn up on the basis of tariff trends resulting from national regulation and/or agreements with the regulatory authorities;
- the dynamics of the prices of electricity and gas sold and purchased on the free market were developed on the basis of business considerations consistent with the energy scenario developed in the business plan;
- the inertial evolution of the Group's costs over the course of the plan was developed by formulating hypotheses based on the set of information available at the time the plan was drawn up.

After the last year of the plan, normalised free cash flow equal to the value of the net operating margin of the plan years was considered.
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 Infrastructure Segment				
areti	value in use	**5.9%**	**Regulatory Asset Base (RAB)**	**Until 2022**
Acea Produzione	value in use	4.8%	NIC/perpetuity at the end of the plants' useful life	Useful life of plants/end of concession
Ecogena	value in use	4.8%	NIC at the end of the plants' useful life	Plants' useful life
Water Segment	**value in use**	**5.2%**	**Regulatory Asset Base (RAB)**	**End of the concession**
Commercial and Trading Segment	**value in use**	**6.2%**	***Perpetuity without growth***	**Until 2022**
Overseas Segment	value in use	12.0%	*NIC at the end of the concession*	End of the concession
Environment Segment	**value in use**	**5.3%**	**NIC at the end of the plants' useful life**	**Plants' useful life**

Terminal value is calculated:

- for Acea Produzione: considering the contribution to the cash flows of the various plants until the end of the hydroelectric concessions and the useful life of the photovoltaic plants and Tor di Valle. The disposal value of the S. Angelo plant, assumed to be completed by 2024, takes into account the approval of the "Simplification Decree" which took place in February 2019. This value was determined on the basis of a valuation corresponding to the revalued carrying amount;
- for the Environment Segment considering the residual value corresponding to the net invested capital at the end of the plants' useful life;
- for *areti*: considering the current value of the RAB at the expiry of the concession calculated according to the regulations for the fifth regulatory period;
- for the Water Segment: considering the current value of the RAB at the end of the concession.

It should also be noted that the WACC was the subject of a sensitivity analysis, so that a 0.5% increase in the discount rate would lead to a deficit in the Acea Ato 5 stake.
The result of the impairment test confirmed the recoverability of the value of the recorded goodwill.

Shares held in affiliate companies

These amounted to € 21,475 thousand and only changed in 2019 due to the adjustment to the exchange rate of Aguazul Bogotà (they were € 21,470 as at 31 December 2018).
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 2018	**94,570**	**13,600**	**(80,839)**	**(5,861)**	**21,470**
2019 changes:					
changes in share capital	0	0	0	0	0
acquisitions / formations	0	0	0	0	0
disposals / distributions	0	0	0	0	0
reclassifications and other changes	0	0	0	0	0
write-downs / write-ups	0	0	5	0	5
Total changes in 2019	**0**	**0**	**5**	**0**	**5**
Values at 31 December 2019	94,570	13,600	(80,834)	(5,861)	21,475

16. Other equity investments – € 2,352 thousand

"Other equity investments" refer to investments in equity securities that do not constitute control, association or joint control. There were no movements during the year.

17. Deferred tax assets – € 18,636 thousand

These decreased by € 1,432 thousand compared to 31 December 2018.

The following table shows the changes and the balance as at 31 December 2019, distinguishing the Assets for Prepaid Taxes from the Provision for Deferred Taxes.
With regard to the recoverability of deferred tax assets, it must be noted that the valuation of deferred tax assets was carried out on the basis of Acea's business plans and, with regard to the time scale, considering a reasonable estimate of the reversal period.

Changes in the period

€ thousand	31/12/2018	IRES/ IRAP uses	Other changes	Changes in SE	IRES/IRAP advances	31/12/2019
Prepaid taxes						
Tax losses	0	0			0	0
Remuneration of members of the BoD	10	(2)			5	14
Provision for risks and charges	3,856	(1,300)	(1,792)		2,166	2,930
Write-down of investments	0	0			0	0
Provision for doubtful accounts	**7,463**	**(450)**	**3,454**	**0**	**942**	**11,410**
Depreciation and amortisation of tangible and intangible assets	1,658	(101)	(1,627)	0	326	256
Goodwill amortisation	0	0			0	0
Defined benefit plans/defined contribution	7,342	(1,338)	(35)	(835)	402	5,536
Others	7,052	(139)		(1,194)	0	5,720
Total	**27,383**	**(3,329)**	**(0)**	**(2,029)**	**3,842**	**25,867**
Deferred taxes						
Deferred taxes on dividends	128	0	0		0	128
Depreciation and amortisation of tangible and intangible assets	27	0		0	39	67
Defined benefit plans/defined contribution	316	0		(79)	0	237
Others	6,843	0	0	(1,272)	1,228	6,799
Total	**7,314**	**0**	**0**	**(1,351)**	**1,267**	**7,230**
Net total	20,069	(3,329)	(0)	(678)	2,574	18,636

18. Non-current financial assets – € 226,671 thousand

This item decreased by € 715 thousand compared to 31 December 2018, as it amounted to € 227,385 and is broken down as follows:

€ thousand	31/12/2019	31/12/2018	Change
Financial receivables due from Roma Capitale	15,227	18,697	(3,471)
Financial receivables due from subsidiaries	192,645	185,428	7,217
Receivables from others	18,798	23,260	(4,461)
Total	226,671	227,385	(715)

The item **Financial receivables due from Roma Capitale** shows a decrease of € 3,471 thousand and refers to investments in the Public Lighting service, such as plant redevelopment, energy saving, regulatory compliance and technological innovation, which will be paid to Acea, equal to the tax depreciation, beyond the year 2019, in accordance with what was agreed in the Supplementary Agreement to the service contract signed on 15 March 2011.

Financial receivables from subsidiaries increased by € 7,217 thousand compared to 31 December 2018. With regard to financial receivables due from Acea Ato 5, the short-term portion of the non-interest-bearing receivable has been reclassified since its repayment under the payment plan has been postponed. The change relating to Crea Gestioni is due to a new interest-bearing loan of € 1,000 thousand.
These receivables are considered entirely recoverable.

€ thousand	31/12/2019	31/12/2018	Change
Receivables from financing			
Acea Ato 5	187,742	181,525	6,217
Crea Gestioni Srl	4,870	3,870	1,000
Ecomed Srl	33	33	0
Total non-current Financial Receivables from Subsidiaries	192,645	185,428	7,217

The item **Receivables due from others**, amounting to € 18,798 thousand, is composed of € 18,673 thousand from the application of the financial asset model envisaged by IFRIC 12 regarding services under concession. This receivable represents all the investments made up to 31 December 2010 related to the service itself.

19. Other non-current assets – € 0 thousand

This item did not record changes compared to the previous year.

20. Current assets – € 3,517,007 thousand

These recorded an increase of € 323,821 thousand (€ 3,193,186 thousand as at 31 December 2018) and are broken down as follows.

20.a – Contract work in progress – € 0 thousand

The balance as at 31 December 2019 is zero.

20.b – Trade receivables – € 747 thousand

Trade receivables increased by € 15 thousand compared to € 731 thousand at 31 December 2018.

Trade receivables

These amounted to € 747 thousand net of the allowance for doubtful receivables amounting to € 2,124 thousand and increased by € 15 thousand. Receivables included under this item refer to positions accrued in respect of private and public entities for services rendered. During 2019, part of the receivables from the Municipality of Naples relating to Public Lighting services were collected.

Provision for doubtful debts

This amounted to € 2,124 thousand and decreased by € 1,677 thousand compared to the previous year mainly due to the release to the income statement of the provision for receivables from the Municipality of Naples collected in May.
The estimate of the amounts considered non-collectable is estimated based on the provisions of IFRS 9, or, through the application of the expected credit loss model for the evaluation of the recoverability of the financial assets based on a predictive approach, based on the prediction of the counterparty's default (so-called probability of default) and of the ability to recover if the default event occurs (so-called loss given default).

20.c – Intercompany trade receivables – € 98,372 thousand

These saw an increase of € 10,159 thousand compared to 31 December 2018 (then € 88,213 thousand). Please note that the comparative figures as at 31 December 2018 have been reclassified from the published data in order to provide a better understanding of the changes that occurred following the line-by-line consolidation of Adf from 7 October 2019. Below is their composition:

€ thousand	31/12/2019	31/12/2018	Change
Receivables due to the parent company – Roma Capitale	47	28	18
Receivables from subsidiaries	91,788	80,815	10,973
Receivables from associates	6,538	7,370	(832)
Total intragroup trade receivables	98,372	88,213	10,159

Receivables due to the parent company – Roma Capitale

The following table shows together the amounts resulting from the relations with Roma Capitale from Acea, both with regard to the borrowing and lending due within and beyond the following year, including items of a financial nature.

€ thousand	31/12/2019	31/12/2018	Change
Receivables for services invoiced	41	28	12
Receivables for services to be invoiced	6	0	6
Total trade receivables	**47**	**28**	**18**
Financial receivables for invoices issued	138,798	99,024	39,774
Provision for write-downs	(30,152)	(30,152)	0
Financial receivables for invoices to be issued	39,195	25,754	13,441

(follows)

€ thousand	31/12/2019	31/12/2018	Change
Provision for write-downs	(14,960)	(9,843)	(5,117)
Medium/long-term financial receivables	15,227	18,697	(3,471)
Total Financial Receivables for Public Lighting	**148,107**	**103,480**	**44,627**
Total Receivables	**148,154**	**103,508**	**44,646**
Payables	**(77,252)**	**(422)**	**(76,830)**
Dividend payables	(77,114)	0	(77,114)
Other payables	(139)	(422)	283
Total (payables)	**(77,252)**	**(422)**	**(76,830)**
Net balance	70,901	103,086	(32,185)

The variation of receivables and payables is determined only by period accruals.
During the year receivables grew by € 44,646 thousand was recorded compared to the previous year, to be attributed to the accrual during the period of receivables relative to the Public Lighting service agreement, to the modernisation of security, to extraordinary maintenance, to the LED plan agreement and to the works relating to the Public Lighting service.
Compared to the previous year, on the payables side there was an overall increase of € 76,830 thousand due to the recognition of the payable for Acea share dividends accrued in 2018 and amounting to € 77,114 thousand as per the Shareholders' Meeting resolution of last April 2019.
As described in the Financial Statements as at 31 December 2018 as part of the activities required for the first consolidation of the Acea Group in the 2018 Financial Statements of Roma Capitale, a round table was launched to reconcile the Municipality's Receivables and Payables. After several meetings and communications, on 22 February 2019 the technical department of the Municipality in charge of the management of the contracts with the Acea Group communicated several objections relating to the supply of both works and services for the period 2008-2018. These objections were fully rejected by the Group.
On 26 February 2019 the General Management of the Municipality of Rome sent a communication stating that it had taken note of the objections raised by the technical department and the lack of recognition thereof by the Acea Group, and in order to find a complete resolution of the differences it proposed setting up a Joint Technical Committee with the Acea Group that could resolve the mutual claims. Following several meetings, on 18 October 2019 the Joint Technical Committee drew up a report on the closure of the work, highlighting the results that emerged and proposing a favourable restart of the ordinary execution of the mutual obligations between the Acea Group and Roma Capitale. As a first step after the completion of the work, the parties took steps to implement the results that emerged from the discussions, restarting the payment of their respective receivables and payables.
In particular, in February 2020 the Public Lighting receivables for € 10,463 thousand were offset against the 2018 and 2016-2018 pro-rata amounts in exchange for Acea's share dividends for the year 2018.
Also note that in December 2019 Roma Capitale approved its Consolidated Financial Statements, including for the first time the Acea Group in this scope of consolidation.

Receivables from subsidiaries
These totalled € 91,788 thousand and increased by € 10,973 thousand compared to the previous year. They mainly refer to services rendered under service contracts and receivables deriving from the allocation of costs incurred for the joint IT platform.

The comparative values as at 31 December 2018 were the subject of reclassifications in respect of published data for the purpose of better understanding the changes. Below is their composition:

€ thousand	31/12/2019	31/12/2018	Change
Acea Ato 2	10,702	14,595	(3,893)
Acea Ato 5	33,391	21,374	12,017
areti	18,439	16,035	2,404
Acea Energia	6,750	10,559	(3,808)
Acea Produzione	832	301	531
Gesesa	6,265	5,484	781
Gori	1,330	1,299	31
Crea Gestioni	4,666	3,997	669
Acea8cento	55	470	(415)
Acea Elabori	1,036	435	601
Sarnese Vesuviano	778	778	0
Acea Ambiente	1,015	771	244
Acea Dominicana	596	524	72
Aquaser	49	761	(712)
Acque Industriali	791	478	313
Agua de San Pedro	414	603	(189)
Umbriadue Servizi Idrici	968	598	370
Ecogena	55	87	(32)

(follows)

€ thousand	31/12/2019	31/12/2018	Change
Acea International	48	30	18
Acea Innovation	457	0	457
AdF	2,402	1,455	947
Bioecologia	262	2	261
Acea Perù	104	29	75
Acea Liquidation and Litigation Srl	89	0	89
Others	293	148	145
Total	**91,788**	**80,815**	**10,973**

Receivables from associates
These total € 6,538 thousand and show a reduction of € 832 thousand compared to 31 December 2018. The comparative values as at 31 December 2018 were the subject of reclassifications in respect of published data for the purpose of better understanding the changes. For companies subject to joint control, they refer mainly to services rendered in the context of IT service contracts and receivables deriving from the allocation of costs incurred for the joint IT platform.
Below is their composition:

€ thousand	31/12/2019	31/12/2018	Change
Publiacqua	1,627	1,615	12
Umbra Acque	1,736	2,058	(323)
Acque	1,557	1,591	(35)
Ingegnerie Toscane	86	106	(20)
Geal	23	58	(34)
Coema	162	140	22
Marco Polo	1,236	1,236	0
Sogea	46	69	(23)
Integrated Water Services	17	33	(16)
Azga Nord	0	403	(403)
Other	47	59	(11)
Total	**6,538**	**7,370**	**(832)**

20.d – Other current assets – € 32,435 thousand

These recorded an increase of € 535 thousand and are made up as follows.

€ thousand	31/12/2019	31/12/2018	Change
Receivables due to the transferee Area Laurentina	6,446	6,000	446
Accrued income and prepayments	4,888	4,884	4
Other receivables	555	471	84
Receivables for the re-entry of the Marco Polo branch for payables to employees	1,931	1,931	0
Receivables from national insurance institutions	295	363	(69)
Receivables linked to the sale of the photovoltaic branch	146	146	0
Receivables due to severance pay for individual transfers	55	0	55
Advances to suppliers and deposits with third parties	0	0	(0)
VAT receivables	17,720	17,740	(20)
Other tax receivables	399	365	35
Total	**32,435**	**31,901**	**535**

The receivable from the assignee Area Laurentina at 31 December 2019 increased by € 446 thousand due to the recording of interest and expenses recognised in the order approved by the judge with an ordinance dated 11 February 2020 (for further information please refer to the section "*Update on major disputes and litigation*").
Accrued income and prepaid expenses mainly include IT infrastructure maintenance and IT services, insurance contracts and insurance premiums.

20.e – Current financial assets – € 146,783 thousand

There was an increase of € 140,991 thousand mainly due to the recognition of the receivable due from the AGCM as a result of the order of the receivable rulings annulling the fine of € 16,263 thousand (i.e. the fine including interest paid) and for a short-term deposit of € 125,000. Information on the balance at 31 December 2019 is shown below.

€ thousand	31/12/2019	31/12/2018	Change
Receivables for managing the Public Lighting service	5,040	5,283	(243)
Receivables from the Competition Authority	16,263	0	16,263
Receivables on short-term deposits	125,000	0	125,000
Accrued income on short-term deposits	29	0	29
Receivables from SEIN from Liquidation of Acea Ato 5 Servizi	274	274	0
Accrued income on bank account and post office	177	235	(58)
Total	146,783	5,791	140,991

20.f – Intragroup current financial assets – € 2,539,759 thousand

This item recorded a growth of € 465,158 thousand. Information is provided in the table below.

€ thousand	31/12/2019	31/12/2018	Change
Receivables from parent companies – Roma Capitale	132,881	84,783	48,098
Receivables from subsidiaries	2,406,879	1,988,919	417,960
Receivables from associates	0	900	(900)
Total	2,539,759	2,074,601	465,158

Receivables from parent companies – Roma Capitale

These amount to a total of € 132,881 thousand and refer to receivables due from Roma Capitale relating to the Public Lighting service contract as anticipated in the section of this document "Trade receivables due from Roma Capitale".

Receivables from subsidiaries

These amount to € 2,406,879 thousand (€ 1,988,919 thousand at 31 December 2018) and are composed as follows:

€ thousand	31/12/2019	31/12/2018	Change
Receivables from cash pooling relationships	2,247,298	1,830,202	417,096
Accrued current financial assets on loans and cash pooling relationships	135,472	126,118	9,354
Receivables from subsidiaries for loans	18,625	26,242	(7,617)
Other receivables from subsidiaries	1,486	1,486	0
Receivables for commissions on guarantees given	3,998	4,871	(873)
Total	2,406,879	1,988,919	417,960

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.

There was a decrease in receivables from subsidiaries for loans. This decrease is mainly attributable to Acea Ato 5 due to the reclassification of the receivable to a medium/long-term position as the repayment plan for the non-interest-bearing loan granted was revised.

Receivables from associates

As at 31 December 2019 these were written off following the collection of the shareholders' loan to Azga Nord.

20.g – Current tax assets – € 10,766 thousand

These decreased by € 2,631 thousand compared to the end of the previous year, and the composition is shown below:

€ thousand	31/12/2019	31/12/2018	Change
IRES receivables for payments on account	2,624	1,211	1,413
Total receivables from the tax authorities	**2,624**	**1,211**	**1,413**
Tax consolidation receivables due from subsidiaries	8,142	12,185	(4,044)
Total tax receivables	10,766	13,397	(2,631)

VAT receivables derive from the Group VAT settlement procedure; the amount represents the receivable for the side paid at the end of December 2019.

The IRES receivable of € 2,624 thousand derives from excess payments made during the year compared to the tax calculated for the 2019 financial year.

20.h – Cash and cash equivalents – € 688,145 thousand

These recorded an increase of € 290,407 thousand (€ 978,552 as at 31 December 2018) 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

21. Shareholders' equity – € 1,628,812 thousand

€ thousand	31/12/2019	31/12/2018	Change
Share capital	1,098,899	1,098,899	0
Legal reserve	119,336	111,948	7,389
Reserve for own shares	0	0	0
Other reserves	75,157	77,973	(2,815)
Profits carried forward	126,931	137,452	(10,522)
Profit (loss) for the year	208,488	147,776	60,712
Total	**1,628,812**	**1,574,048**	**54,764**

Shareholders' equity increased by € 54,764 thousand compared to 31 December 2018. 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 2018 equal to € 0.71 per share, as well as the changes in other reserves.
The composition and changes per item are shown below:

21.a – Share capital – € 1,098,899 thousand

This amounts to € 1,098,899 thousand and is represented by 212,964,900 ordinary shares with a par value of € 5.16 each, as shown in the Shareholders' Register. The share capital is subscribed and paid-up in the following manner:

- Roma Capitale: 108,611,150 for a total nominal value of € 560,434 thousand,
- Market: 103,936,757 shares for a total par value of € 536,314 thousand.
- Treasury Shares: 416,993 ordinary shares with a total nominal value of € 2,151 thousand.

21.b – Legal reserve – € 119,336 thousand

It includes 5% of the profits of the previous financial years as required by article 2430 of the Italian Civil Code.
At 31 December 2019 there was an increase of € 7,389 thousand compared to the previous year, due to the allocation of profit achieved in 2018.

21.c – Reserve for treasury shares in portfolio – € 0 thousand

Pursuant to art. 2428 of the Italian Civil Code, there are 416,993 treasury shares in the portfolio, with a nominal value of € 5.16 each (€ 2,152 thousand in total) and correspond to 0.196% of the share capital.
The reserve for treasury shares in portfolio amounted to € 3,853 thousand at 31 December 2018. The amount of the reserve coincides with the value of shares in the portfolio accounted for as a reduction of the Shareholders' Equity in accordance with IAS 32.

21.d – Other reserves – € 75,157 thousand

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

€ thousand	31/12/2019	31/12/2018	Change
Extraordinary reserve	180	180	0
Demerged capital gains reserve	102,567	102,567	0
Reserve for exchange differences	691	4,718	(4,028)
Valuation reserve for financial instruments	(16,877)	(20,658)	3,781
Reserve for actuarial gains and losses	(11,602)	(9,034)	(2,568)
Other miscellaneous reserves	198	198	0
Total	**75,157**	**77,973**	**(2,815)**

The reserve for differences in exchange records a decrease of € 4,028 thousand and represents the effect of the valuation at the exchange rate on 31 December 2019 of the private placement in YEN stipulated in 2010.
The cash flow hedge reserve is negative and stands at € 16,877 thousand. This reserve includes € 3,333 thousand for the negative difference deriving from the delta of conversion rates between that provided for in the hedging contract and that recorded on the adjustment date of the bond (3 March 2010).
The table below shows available and unavailable reserves.

€ thousand			31 December 2019		
Nature/Description	Amount	Possibility of use	Available portion	Summary of use made in the previous three years	
				Loss coverage	Other reasons
Capital reserves:					
Reserve deriving from the ARSE spin-off	6,569	A, B, C	6,569		
Profit reserves from the Income Statement:					
Legal reserve	119,336	A, B	119,336		
Extraordinary reserve	180	A, B, C	180		
Demerged capital gains reserve	102,567	A, B, C	102,567		
Retained earnings	126,931	A, B, C	126,931		
Profit reserves from O.C.I.:					
Cash flow hedge reserve	(16,877)		(16,877)		
Reserve for exchange differences	691		691		
Reserve for actuarial gains and losses	(11,602)		(11,602)		
Other reserves					
Increased acquisition cost Umbra Acque	(3,173)		(3,173)		
Increased acquisition cost SAMACE	(785)		(785)		
Increased acquisition cost Kyklos	(1,932)		(1,932)		
Reservation reserve Acea International	239		239		
FTA IFRS 9 reserve	(719)		(719)		
Reserve for available treasury shares	0	A, B, C	0		
Reserve for own shares	3,853	Guarantee of treasury shares	3,853		
Total	**325,278**		**325,278**		
Non-distributable share			89,030		
Residual distributable portion			236,248		

*Legend:
A = for capital increase – B = to cover losses – C = for distribution to shareholders.

22. Employee severance indemnity and other defined benefit plans – € 23,323 thousand

It decreased by € 190 thousand 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	31/12/2019	31/12/2018	Change
Benefits due at the time of termination of employment			
- Employee severance indemnity	6,714	7,281	(568)
- Extra months	1,500	1,438	62
- LTIP plans	1,945	2,009	(64)
Total	**10,159**	**10,729**	**(570)**
Post-employment benefits			
- Tariff subsidies	13,163	12,783	380
Total	23,323	23,512	(190)

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 1) by the provisions for the period, 2) by the

outflows that occurred during the period and 3) by the decrease in the rate used for the valuation of the liabilities.
In particular, with regard to the economic-financial scenario, the discounting rate used for the valuation was of 0.77% against a rate used last year of 1.57%.
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 2019	December 2018
Discount rate	0.77%	1.57%
Revenue growth rate (average)	1.59%	1.59%
Long-term inflation	1.00%	1.50%

In reference to Group Employee Benefits (Severance Plan, Additional Salary Payment, Rates Rebates for active and pensioned employees) a sensitivity analysis was performed in order to value the variations in liability resulting from the flat variations, both positive and negative, of the rates' curve (shift + 0.5% – shift - 0.5%). The results of this analysis are summarised below.

Plan type	Discount Rate	
€ thousand	+0.5%	-0.5%
Employee severance indemnities (TFR)	-346	365
Tariff subsidies	-529	568
Extra months	-75	86
LTIP	1,508	1,531

In addition, a sensitivity analysis was carried out in relation to the age of the workforce, assuming one year less than the actual age.

Plan type	
€ thousand	-1 year of age
Employee severance indemnities (TFR)	-2
Tariff subsidies	68
Extra months	-662

Sensitivity analyses were not performed for other variables such as, for example, inflation rate.

23. Provision for risks and charges – € 15,882 thousand

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

€ thousand	31/12/2018	Uses	Release due to surplus funds	Provisions	31/12/2019
Investees	5,727	0	0	0	5,727
Legal	1,173	(155)	0	1,256	2,274
Risks contributing and relating to national insurance and welfare institutions	734	(39)	0	32	728
Procurement and supplies	883	0	(12)	0	872
Early retirements and redundancies	4,191	(4,191)	0	6,036	6,036
Taxes	2,700	(2,455)	0	0	245
Other risks and charges	0	0	0	0	0
Total	**15,408**	**(6,840)**	**(12)**	**7,325**	**15,882**

The main changes concerned:

- the provision for risks related to legal disputes was used for € 155 thousand for unfavourable judgements, and further provisions for the year of € 1,256 thousand were appropriated;
- the provision set aside for redundancy and mobility plans used for € 4,191 thousand as the relevant procedures have been completed. furthermore, € 6,036 thousand was also set aside for the same integrated plan as the iso-pension retirement forecasts;
- the provision for tax litigation risks was used for € 2,455 thousand.

For further details, see the information provided in the section "*Update on major disputes and litigation*".

24. Non-current borrowings and financial liabilities – € 3,170,895 thousand

The breakdown is as follows:

€ thousand	31/12/2019	31/12/2018	Change
Medium and long-term bonds	2,754,298	2,678,392	75,906
Medium/long-term borrowings	405,151	446,179	(41,028)
IFRS 16 financial payables	11,446	0	11,446
Total	**3,170,895**	**3,124,571**	**46,324**

Medium and long-term bonds

On 23 May 2019, Acea successfully completed the placement of a non-convertible bond for a total principal amount of € 500 million, maturing on 23 May 2028 and at a rate of 1.750%, under the € 3,000,000,000 Euro Medium Term Notes (EMTN) programme, with the Base Prospectus as last amended on 18 July 2018 and subsequently supplemented on 15 May 2019. It should be noted that following the update of the EMTN programme, specifically in July 2019, it was raised to € 4,000,000,000. The bonds are governed by English law. Starting from the settlement date, the bonds are listed on the regulated market of the Luxembourg Stock Exchange, where the prospectus was filed.
The 10-year bond issued by Acea in March 2010, maturing on 16 March 2020, was reclassified as a short-term position. Its value (including the costs associated with the stipulation) is € 422,686 thousand. Interest accrued during the period amounted to € 15,126 thousand. This residual debt, after the purchase and cancellation of bonds for a nominal value of € 77,225 thousand on 24 October 2016.

Bonds amounted to € 2,754,298 thousand (€ 2,678,392 thousand at 31 December 2018) and refer to the following:

- **€ 596,678 thousand** (including the long-term portion of the contract related costs) relating to the 10-year fixed rate bond issued by Acea in July 2014, as part of the Euro Medium Term Notes (EMTN) programme of € 1.5 billion. The bonds, which have a minimum denomination of € 100,000 and expire on 15 July 2024, pay an annual gross coupon of 2.625% and were placed at an issue price of 99.195%. The effective gross yield at maturity is equal to 2.718%, corresponding to a yield of 128 basis points above the 10-year midswap rate. The bonds are governed by English law. The settlement date was 15 July 2014. Interest accrued during the period amounted to € 15,730 thousand;
- **€ 493,803 thousand** (including the long-term portion of the costs attached to the contract) relating to the bond issued by Acea in October 2016 for the EMTN programme for a total amount of €500,000 thousand with a 10-year fixed-rate duration. The bonds, which have a minimum denomination of € 100,000.00 and expire on 24 October 2026, pay an annual gross coupon of 1% and were placed at an issue price of 98.377%. The bonds are governed by English law. The settlement date was 24 October 2016. Interest accrued during the period amounted to € 4,997 thousand;
- **€ 164,164 thousand** relating to the Private Placement which, net of the Fair Value of the hedge, a negative € 17,853 thousand, amounted to **€ 182,017 thousand**. This fair value is allocated to a specific equity reserve. A suitable exchange reserve includes the exchange rate difference, a negative € 909 thousand, of the hedged instrument calculated on 31 December 2019. The exchange rate at the end of 2019 stood at € 121.77 against € 125.83 as at 31 December 2018. Interest accrued during the period amounted to € 4,156 thousand, This is a private bond (Private Placement) for an amount of 20 billion Japanese Yen and with a maturity of 15 years (2025). The Private Placement was underwritten entirely by a single investor (AFLAC). Coupons are paid on a semi-annual basis every 3 March and 3 September applying a fixed rate in Yen of 2.5%. At the same time, a cross currency transaction was carried out to transform the Yen currency into Euro and the Yen rate applied in a fixed rate in Euro. The cross-currency transaction requires the bank to pay Acea, with a deferred semi-annual maturity, 2.5% out of 20 billion Japanese Yen, while Acea must pay the bank the coupons on a quarterly basis postponed to a fixed rate of 5.025%. The loan agreement and the hedging contract contain an option, respectively, for the investor and the agent bank, connected to the trigger rating: the debt and its derivative can be recalled in their entirety in the event that Acea's rating falls below the level of investment grade or in the event that the debt instrument loses its rating. At the end of the year the conditions for the possible exercise of the option did not occur;
- **€ 299,499 thousand** (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 1 February with a maturity of 5 years at a variable rate (Euribor 3 months + 0.37%) under the EMTN programme. Interest accrued during the period amounted to € 110 thousand;
- **€ 688,987 thousand** (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 1 February, with a fixed rate of 1.5% for the duration of 9.5 years under the EMTN programme. Interest accrued during the period amounted to € 10,484 thousand;
- **€ 493,315 thousand** (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 23 May 2019, with a fixed rate of 1.75% for the duration of 9.5 years under the EMTN programme. Interest accrued during the period amounted to € 5,331 thousand.

The following is a summary including the short-term portion:

€ thousand	Gross debt*	Hedging instrument	Accrued interest**	Total
Bonds:				
Issued in 2010	422,686	0	15,126	437,812
Issued in 2014	595,817	0	7,316	603,133
Private Placement issued in 2014	154,147	17,853	655	182,655
Issued in 2016	492,773	0	943	493,715
Issued in 2018	986,631	0	5.939	992,570
Issued in 2019	492,471	0	5.331	497,802
Total	**3,154,525**	**17,853**	**35,309**	**3,207,687**

* Including amortisation cost.
** Including rates on hedging instruments.

Medium/long-term borrowings
These amount to € 405,151 thousand and show a total reduction of € 41,028 thousand and represent the payable for the portion of the instalments not yet repaid at 31 December 2019 and expiring beyond twelve months.
The main mortgages, whose values as at 31 December 2019 are shown below including the short-term portions amount to a total of € 736,193 thousand and are described below:

- loan stipulated on 25 August 2008 for an amount of € 200,000 thousand for the investment plan in the water sector (Acea Ato 2) with a duration of 15 years. This loan at 31 December 2019 amounted to € 52,489 thousand. The first tranche of € 150,000 thousand was disbursed in August 2008 and the interest rate is equal to the 6-month Euribor plus a spread of 7.8 basis points. In 2009, a second tranche was disbursed for an amount of € 50,000 thousand, which provides for an interest rate equal to the 6-month Euribor plus a spread of 0.646%, with a maturity of 15 June 2019. The latter was extinguished early in March 2018;
- loan agreement for an initial amount of € 100,000 thousand, entered on 31 March 2008 expiring on 21 December 2021. The rate applied by the bank is a variable rate and the instalments are six-monthly and repayment will be made in half-yearly instalments; the first was paid on 30 June 2010. The residual amount of the loan at 31 December 2019 amounts to € 17,682 thousand. The risk of fluctuations in interest rates associated with the loan was hedged through the subscription of an Interest Rate Swap with the aim of transforming the cost of the underlying loan from variable to fixed. The swap follows the performance of the underlying depreciation plan. Based on IAS 39, the company has assessed the effectiveness of the hedging instrument according to the hedge accounting method based on the cash flow hedge model. The test result is 99.71% effective, which means that no portion is recorded in the Income Statement that reflects the ineffectiveness of the instrument; in the appropriate equity reserve, the negative fair value of the hedging instrument equal to € 1,020 thousand was recorded;
- loan contracted by the EIB on 23 December 2014 of € 200,000 thousand, aimed at supporting the needs of the multi-year investment plan in the water area. The interest rate applied is equal to the 6-month Euribor with a spread of 0.45% with maturity in June 2030;
- financing contracted with the EIB on 2 May 2017 for € 200,000 thousand as part of the Network Efficiency III Project. The interest rate is variable. The loan repayment plan envisages a period of pre-amortisation up to 15 June 2021 and amortisation in constant semi-annual instalments up to 31 December 2030;
- line of credit of € 150,000 thousand from Intesa San Paolo SpA granted on 22 December 2017 with final expiry on 21 June 2019. The interest rate is fixed and the repayment is in a single solution;
- line of credit of € 100,000 thousand disbursed on 28 December 2017 by UBI Banca SpA with final expiry on 2 January 2019. The interest rate is fixed and the repayment is in a single solution.

The two credit lines of € 150,000 and € 100,000 granted in December 2017 respectively by Intesa Sanpaolo SpA and UBI Banca SpA were repaid during 2019.

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 2019 of € 39,998 thousand.

Financing	Total Residual Debt	By 31/12/2020	From 31/12/2020 to 31/12/2024	Beyond 31/12/2024
floating rate	427,467	31,665	192,469	203,333
floating rate Cash Flow Hedge	17,682	8,333	9,349	0
Total	**445,149**	**39,998**	**201,818**	**203,333**

For information on financial instruments and in particular on fair value at the balance sheet date please refer to the paragraph "Supplementary information on Supplementary information on financial instruments and risk management policies".

IFRS 16 financial payables
This item includes the financial payable deriving from the impact of the first-time adoption of IFRS 16 (for further details on this subject, see the section "*Effects deriving from the introduction of new accounting standards*"), the long-term portion of which amounts to € 11,446 thousand. On the other hand, the short-term portion amounts to € 4,635 thousand.
The cash flows broken down by maturity to which Acea is potentially exposed are shown below:

	Within 12 months	Within 24 months	Within 5 years	Residual debt
IFRS 16 liabilities	4,281	8,476	16,065	16,081

25. Other non-current liabilities – € 0 thousand

These are zero at 31 December 2019.

26. Current liabilities – € 881,015 thousand

These amounted overall to € 881,015 thousand and increased overall by € 271,802 thousand.

€ thousand	31/12/2019	31/12/2018	Change
Financial payables	662,536	377,675	284,861
Payables to suppliers	182,641	169,537	13,104
Taxes payable	12,255	17,917	(5,662)
Other current liabilities	23,583	44,085	(20,502)
Total	**881,015**	**609,214**	**271,802**

26.a – Financial payables – € 662,536 thousand

These increased by € 377,657 thousand and are composed as follows:

€ thousand	31/12/2019	31/12/2018	Change
Payables to subsidiaries and associates	85,471	59,393	26,079
Short-term bonds	453,390	26,088	427,301
Payables for bank loans	39,998	290,013	(250,015)
Payables due to Roma Capitale	77,225	420	76,805
Short-term portion of IFRS 16 financial payables	4,635	0	4,635
Payables due to others	1,817	1,761	56
Total	**662,536**	**377,675**	**284,861**

The increase in bonds is attributable for € 423,055 thousand to the reclassification in the short-term position of the bond issued by Acea in March 2010, with a duration of 10 years and maturing on 16 March 2020.

The decrease in payables to banks for loans totalling € 250,015 thousand is due to the repayment of the two loans of Intesa Sanpaolo and UBI Banca which respectively expired on 21 June and 2 January 2019.

The changes concerning payables to subsidiaries and associates relate to centralised treasury transactions, which increased by € 23,257 thousand due to the greater financial exposure recorded during the year by Group companies. The following is a breakdown by type of debt due to investee companies:

€ thousand	31/12/2019	31/12/2018	Change
Payables for cash pooling relationships	82,574	59,317	23,257
Other financial debts	2,897	76	2,821
Total	**85,471**	**59,393**	**26,079**

Financial payables to Roma Capitale increased by € 76,805 thousand due to the recognition of the payable for Acea share dividends accrued in 2018 (€ 77,114 thousand) partly offset by the reduction in the advance payment to Roma Capitale for the LED Plan due to the progress of the installation plan.
The short-term portion of the IFRS 16 financial payable of € 4,635 thousand is recorded under this item (for further details, see the section "*Effects deriving from the introduction of new accounting standards*").

26.b – Trade payables – € 182,641 thousand

Results are as follows.

€ thousand	31/12/2019	31/12/2018	Change
Payables to third-party suppliers	107,672	95,381	12,291
Payables from subsidiaries and associates	74,969	74,156	813
Total	**182,641**	**169,537**	**13,104**

Payables to third-party suppliers show an increase of € 12,291 thousand and the balance is shown below:

€ thousand	31/12/2019	31/12/2018	Change
Payables due to invoices received	60,504	51,214	9,290
Payables due to invoices to be received	47,168	44,167	3,001
Total	**107,672**	**95,381**	**12,291**

With regard to payables to suppliers for invoices received for € 60,504 thousand, it must be noted that the expired component amounts to € 18,542 thousand, the remaining amount is due within the next twelve months.

With regard to relations with **subsidiaries and associates**, there was an increase of € 813 thousand, which is analysed in the following table:

€ thousand	31/12/2019	31/12/2018	Change
Acea Ato 2	752	907	(155)
Acea Ato 5	102	98	4
Acea Energia	6,622	4,979	1,643
Acea Produzione	20	296	(277)
areti	65,823	64,416	1,407
Ingegnerie Toscane	145	2,300	(2,155)
Citelum Acea Napoli	141	141	0
Aquaser	48	0	48
Acea8cento	206	56	150
Acea Elaboratori	42	10	32
Publiacqua	58	58	0
Acea Ambiente	76	0	76
Gori	130	0	130
Crea Gestione	0	176	(176)
Ecogena	51	47	4
Acque	47	47	0
Umbra Acque	102	0	102
ALL	0	36	(36)
Other	604	589	15
TOTAL	74,969	74,156	813

26.c – Tax payables – € 12,255 thousand

These are reduced by € 5,662 thousand and are composed as shown in the following table.

€ thousand	31/12/2019	31/12/2018	Change
IRES and IRAP payables	814	13,172	(12,358)
Total payables to tax authorities	**814**	**13,172**	**(12,358)**
Tax consolidation payables to subsidiaries	11,441	4,745	6,696
Total tax payables	**12,255**	**17,917**	**(5,662)**

26.d – Other current liabilities – € 23,583 thousand

These are composed as follows:

€ thousand	31/12/2019	31/12/2018	Change
Payables to social security institutions	3,606	3,558	48
Other payables	19,977	40,527	(20,550)
Payables due to personnel	*11,667*	*10,915*	*752*
stock of receipts from customers to be redeemed / returned	*37*	*5,379*	*(5,341)*
Payables due to Municipalities	*0*	*901*	*(901)*
Insurance payables	*542*	*563*	*(20)*
Payable in instalments to Equitalia	*0*	*16*	*(16)*
Accruals and deferrals	*232*	*0*	*232*
Deferred VAT	*4,927*	*4,695*	*232*
Staff withholdings	*2,107*	*2,127*	*(21)*
Other tax payables	*1*	*1*	*(0)*
Other payables	*463*	*15,928*	*(15,465)*
Total	23,583	44,085	(20,502)

The change is related to the payment of the pecuniary administrative fine amounting to € 16,200 thousand imposed by the Antitrust Authority; for further details see what is specified in the paragraph "*Legal disputes*".

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".

INFORMATION ON RELATED PARTIES

ACEA AND ROMA CAPITALE

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

- alignment of the duration of the service contract to the expiry of the concession (2027), given the mere accession function of the contract to the agreement;
- periodic updating of the fee components related to electricity consumption and maintenance;
- annual increase in the lump-sum payment for the new lighting points installed.

Furthermore, the investments required for the service may be 1) applied for and funded by the Municipality or 2) financed by Acea. In the former case, such works will be paid based on a price list agreed by the parties (and subject to review every two years) and will result in a percentage decrease in the ordinary fee. In the latter case, the Municipality is not bound to pay a surcharge; however, Acea will be awarded all or part of the savings expected in both energy and economic terms according to pre-established methods.
On the due or early termination date Acea is entitled to an indemnity corresponding to the residual book value of the assets that will be paid by the Municipality or the incoming operator upon express provision of this obligation in the call for tenders for the selection of the new operator.
Finally, the contract establishes a list of events that represent a cause for the early cancellation of the concession and/or the termination of the contract by the will of the parties. Among these events, the one relating to supervening needs related to the public interest appears relevant, expressly included as foreseen by article 23 bis of Italian Legislative Decree no. 112/2008, repealed following the referendum of 12 and 13 June 2011, which gave Acea the right to an indemnity commensurate with the product discounted by a value between a defined percentage of the annual contractual amount and the number of years left until the expiry of the concession.
The supplementary agreement, exceeding the materiality thresholds defined by the Company in relation to Transactions with Related Parties, was submitted to the analysis of the Board of 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.
More specifically, the agreement provides for the installation of 186,879 fittings (which became 182,556 at the request of Roma Capitale), in the number of 10,000 per month starting thirty days after the signing of the agreement; the price was set at € 48 million for the entire LED Plan. 10% of the price will be paid in advance and the remaining part on the basis of specific bimonthly progress certificates, to be paid by Roma Capitale within thirty days following the closing of the progress certificate for 80%, and within fifteen days after verification of the same progress certificate for the remaining 15%. The agreement also provides for incentive/penalty mechanisms based on higher/lower than planned installations every two months and for a reduction of the fee paid by Roma Capitale to the extent of 50% of the economic value of Energy Efficiency bonds due to Acea for the LED Project.
As a result of the implementation of the LED Plan, the parties partially modified the price list and the composition of the fee for the management of the service.
New constructions and investments contribute to the increase in the lump-sum payment due to the annual rate calculated according to the mechanism of tax depreciation envisaged for the plants underlying the specific intervention and to the percentage reduction of the ordinary rent due from Roma Capitale whose amount is defined in the technical-economic project document. A variable interest rate is envisaged to remunerate the invested capital.
With regards the extent of the relationship between Acea and Roma Capitale, reference must be made to what has been explained and commented on receivables and payables to the parent company in note no. 19.c of this document.

From the point of view of economic relations, instead, the costs and revenues at 31 December 2019 are summarised below with reference to the most significant transactions.

	Revenues		Costs	
€ thousand	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Public Lighting service contract	34,163	39,283	0	78
Revenue from real. plants on request	6,468	3,161	0	0
Total	**34,163**	**39,283**	**0**	**78**

ACEA AND THE ROMA CAPITALE GROUP

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

Roma Capitale Group	Payables	Costs	Receivables	Revenues
€ thousand	31/12/2019	31/12/2019	31/12/2019	31/12/2019
AMA SPA	1,186	557	28	0
ATAC SPA	25	3	89	0
ROMA METROPOLITANE SRL	0	0	56	0
FONDAZIONE CINEMA PER ROMA	100	100	0	0
ROMA MULTISERVIZI SPA	3	0	0	0
BIOPARCO	1	0	0	0
ZETEMA PROGETTO CULTURALE SRL	28	28	0	0
LE ASSICURAZIONI DI ROMA	0	41	0	0
PALA EXPO	0	25	0	0
TOTAL	**1,343**	**754**	**173**	**0**

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.

The intercompany finance contracts expired on 31 December 2019. On the basis of this contract, Acea makes available a medium-term revolving loan, so-called "Intercompany Finance Line", up to a predetermined credit limit for financing the financial needs for 1) working capital requirements and 2) the execution of investments.

In addition, Acea makes credit lines available to its own companies for signature, for an amount equal to the Plafond for bank guarantees or through the direct issuing of corporate guarantees for an amount equal to the Plafond for Corporate Guarantees.

The operation of this contract provides that in a permanent and daily manner each company, holder of specific peripheral bank current accounts, daily credit or debit the Parent Bank's current account to zero the balance on its current accounts.

In the case of daily intercompany balance due by currency, companies recognise the interest expense calculated, for each year, on the basis of a market interest rate, defined as the weighted average of the rates applied on the capital market for the so-called issues hybrid or similar in the utilities sector (revisable annually, possibly increased by an additional margin linked, substantially, to the level of exposure of the beneficiary company with respect to the total limits granted to companies with cash pooling). For 2019, the interest rate applied is between a minimum of 4.62% and a maximum of 5.78% and did not change in 2018.

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.

As of 1 January 2020 note that the treasury contracts have been renewed and revised with the following contractual conditions:

- the duration is 30 years or until the expiry of concessions for companies with regulated business (Acea Ato 2 and *areti*);
- revision of the total rate calculation method for the use of the Intercompany Finance Line;
- revision of the method for calculating the rates applied on bank and corporate guarantees;
- regular annual update of economic conditions based on the previous year's financial statements.

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 are compliant for regulatory purposes and of the Organisation, management and control model and envisage SLAs (Service Level Agreements) with a view to improving the level of service offered, to relate to relevant KPIs (Key Performance Indicators).

As part of the Template project, Acea and the companies in the area approved a contract that allows the implementation of the main technological development initiatives (cross-cutting and business) through the communion institute. The aforementioned contract contains rules of an economic - financial nature and of participation in the communion.

Acea also provides operating services, application management and maintenance related to accessing the Template project regulated by a specific contract.

The contractual terms applied are, for the same type of service rendered, in line with those resulting from the market.

ACEA AND THE MAIN COMPANIES OF THE CALTAGIRONE GROUP

As of the end of the 2019 financial year, there are no financial transactions with the companies of the Caltagirone Group and Acea SpA.

ACEA AND THE MAIN COMPANIES OF THE SUEZ ITALIA GROUP

As of the end of the 2019 financial year, there are no financial transactions with Suez Italla SpA and Acea SpA. The table below shows the impact of transactions with related parties on the statement of financial position, the income statement and the cash flow statement.

IMPACT ON THE STATEMENT OF FINANCIAL POSITION

Balance Sheet	31/12/2019	Related Parties	% Impact	31/12/2018	Related Parties	% Impact	Change
Financial assets	226,671	226,545	99.9%	227,385	227,260	99.9%	(715)
Trade receivables	747	0	0.0%	731	541	74.0%	15
Intragroup trade receivables	98,372	98,372	100.0%	88,213	88,213	100.0%	10,159
Other current assets	32,435	1,986	6.1%	31,901	1,931	6.1%	535
Intragroup current financial assets	2,539,759	2,539,759	100.0%	2,074,601	2,074,601	100.0%	465,158
Current tax assets	10,766	8,142	75.6%	13,397	12,185	91.0%	(2,631)
Financial payables	662,536	164,465	24.8%	377,675	61,582	16.3%	284,861
Trade payables	182,641	1,404	0.8%	169,537	75,522	44.5%	13,104
Tax payables	12,255	11,441	93.4%	17,917	4,745	26.5%	(5,662)
Other current liabilities	23,583	28	0.1%	44,085	2	0.0%	(20,502)

IMPACT ON THE ECONOMIC RESULTS

Income Statement	31/12/2019	Related Parties	% Impact	31/12/2018	Related Parties	% Impact	Change
Revenue from sales and services	152,318	152,207	99.9%	156,161	156,017	99.9%	(3,842)
Other revenue and proceeds	30,916	9,319	30.1%	15,663	7,741	49.4%	15,253
Costs of materials and overheads	133,179	59,810	44.9%	154,364	51,889	33.6%	(21,185)
Financial income	145,919	139,097	95.3%	130,273	128,985	99.0%	15,646
Financial expenses	72,312	58	0.1%	70,827	161	0.2%	1,486
Income/(Costs) from equity investments	181,634	181,634	100.0%	162,074	177,966	109.8%	19,560

IMPACT ON THE CASH FLOW STATEMENT

Cash flow statement	31/12/2019	Related Parties	% Impact	31/12/2018	Related Parties	% Impact	Change
Cash flow from operating activities	(53,920)	(79,667)	147.7%	(70,846)	(20,870)	29.5%	16,925
Cash flow of asset investment/ disinvestment	(324,625)	(290,541)	89.5%	234,829	(8,136)	-3.5%	(559,454)
Cash flow from financing activities	88,138	(50,302)	-57.1%	287,865	(103,584)	-36.0%	(199,727)

LIST OF TRANSACTIONS WITH RELATED PARTIES

During 2019, there were no significant transactions with related parties.

UPDATE ON MAJOR DISPUTES AND LITIGATION

TAX ISSUES

On 17 April 2018 the Regional Directorate of Lazio – Large Taxpayers Office initiated a general tax audit of the Company. The audit was concluded on 31 October 2018 with the drafting of the PVC (Audit Report) that alleged substantial VAT violations by the Company for the 2014 tax period.
It is also noted that as part of the controls carried out, on 12 October 2018 the Inland Revenue sent Company questionnaire no. Q00044/2018 relating to the determination of non-deductible costs, with the aim of extending the audit to the 2013 tax period. The Company's response was sent to the relevant bodies on 7 December 2018.
Finally, it is acknowledged that following a joint consultation report (protocol no. 115820), with an assessment with acceptance on 18 December 2018 the Company accepted pursuant to and for the purposes of art. 6, para. 1 of Italian Legislative Decree no. 218/97 the proposal made by the Revenue Agency, which, pursuant to art. 54, paragraph 4, of Italian Presidential Decree no. 633/1972, defined without prejudice to further possible audits under the terms established by art. 57 of the same decree, VAT due for € 433,509 for undue deduction of VAT in violation of art. 19, paragraphs 2 and 4 of Italian Presidential Decree no. 633/1972. Penalties were calculated on the taxes due for a total amount of € 166,315.88 along with interest equal to € 73,871.59. Subsequently, on 19 December 2018 the Company fully paid the sums due for the 2013 tax period.
Finally, it is acknowledged that following a joint consultation report, with an assessment with acceptance on 8 May 2019 the Company accepted pursuant to and for the purposes of art. 6, para. 1 of Italian Legislative Decree no. 218/97 the proposal made by the Revenue Agency, which, pursuant to art. 54, paragraph 4, of Italian Presidential Decree no. 633/1972, defined without prejudice to further possible audits under the terms established by art. 57 of the same decree, VAT due for € 485 thousand for undue deduction of VAT in violation of art. 19, paragraphs 2 and 4 of Italian Presidential Decree no. 633/1972. Penalties were calculated on the taxes due for a total amount of € 182 thousand along with interest equal to € 71 thousand. Subsequently, on 17 May 2019 the Company fully paid the sums due for the 2014 tax period.

OTHER ISSUES

Acea SpA – SMECO

With a writ served in the autumn of 2011, Acea was summoned to court to answer for alleged damages that its alleged non-compliance with unproven and non-existent obligations that are assumed to have been part of the shareholders' agreement regarding the subsidiary A.S.A. – Acea Servizi Acqua, by its minority shareholders and their respective shareholders. The petition is for more than € 10 million.
With sentence no. 17154/15 of 17 August 2015, the Court rejected the application in its entirety and sentenced the parties jointly and severally to the reimbursement of Acea for legal expenses. On 1 October 2015, SMECO lodged an appeal to the 2nd Section of the Court of Appeal of Rome. After a number of postponements, the hearing to clarify the conclusions was set for 3 November 2020.

Acea SpA – Milano '90

This issue concerns the failure to pay sums due for the balance of the sale price of the area in the Municipality of Rome with access from via Laurentina no. 555, formalised with a deed dated 28 February 2007 and with a subsequent supplementary deed of 5 November 2008. With the supplementary deed, the parties agreed to change the fee from € 18 to € 23 million, while eliminating the earn out, setting 31 March 2009 as the payment deadline.
Given the purchaser's failure to act, the procedure to collect the amounts due was initiated by preparing a notice pay addressed to Milano '90 and through application for an injunction order which, on 28 June 2012, was granted in a temporarily enforceable form. Therefore, in November 2012, Acea served a garnishment order to the company Milano '90 for the forced recovery of the amounts claimed.
Milano '90 opposed the aforementioned injunction – also requesting the condemnation of Acea for the restitution of sums paid as a price and compensation for damages – obtaining the suspension of its provisional execution. Consequently, the enforcement procedure was in turn suspended.
By judgement no. 3258, published on 13 February 2018, the Court of Rome rejected the opposition and confirmed the court order in full, sentencing Milano '90 to pay for the costs of the dispute.

Judgement of Appeal

On 26 April 2018, Milano '90 filed an appeal against the above judgement. As a result of the oral hearing, with an order dated 25 October 2018 the Court of Appeal rejected the request for suspension, postponing the specification of the conclusions to 16 July 2020.

Executive procedure

Following the favourable first instance ruling, on 27 March 2018 Acea filed the appeal for the resumption of the enforcement procedure against Milano '90 and the garnishment order and the hearing was postponed to 9 October 2018 for the appearance of the parties and the prosecution. As a result of this hearing, the Judge ordered a postponement for the possible assignment of the foreclosed sums pending the decision of the Court of Appeal on the injunction of the contested judgement. The hearing was last adjourned to 27 November 2019 and the judge put in place conditions. With order dated 11 February 2020 the enforcement judge cancelled the previous conditions and ordered the allocation of € 6,445,687.75 plus legal costs and interest in favour of Acea.

Acea SpA – Trifoglio Srl

The complex dispute consists of a case filed as a plaintiff and also a case appearing as a defendant, joined in 2015 before the Judge with whom the case filed as a plaintiff was pending.

Case filed as a plaintiff: this issue concerns the breach by Trifoglio of its obligation to pay the balance of the amount due (€ 10.3 million), pursuant to the sale contract regarding the so-called Autoparco property, which should have been paid on 22 December 2011.
In consideration of Trifoglio's breach, a notice was served aimed at signing a deed to voluntarily terminate the sale agreement of 22 December 2010, and then to file a claim before the Court of Rome, pursuant to art. 702-bis of the Italian Code of Civil Procedure. In the meantime, ATAC Patrimonio filed a claim for the termination of the sale agreement of 22 December 2010 for the portion for which it is responsible.

Cases as a defendant: Trifoglio has notified Acea and ATAC Patrimonio a writ of summons aimed at assessing the invalidity of the deed of purchase and sale and recognition of compensation for damages in the amount of approximately € 20 million. By judgement no. 11436/2017 of 6 June 2017, the Court of Rome declared the nullity of the contract of purchase and sale, substantively upholding the petition of Acea aimed at having the contract wound up with Trifoglio and recovering ownership of the area, arranging for the return to Trifoglio of the deposit-price received (€ 4 million); it also rejected the request for compensation for damages made by Trifoglio and excluded any liability of Acea with regards to the truthfulness of the contractual guarantees offered to Trifoglio. On 8 August 2017 Trifoglio filed an appeal, with a hearing for conclusions set for 2 April 2020.

Acea SpA – Former COS rulings

The COS dispute concerns the ascertainment of the illegality of the contract between ALMAVIVA Contact (formerly COS) and Acea and the consequent right of its workers to be recognised as having a subordinate employment relationship with Acea.

It should be noted that the majority of the cases in which Acea was unsuccessful were settled, and that of the six claimants only two were brought before the Court of Cassation by Acea to assess the existence of a claim (i.e. the assessment of the right to establish a relationship), both heard on 4 April 2019 by the Council. These judgements were settled by dismissal orders – made on 2 and 10 July 2019 – of Acea's application. The establishment of the employment contract between Acea and the opposing parties as from 2004 is therefore confirmed.

The workers – who have so far claimed the differences in pay for lack of performance – have therefore started to work concretely at Acea800 as of 3 February 2020 following a posting to this company, despite having established the relationship with Acea, in execution of the court order.

Based on the judgements concerning the an debeatur, the six workers who won their cases (i.e. with whom a subordinate employment relationship with Acea was established) have over time introduced judgements quantifying their claims, requesting the payment of the wages due as a result of the established relationship and regarding different periods of accrual of the alleged claims, which have led to disagreements that are pending at various levels of jurisdiction. In detail, with regard to the number of cases currently pending at the Court of Cassation, a first judgement was settled with a sentence in favour of Acea on 31 October 2018, against which the counterparties appealed for revocation by means of a document served on 30 April 2019. One other quantification judgement is still pending with the Court of Justice.

Finally, another quantification of the pay differences accrued between 2010 and 2014 proposed by the workers themselves is pending before the Court of Appeal of Rome, and during the last hearing, held on 25 June 2018, the Court of Appeal deemed it appropriate to suspend it pending the rulings of the Court of Cassation on the an debeatur of the claim (see above), which took place in July 2019 and as a result of which the case has been resumed and is currently pending with a hearing in March 2020.

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

This is a challenge to the injunction issued by the Court of Rome – General Docket 58515/14 against *areti* for the amount of € 226,621.34, requested by Armosia MP by way of lease payments for the months of April-May-June of 2014 in relation to the property in Rome – Via Marco Polo 31. The injunction was declared provisionally enforceable by order of 8 July 2015.

In the hearing on 17 February 2016, the Judge adjoined this case with the other pending before the Court of Rome, taken by Acea and *areti* (transferee of the lease contract) in order to obtain the termination of the lease contract. In this latter case, MP 31 has also filed an unconventional remand for compensation for the damages incurred in consideration of the degrading condition of the building when it was released by *areti*. With a sentence dated 27 November 2017 the Court upheld the application of MP 31 against *areti*, condemning it to the payment of the previous rent in the amount of € 2,759,818.76 plus interest from the individual deadlines, as well as the payment of the rent up to contract expiry (29 December 2022). As a result, there are no further charges to the company.

Acea filed an appeal, served on 2 January 2018. The appeal hearing has been set for 16 April 2020.

Acea SpA and Acea Ato 2 SpA – CO.LA.RI.

With a writ of summons served on 23 June 2017, Co.La.Ri. Consortium and E. Giovi Srl – manager of the landfill at Malagrotta (RM) and executor respectively – summoned Acea and Acea Ato 2 in order to obtain from the defendants the payment of the portion of the tariff for accessing the landfill to be allocated to hedge the thirty-year management costs for same – established by Italian Legislative Decree no. 36/2003 – assertively due for the conferment of waste during the period of contractual validity 1985-2009.

The main request stands at over € 36 million for the entire period of contract validity. Subordinately, in the event that the law disposing the tariff is considered by the judge to be applicable retroactively, the plaintiffs request the recognition of the right to receivables of approximately € 8 million for the period March 2003-2009, and the ascertainment, by expert appraisal, of the receivables for the previous period 1985-2003.

The first hearing, initially set for 23 February 2018, was postponed to 8 October 2018 to add the dispute against the Optimal Territorial Area Authority 2 Central Lazio – Rome. As a result of this hearing, the judge granted the terms under art. 183 of the Italian Code of Civil Procedure and scheduled the subsequent preliminary hearing for 28 March 2019, then postponed until 12 November 2019. On that date the judge set the hearing for conclusions on 27 October 2020.

Proceeding AGCM A/513

On 8 January 2019, the Antitrust Authority notified Acea SpA, Acea Energia SpA and *areti* SpA of the final order for Proceeding A/513.

With this order, the Authority ruled that the aforementioned Group companies had committed an abuse of a dominant position – qualified as very serious and of duration quantified in 3 years and 9 months – consisting in the adoption of a broad exclusionary strategy realised through the illegitimate use of a series of prerogatives possessed solely by virtue of its position as an integrated operator in distribution, in order to compete with its competitors in the acquisition of electricity sales contracts in free market conditions.

In view of the gravity and duration of the infringement, the Authority ordered Acea SpA, Acea Energia SpA and *areti* SpA to pay an overall pecuniary administrative fine of € 16,199,879.09.

Fully convinced of the illegitimacy of the measure imposed, two administrative appeals were filed before the Lazio Regional Administrative Court, one brought by Acea Energia and the other by Acea SpA. The hearing on the merits of both judgements was held on 2 October 2019, and on 17 October 2019 the appeals were upheld with separate sentences and the fine was therefore annulled.

With appeals served on 17 January 2020, the AGCM filed an appeal before the Council of State and is awaiting the setting of a hearing.

The Directors maintain that the settlement of ongoing disputes and other potential disputes should not create any additional charges for Acea, with respect to the amounts set aside, which represent the best estimate possible on the basis of elements available as of today.

ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

CLASSES OF FINANCIAL INSTRUMENTS

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

€ thousand	FVTPL	FVTOCI	Amortised cost	Balance sheet value	Explanatory Notes
Non-current fixed assets	**2,352**			**2,352**	
Other equity investments	2,352			2,352	16
Financial assets			207,998	207,998	18
Current assets	**0**	**0**	**2,785,661**	**2,785,661**	
Trade receivables			99,119	99,119	20
Current financial assets			2,686,542	2,686,542	20
Non-current liabilities					
Bonds		182,017	2,572,281	2,754,298	24
Payables to banks		9,349	395,802	405,151	24
Current liabilities					
Bonds (current portion)			453,390	453,390	26
Payables to banks			39,998	39,998	26
Financial Payables			169,148	169,148	26
Trade payables			182,669	182,669	26

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

TYPES OF FINANCIAL RISKS AND RELATED HEDGING ACTIVITIES

Foreign exchange risk

Acea is not particularly exposed to this type of risk which is concentrated on the conversion of the financial statements of foreign subsidiaries.
As regards the 20 billion Yen Private Placement, the exchange rate risk is hedged through a cross currency swap described in the section on interest rate risk.

Liquidity risk

As part of the Group's policy, the objective of managing liquidity risk for Acea is to have a financial structure that, in line with the business objectives and with the limits defined by the Board of Directors, ensures a level of liquidity appropriate to the financial needs, maintaining a correct balance between duration and composition of the debt.
The liquidity risk management process, which uses financial planning tools for outflows and receipts suitable to manage treasury hedges and to monitor the trend of consolidated financial debt, is carried out both through cash pooling management both through the support and assistance provided to the subsidiaries and associated companies with which there is no centralised finance contract.
At 31 December 2019 the Parent Company has uncommitted credit lines of € 628 million. No guarantees were granted in obtaining these lines.
The EMTN Programme approved in 2014 and already adjusted during 2018 was further expanded in July 2019, bringing it to a total amount of € 4 billion. Following the issue of the bond in May for € 0.5 billion, Acea may place additional bond issues up to a total residual amount of € 1.4 billion.

Interest rate risk

The Acea Group's approach to managing interest rate risk, which takes the structure of assets and the stability of the Group's cash flows into account, has essentially been targeted, up to now, at hedging funding costs and stabilising cash flows, in such a way as to safeguard margins and ensure the certainty of cash flows deriving from ordinary activities.
The Group's approach to managing interest rate risk is, therefore, prudent and the methods used tend to be static in nature.

In particular, for static management (to be opposed to the dynamic one) we mean a type of management of interest rate risk that does not provide for daily operations on the markets but an analysis and control of the position carried out periodically on the basis of specific needs. This type of management therefore involves daily activity in the markets, not for trading purposes but in order to hedge the identified exposure in the medium/long term.
Acea has, up to now, opted to minimise interest rate risk by choosing a mixed range of fixed and floating rate funding instruments.
As it is known, fixed rate funding protects a borrower from cash flow risk in that it stabilises the financial outflows in the income statement, whilst heightening exposure to fair value risk in terms of changes in the market value of the debt.
An analysis of the consolidated debt position shows that the risk Acea is exposed to is mainly in the form of fair value risk, being composed of hedged fixed rate borrowings (80.7%) as at 31 December 2019, and to a lesser extent to the risk of fluctuations in future cash flows.
Acea is consistent with its decisions regarding interest rate risk management that essentially aims to both control and manage this risk and optimise borrowing costs, taking account of Stakeholders' interests and the nature of the Group's activities, and based on the prudence principle and best market practices. The main objectives of these guidelines are as follows:

- identifying, from time to time, the optimal combination of fixed and variable rates;
- to pursue a potential optimisation of borrowing costs within the risk limits established by governance bodies and in accordance with the specific nature of the business;
- to manage derivatives transactions solely for hedging purposes, should Acea decide to use them, in respect of the decisions of the Board of Directors and, therefore, the approved strategies and taking into account (in advance) the impact on the income statement and Statement of Financial Position of said transactions, giving preference to instruments that qualify for hedge accounting (typically cash flow hedges and, under given conditions, fair value hedges).

Please note that Acea has:

- returned the € 100 million loan obtained on 27 December 2007 to a fixed rate with a swap. The IRS plain vanilla swap was signed on 24 April 2008 with effect from 31 March 2008 (date of the draw of the underlying) and expires on 21 December 2021;
- a cross currency transaction to transform to Euro – through a plain vanilla DCS swap – the currency of the private placement (Yen) and the yen rate applied to a fixed Euro rate through a plain vanilla IRS swap.

All the derivative instruments taken out by Acea and listed above are non-speculative and the fair values of the same are respectively:

- negative for € 1.0 million (negative for € 2.1 million at 31 December 2018);
- negative for € 17.9 million (negative for € 21.8 million at 31 December 2018).

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

€ thousand	Amortised cost (A)	FV RISK LESS (B)	Delta (A) - (B)	FV RISK ADJUSTED (C)	Delta (A) - (C)
Bonds	3,207,687	3,504,722	(297,035)	3,301,189	(93,502)
floating rate	427,467	436,272	(8,805)	434,768	(7,300)
floating rate to fixed rate	17,682	17,840	(158)	17,687	(5)
Total	**3,652,837**	**3,958,834**	**(305,998)**	**3,753,644**	**(100,807)**

This analysis was also carried out with the "risk-adjusted" curve, i.e. a curve adjusted for the level of risk and the business sector of Acea. A curve populated with fixed rate bonds denominated in EUR, issued by domestic companies in the public utilities sector with a composite rating ranging from BBB+ and BBB- was used.
A sensitivity analysis has been carried out on medium/long-term financial liabilities using stress testing, thus applying a constant spread over the term structure of the risk-free interest rate curve. This makes it possible to evaluate the impact on fair value and on future Cash Flows for both the individual instruments in the portfolio and the overall portfolio.
The following table shows the overall fair value changes of the debt portfolio based on parallel shifts (positive and negative) between -1.5% and +1.5%.

Constant spread applied	Changes in Present Value (€ million)
(1.5)%	(293.6)
(1.0)%	(187.8)
(0.5)%	(85.9)
(0.3)%	(36.4)
n.s.	0.0
0.3%	59.8
0.5%	106.6
1.0%	197.5
1.5%	285.2

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 CONTINGENCIES

These amounted to € 815,204 thousand and increased by € 53,487 thousand compared to 31 December 2018 (€ 761,487 thousand).

ENDORSEMENTS AND SURETIES ISSUED AND RECEIVED

These have a negative net balance of € 37,332 thousand, as the endorsements and sureties issued amounted to € 13,638 thousand while those received amounted to € 50,969 thousand.
These recorded an increase of € 9,147 thousand compared to the end of the previous year. The change is mainly attributable to the issue of the bank guarantee issued by BNL to ATERSIR for the tender for the Integrated Water Service in the province of Rimini for € 8,800 thousand, and by BBVA in to SEDAPAL for the tender for the maintenance of Lima Nord for € 849 thousand, offset by the release of the guarantees issued by MPS to the Municipalities of Amatrice, Caltagirone and Taranto relating to the former Acea Luce for € 888 thousand.

LETTERS OF PATRONAGE ISSUED AND RECEIVED

The balance is positive for € 603,929 thousand, consisting of letters of patronage issued for € 603,929 thousand and letters of patronage received for € 203 thousand.
During the year they underwent an overall increase of € 44,340 thousand. The main changes concerned:

- the issue of a guarantee of € 38,800 thousand on behalf of Adf to the pool of banks the company has a medium/long-term loan with;
- the issue of three guarantees for a total of € 17,412 thousand to Belenergia and Casamassima on behalf of Acea Sun Capital for the purchase of the Special Purpose Vehicle;
- the increase in guarantees benefiting various companies on behalf of Acea Energia, including ASM Terni, ERG POWER Generation SpA and SNAM Rete GAS, offset by some releases benefiting IREN Mercato, for example, for a total of € 7,409 thousand;
- the decrease in the guarantee benefiting CDDPP (- € 20,998 thousand) offset by the increase in the guarantee to Terna (+ € 1,435 thousand) for transport services.

THIRD-PARTY ASSETS UNDER CONCESSION

These amount to € 86,077 thousand and have not changed since 31 December 2018 and refer to assets related to Public Lighting.

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

Dear Shareholders,
In inviting you to approve the financial statements we are submitting to you, we propose to allocate the profit for the year ended 31 December 2019, equal to € 208,488,011.79, as follows:

- € 10,424,400.59, equal to 5% of profit, to the legal reserve,
- € 165,787,367.46 to shareholders, corresponding to a unit dividend of € 0.78,
- € 32,276,243.74 for retained earnings.

The total dividend (coupon no. 21 of € 165,787,367.46, equal to € 0.78 per share, will be paid starting from 24 June 2020 with coupon detachment on 22 June and record date 23 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

ANNEX 1 – NET FINANCIAL POSITION AT 31 DECEMBER 2019

€ thousand	31/12/2019	Related parties	31/12/2018	Related parties	Change
Non-current financial assets	126	0	126	0	0
Non-current infragroup financial assets	207,872	207,872	204,125	204,125	3,747
Non-current borrowings and financial liabilities	(3,152,021)	0	(3,100,723)	0	(51,299)
Financial assets (liabilities) from the valuation of derivative instruments	(18,873)	0	(23,848)	0	4,975
Medium-long term financial position	**(2,962,897)**	**207,872**	**(2,920,320)**	**204,125**	**(42,577)**
Cash and cash equivalents and securities	688,145	0	978,552	0	(290,407)
Current financial assets/(liabilities)	(353,057)	(1,769)	(312,071)	(1,769)	(40,986)
Current infragroup financial assets (liabilities)	2,377,063	2,377,063	2,014,789	2,014,789	362,274
Short-term financial position	**2,712,150**	**2,375,294**	**2,681,269**	**2,013,020**	**30,881**
Total net financial position	(250,747)	2,583,166	(239,051)	2,217,145	(11,696)

ANNEX 2 – CHANGES IN HOLDINGS AS AT 31 DECEMBER 2019

€ thousand	31/12/2018	CHANGES IN THE PERIOD Acquisitions	Disposals	Reclassifications	Increases/ Decreases	Write-downs/ Losses/ Write-ups/ Write-downs	31/12/2019
Subsidiaries							
areti SpA	683,861	0	0	0	0	0	683,861
Acea Ato 2 SpA	585,442	0	0	0	0	0	585,442
Acea8Cento SpA	120	0	0	0	0	0	120
Acea Elabori SpA	7,209	0	0	0	0	0	7,209
Acea Energia SpA	277,044	0	0	0	0	0	277,044
Acea Ato 5 SpA	5,229	0	0	0	11,564	0	16,793
Consorcio Acea-Acea Domenicana	43	0	0	0	0	0	43
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
Aquaser Srl	5,417	0	0	0	0	0	5,417
Crea Gestioni Srl	2,874	0	0	0	0	0	2,874
Parco della Mistica	60	0	0	0	0	0	60
Sarnese Vesuviano Srl	21,410	0	0	0	0	0	21,410
Acea Illuminazione Pubblica SpA in liquidation	962	0	0	0	(962)	0	0
Acea Liquidation and Litigation Srl	9,821	0	0	0	0	(1,481)	8,341
Acea Produzione SpA	43,441	0	0	0	0	0	43,441
Acea Energy Management Srl	50	0	0	0	0	0	50
Acea International SA	12,891	0	0	0	8,446	0	21,337
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	2,877	4	0	0	0	0	2,881
Acque Industriali Srl	1,222	0	0	0	0	0	1,222
TWS SpA	64	0	0	0	0	0	64
Pescara Distribuzione Gas	0	4,290	0	0	0	0	4,290
Acea Innovation	0	10	0	0	0	0	10
Total subsidiaries	**1,770,567**	**4,305**	**0**	**0**	**19,048**	**(1,481)**	**1,792,439**

CHANGES IN THE PERIOD

€ thousand	31/12/2018	Acquisitions	Disposals	Reclassifications	Increases/ Decreases	Write-downs/ Losses/ Revaluations	31/12/2019
Associates							
Aguazul Bogotà SA	548	0	0	0	5	0	553
Ecomed Srl	118	0	0	0	0	0	118
Umbra Acque SpA	6,851	0	0	0	0	0	6,851
Ingegnerie Toscane Srl	58	0	0	0	0	0	58
Intesa Aretina Scarl	11,505	0	0	0	0	0	11,505
GEAL SpA	2,059	0	0	0	0	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 S.c.a.r.l.	0	0	0	0	0	0	0
Sienergia SpA in Liquidation	0	0	0	0	0	0	0
DI.T.N.E. S.c.a.r.l.	12	0	0	0	0	0	12
Total associates	**26,327**	**0**	**0**	**0**	**5**	**0**	**21,475**

CHANGES IN THE PERIOD

€ thousand	31/12/2018	Acquisitions	Disposals	Reclassifications	Increases/ Decreases	Write-downs/ Losses/ Revaluations	31/12/2019
Other companies							
Polo Tecnologico Industriale Romeno 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	2	0	0	0	0	0	2
Total other companies	**2,352**	**0**	**0**	**0**	**0**	**0**	**2,352**

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

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

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

Pursuant to the CONSOB Communication of 28 July 2006, it should be noted that during 2019 Acea SpA has not performed atypical and/or unusual transactions, as defined by the Communication itself.

ANNEX 5 – SEGMENT INFORMATION (IFRS 8)

€ thousand	Public Lighting	Corporate	Total operating assets	Discontinuing operations	Total
Capex	**3,274**	**21,176**	**24,450**	**0**	**24,450**
Sector assets					
Tangible fixed assets	7,099	94,217	101,316	0	**101,316**
Intangible fixed assets	0	24,283	24,283	0	**24,283**
Financial assets	0	1,816,267	1,816,267	0	**1,816,267**
Other non-current commercial assets					**18,636**
Other non-current financial assets	33,900	192,771	226,671		**226,671**
Raw materials	0	0	0	0	**0**
Trade receivables	198	549	747	0	**747**
Trade receivables from the parent company	0	47	47	0	**47**
Receivables due from subsidiaries / associates	111	98,215	98,326	0	**98,326**
Other current commercial assets	0	43,202	43,202		**43,202**
Other current financial assets	137,920	2,548,621	2,686,542	0	**2,686,542**
Bank deposits					**688,145**
Total assets					**5,704,180**

€ thousand	Public Lighting	Corporate	Total operating assets	Discontinuing operations	Total
Sector payables					
Trade payables	40	107,632	107,672	0	**107,672**
Payables to the parent company	0	0	0	0	**0**
Payables to the parent company / associates	71,358	3,611	74,969	0	**74,969**
Other current trade liabilities					**35,838**
Other current financial liabilities	111	662,425	662,536		**662,536**
Defined benefit plans	0	23,323	23,323	0	**23,323**
Other provisions	0	15,882	15,882	0	**15,882**
Deferred tax provision					**0**
Other non-current trade liabilities					**0**
Other non-current financial liabilities					**3,170,895**
Shareholders' equity					**1,628,812**
Total liabilities					**5,719,926**

€ thousand	Public Lighting	Corporate	Total operating assets	Discontinuing operations	Total
Revenue from third parties	40,679	30,988	71,666	0	**71,666**
Intersectorial sales	0	111,568	111,568	0	**111,568**
Work costs	0	(60,096)	(60,096)	0	**(60,096)**
External costs	(45,152)	(88,027)	(133,179)	0	**(133,179)**
EBITDA	(4,473)	(5,568)	(10,041)	0	**(10,041)**
Depreciation and write-downs of receivables	(6,492)	(18,725)	(25,217)	0	**(25,217)**
Write-downs / recovery of fixed assets	0	0	0	0	**0**
Operating profit/(loss)	(10,965)	(24,293)	(35,257)	0	**(35,257)**
Financial (costs)/income					**73,607**
(Charges)/Income from investments					**181,634**
Net profit/(loss) from discontinued operations					**0**
Profit/(loss) before tax					**219,983**
Taxes					**(11,495)**
Net profit/(loss)					**208,488**

BOARD OF STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING (IN ACCORDANCE WITH ART. 153 OF ITALIAN LEGISLATIVE DECREE 58/1998)

Dear Shareholders,

The Board of Statutory Auditors (hereinafter also referred to as "the Board") is required to report to the Shareholders' Meeting on the supervisory activities carried out during the year and on the omissions and reprehensible facts identified pursuant to art. 153 of Italian Legislative Decree no. 58/1998 (hereinafter also "TUF").

The Board of Statutory Auditors may also make comments and proposals regarding the financial statements, their approval and the matters within its remit.

Since its appointment, the Board of Statutory Auditors has carried out its institutional duties in compliance with the Italian Civil Code and Italian Legislative Decree no. 58/1998 (TUF) and 39/2010 (Consolidated Law on Statutory Auditing), the rules of the by-laws and the regulations issued by the Authorities exercising supervisory and control activities, also taking into account the principles of conduct recommended by the National Council of Chartered Accountants and Accounting Experts.

In particular, the Board of Statutory Auditors monitored (i) compliance with the law and the by-laws, (ii) compliance with the principles of correct administration, (iii) the adequacy of the Company's organisational structure, the internal control and risk management system and the administrative-accounting system, as well as the reliability of the latter in correctly representing operating events, (iv) the procedures for the concrete implementation of the corporate governance rules adopted by the Company in compliance with the Corporate Governance Code of the Committee for the Corporate Governance of Listed Companies (hereinafter also referred to as the "Corporate Governance Code"), (v) the adequacy of the instructions imparted to subsidiaries pursuant to art. 114, paragraph 2 of the TUF and (vi) with reference to the obligations relating to non-financial information pursuant to Italian Legislative Decree no. 254/2016.

Furthermore, in its capacity as Internal Control and Audit Committee, the Board of Statutory Auditors performed the functions envisaged by art. 19 of Italian Legislative Decree no. 39/2010.

This report concerns the activity carried out by the Board of Auditors of Acea SpA (hereinafter also "Acea" or "Company") in the year ended 31 December 2019.

In the light of the foregoing, the information contained in Consob Communication 1025564/2001 and subsequent amendments and additions is provided below.

1. Appointment of the Board of Auditors

The undersigned Board of Statutory Auditors was appointed at the Shareholders' Meeting held on 17 April 2019 for three financial years until the approval of the 2021 Financial Statements.

The Board of Statutory Auditors in office at the date of this report is composed of Mr Maurizio Lauri (Chairman), Ms Pina Murè and Ms Maria Francesca Talamonti.

2. Self-assessment of the Board of Statutory Auditors

Upon taking office, the Board of Statutory Auditors assessed its composition, deeming it to be adequate, verifying in particular compliance with the requirements of independence, professionalism, integrity, diversity, skill and limits to the number of positions held and communicating the results of these assessments to the Board of Directors.

The members of the Board of Statutory Auditors have also stated that they have the time and expertise necessary for the complexity of their duties.

The Board of Statutory Auditors then put in place a subsequent self-assessment process in the first few months of 2020, which it reported to the Board of Directors at the meeting held on 9 March 2020 so that it could include its conclusions in the Report on Corporate Governance and Ownership Structure.

To this end, a questionnaire addressed to the members of the Board of Statutory Auditors was prepared with the support of the internal structures, which was then used to assess the correct and effective operation of the body and its adequate composition.

The questionnaire primarily consisted in statements with which the members of the Board of Statutory Auditors were asked to express their level of agreement (five possibilities ranging from "strongly disagree" to "strongly agree"), and also included questions requiring explicit answers.

The areas covered by the questionnaire included:

- Quantitative composition.
- Qualitative composition.
- Organisation of work.
- Activity carried out by the Chairman.
- Exchange of information with directors, independent auditors, the director in charge of setting up and maintaining the internal control and risk management system, the Supervisory Board pursuant to Italian Legislative Decree no. 231/2001, the Manager in Charge of Financial Reporting, the board committees, the other bodies and other functions responsible for controls and the control bodies of group companies.
- Participation in the meetings of the board of directors and of the board committees.

The results of the survey showed that there are no conditions requiring corrective action to be taken in situations where the Statutory Auditors' compliance with the necessary requirements, like independence, professionalism and integrity, is at risk.

The Statutory Auditors unanimously "strongly agreed" that the quantitative composition of the Board of Statutory Auditors is adequate to the size and complexity of the Company's organisational structure.

With regard to the analysis of the qualitative elements inherent to the professionalism required by the assignment, the following knowledge and skills were verified with the questionnaires: (i) knowledge of corporate organisation, internal control systems and risk management relating to issues of corporate governance, internal auditing and the discipline of statutory audits; (ii) technical expertise in the legal, administrative, accounting and tax fields, financial matters and the functioning of financial markets, as well as specific knowledge of the markets and businesses the Company operates in.

The current expertise and knowledge of the members of the Board of Statutory Auditors were therefore considered adequate, both for the whole and the mix of skills and for the contribution of professionalism appropriate to the Company's control needs.

The diversity of the members of the Board of Statutory Auditors in office was assessed to adequately represent experience, origin, age and gender.

The members of the Board of Statutory Auditors also considered it very important that an overall diversity within the control body be guaranteed, with particular reference to:

- Experience/training and culture.
- Professional skills (corporate governance, accounting, risk management, internal audits, regulations applicable to the utilities sector, compliance, ESG issues).
- Background of reference and specific areas of professional expertise, soft skills, age groups and seniority.

With regard to the availability of time to carry out the duties of the office in light of its complexity, the composition of the Board of Statutory Auditors and attendance at meetings of the Board and Board of Directors, it was found that the Statutory Auditors dedicate sufficient time and resources to the performance of their duties. In this regard, it was also noted that the Board of Statutory Auditors of Acea requires a significant commitment on the part of its members, who are therefore asked to make sure that they have enough time to carry out their duties.

The effectiveness (in terms of timeliness and suitability to identify areas for improvement in the organisational, administrative and accounting structures and in the internal control and risk management system), the adequacy (with respect to the size, organisational, sector and corporate business model characteristics) and therefore the functionality (with respect to the performance of legal supervision, the monitoring of the financial and non-financial reporting process, the monitoring of the statutory audit) of the exchange of information with the main managerial interlocutors of the Board of Statutory Auditors was judged to be positive.

With regard to the meetings of the Board of Statutory Auditors, the adequacy of a number of aspects was positively assessed (also by virtue of the valuable and efficient support provided by the secretariat of the Board of Statutory Auditors), like: the time dedicated to the preparation of the meetings, the related documentation and the agenda; the availability of documentation, the frequency of meetings in relation to the size, complexity and characteristics of the Company, the average duration of the meetings; the dialectic established on the issues covered by the meeting, the timing and accuracy of the minutes, as well as the manner in which the book of meetings and resolutions is held, as well as the dynamics of the meetings in terms of the settlement of any conflicts and making the most of contribution opportunities.

In order to facilitate the regulation of information flows that governs the methods, timing and procedures for the effective exchange of documents and information between bodies and functions, as well as to define common conduct within the Acea Group aimed at achieving uniform results in the fulfilment of the duty to report pursuant to art. 149, C III, Italian Legislative Decree no. 58/98, facilitating as far as possible the interpretation of the terms of this obligation, the Board of Statutory Auditors approved the document entitled "*Guidelines for compliance with the obligation to notify Consob of irregularities found in the performance of supervisory activities*".

Lastly, the adequacy and functionality of the attendance of the members of the Board of Statutory Auditors at the meetings of the Boards of Directors and the meetings of the Committees of the Board was verified with respect to the pursuit of the supervisory function and the performance of the duties that the law attributes to them. In particular, the possibility of timely access to the documentation of the meetings and the clarity, effectiveness and appropriateness of the interventions made by the Statutory Auditors with respect to the items on the agenda were verified.

As part of the self-assessment, based on the information in its possession, the information requested and acquired, as well as on the declarations made by the individual members, the Board of Statutory Auditors verified and confirmed that all its members meet:

- The independence requirements envisaged by law (art. 148, paragraph 3 of the TUF) and by the Corporate Governance Code (art. 3.C.1 and 8.C.1) for statutory auditors of listed companies.
- The requirements of professionalism, integrity, expertise and experience in accordance with the provisions of articles 1 and 2 of Italian Ministry of Justice Decree no. 162 of 30 March 2000 ("*Regulation containing rules for the establishment of the requirements of professionalism and integrity of the members of the Board of Statutory Auditors of listed companies to be issued on the basis of article 148 of Italian Legislative Decree no. 58 of 24 February 1998*").
- The requirements of art. 22 of the by-laws.

It also verified that each member of the Board of Statutory Auditors complied with the provisions of the applicable laws and regulations (art. 148-bis of the TUF and art. 144-duodecies to 144-quinquiesdecies of the Issuers' Regulations) with regard to the limits on the number of posts held.

Moreover, also in accordance with the provisions of art. 19 of Italian Legislative Decree no. 39/2010, it was verified that the members of the Board of Statutory Auditors, as the Internal Control and Audit Committee, as a whole are competent with regard to the professional duties pertaining to the sector the company operates in.

In light of the information in its possession, at present the Board of Statutory Auditors has therefore assessed how adequate its composition is, having regard to the requirements of professionalism, diversity, expertise, integrity and independence required by law.

3. Activities and Organisation of the Board of Statutory Auditors

During the year (period from 17 April to 31 December 2019), the Board of Statutory Auditors carried out the activities it was responsible for, holding 16 meetings, each lasting an average of approximately 4 hours.

The Board of Statutory Auditors also attended (from 17 April to 31 December 2019) 8 meetings of the Board of Directors, 8 meetings of the Control and Risk Committee, 6 meetings of the Nominations and Remuneration Committee, 6 meetings of the Ethics and Sustainability Committee, 2 meetings of the Executive Committee and 4 meetings of the Related Parties Committee.

During the meetings of the Board of Directors, during which, among other items on the agenda, the most important economic, financial and equity transactions of Acea SpA and its subsidiaries were examined, the Board of Statutory Auditors received the information referred to in art. 150, paragraph 1 of the TUF.

Based on the information acquired through its supervisory activities, the Board of Statutory Auditors has not become aware of any transactions carried out during the year to which this report refers from the date of its appointment that were not based on the principles of correct administration, resolved and carried out in breach of the law and the by-laws, not in the interest of Acea SpA, in contrast with resolutions passed by the Shareholders' Meeting, manifestly imprudent or reckless, lacking the necessary information in case of Directors' interests or compromising the integrity of the company's assets.

The Board of Statutory Auditors oversaw the Board of Directors' decision-making procedures and verified that the management decisions were compliant with the applicable regulations (substantive legitimacy), adopted in the interest of the Company, compatible with the Company's resources and assets and adequately supported by information, analysis and verification processes.

The Board of Statutory Auditors therefore believes that on the whole the tools, institutions and governance adopted by the Company constitute a suitable control for the observance of the principles of correct administration of operations.

The Board of Statutory Auditors prepares an annual agenda with dates, times and topics drawn up in coordination with the agenda of the Board of Directors and the Board Committees in order to promote a suitable integrated governance of the corporate bodies, which is shared with all stakeholders in order to allow the appropriate planning of its commitments and the necessary information flows requested by the Board of Statutory Auditors.

In particular, the Board of Statutory Auditors has defined beforehand, on an annual basis, the information flows required of management and other corporate bodies.

The minutes of the Board of Statutory Auditors are always sent in full to the attention of the Chairman of the Board of Directors, the Managing Director and the Chairman of the Control and Risk Committee to ensure a suitable and appropriate flow of information within the company.

Where pertinent, the minutes of the Board of Statutory Auditors are also always sent to management in order to ensure adequate written information on the recommendations/requests of the Board of Statutory Auditors.

The Board of Statutory Auditors has developed and adopted a system that allows complete traceability of the requests made. A finding is opened for each request, which is closed only when management confirms that the agreed corrective action has been taken.

As a permanent invitee, the head of the Internal Audit Department participates in the work of the Board of Statutory Auditors in order to allow continuous interaction of the corporate body with the third-level control function.

4. Transactions of particular significance

The most significant transactions carried out by the Acea Group during 2019 are specified in the documentation relating to the financial statements submitted for your approval.

In particular, the Board of Statutory Auditors highlights the following:

- With regard to the well-known events relating to the coronavirus pandemic, the Board of Statutory Auditors has acquired information from management proving the implementation of all the measures envisaged for the protection of the health and safety of workers and, more generally, of the communities in the areas the Acea Group operates in.
- On 8 January 2019, the Acea Group was notified of an order of the Italian Antitrust Authority with an administrative fine of € 16 million against Acea, Acea Energia and *a*reti, jointly and severally among them, with reference to proceeding no. A 513 for abuse of a dominant position in the electricity sales market, which the Acea Group challenged at the Lazio administrative court. On 17 October 2019, two separate rulings were published on the appeals filed by Acea, Acea Energia and *a*reti with which the Lazio Regional Administrative Court completely annulled the administrative fine of € 16 million imposed jointly and severally on these companies by the Antitrust Authority (AGCM) with order no. 27496 of 20

December 2018, which referred to alleged anti-competitive conduct in the electricity sales market. The AGCM appealed to the State Council.
- On 16 May 2019 there was a successful placement of a non-convertible bond issued under the EMTN Programme for a total of € 500 million over 9 years.
- Fitch Ratings confirmed Acea's rating at "BBB+ with "stable" outlook, while Moody's confirmed Acea's rating at "Baa2" with "stable" outlook.
- On 29 January 2020 Acea successfully placed a non-convertible bond of € 500 million issued under the nine-year EMTN Programme.

Like the non-financial data, the 2019 data of the individual and consolidated financial statements show significant progress towards the objectives of a business plan focused on regulated infrastructures. The Group demonstrates a significant capacity to create value for shareholders and economic margins (both in terms of EBITDA and net profit) and financial margins, with a prudent evolution of the net financial position in line with the company's development.

Improvements were recorded in all company sectors, from water (which benefited from the consolidation of Gori SpA and AdF SpA) to electrical infrastructure (which saw significant investments to increase the resilience of the grid), the environmental area (with a significant increase in the quantities treated and good plant continuity) and the energy market (where improvements in the management of working capital and the attention paid to customer care are worthy of note).

Consolidated net revenues amounted to € 3,186 million, an increase of € 158 million (+5%) compared to 2018, mainly due to the increase in revenues from the integrated water service (+€ 221 million).

EBITDA rose from € 933 million in 2018 to € 1,042 million at 31 December 2019, an increase of € 109 million (+12%). The contribution of the industrial segments to consolidated EBITDA (about 81% derives from regulated activities) is as follows: Water 48%, Energy Infrastructure 37%, Commercial and Trading 7%, Environment 5%, Overseas 2%, Engineering and Services 1%.

The operating result (EBIT) of € 518 million marks an increase of € 40 million (+8%) compared to 2018.

The increase is mitigated by the increase in amortisation and depreciation (+€ 43 million compared to 2018), mainly due to the change in the scope of consolidation of € 40 million (of which € 21 million relating to Gori SpA and € 4 million to AdF SpA).

The Group's net profit amounted to € 284 million, an increase of € 13 million compared to 2018 (+5%).

Investments made in 2019 amounted to € 793 million, a significant increase compared to the previous year (€ 631 million), of which approximately 81% was allocated to regulated activities. The Group remains determined to make major investments in infrastructure that, while maintaining the solidity of its consolidated financial structure, have a positive impact on the operating and financial performance.

The change in net working capital at 31 December 2019 was negative by € 16 million, an improvement of approximately € 20 million compared to 2018 (-€ 35 million in 2018). The absorption of working capital for regulatory purposes amounted to € 41 million. The excellent trend of working capital is driven by the collection performance in all business areas, particularly the commercial segment, as a result of the overall managerial review (in terms of processes and methods) of the activities that oversee the management of receivables.

The Group's net financial debt recorded an overall increase of € 495 million, from € 2,568 million at the end of 2018 to € 3,063 million at 31 December 2019. This change is a consequence of the increase in investments during the period and the dynamics of the company's operational development.

The first-time application of IFRS 16 also contributed to the increase in debt for € 64 million, in addition to the effects of the consolidation of AdF
SpA and M&A operations. The NFP/EBITDA ratio as at 31 December 2019 was 2.9x. At 31 December 2019, 80.7% of debt is fixed rate in order to ensure protection against any increases in interest rates as well as any financial or credit volatility.

At 31 December 2019 the average duration of medium/long-term debt stood at 5.8 years. Note that the reduction of the average cost of debt went from 2.21% on 31 December 2018 to 2.15% on 31 December 2019.

The optimal strategic and territorial positioning as well as the effective management underscore the existence of further possibilities for development that the company believes it can pursue in the near future, always bearing in mind the need to balance developments in profitability with a prudent propensity to risk and the maintenance of a high level of control to ensure sustainable behaviour in full compliance with current regulations.

A strategic development that can be monitored on an ongoing basis by the Board of Directors, also through a process of assessment of the Group's new investment projects that, on the one hand, through a continuous overall vision of the ongoing initiatives allows their connection with the objectives of the Strategic Plan, and on the other hand, through a complete assessment of the inherent risks assumed, a consequent complete evaluation of the costs/risks/benefits of the projects subject to the Board's assessment.

In fact, it seems clear that the company strategy must define a virtuous balance between the opportunities for growth of the company's scope, even rapid, and the risks assumed until the complete integration of the acquired companies into the Acea Group systems.

5. **Atypical or unusual operations**

The documents submitted for your approval, the information received during the meetings of the Board of Directors and the information received from the Chairman and the Managing Director, the management, the Boards of Statutory Auditors of directly controlled companies and the statutory auditor did not reveal the existence of atypical and/or unusual transactions, including intra-group transactions or transactions with related parties.

6. **Intergroup or related-party transactions**

Intra-group transactions or significant transactions with related parties are specified in the documents relating to the financial statements submitted for your approval.

Of particular note:

- On 10 June 2019 the Official Gazette included Italian Legislative Decree no. 49 of 10 May 2019 ("Decree") implementing Directive (EU) 2017/828 (Shareholder Rights Directive II, "Directive"), amending Directive 2007/36/EC as regards encouraging long-term shareholder engagement.
- With the revision of the Shareholders' Rights Directive, a specific regulation of related party transactions was introduced for the first time at a European level.
- Article 9-quater of the Directive defines the regulation of transactions with related parties by identifying a precise subjective and objective scope of application: it is addressed to companies with shares listed on regulated markets and intends to regulate only those transactions that exceed a certain threshold of significance (so-called material transactions).
- The amendments to the Decree concern art. 2391-bis of the Italian Civil Code, with the introduction of a new third paragraph that assigns Consob the task of defining or maintaining, where compatible, certain provisions functional to the concrete application of the regulations and the definition of the scope of application of different regulations.
- The transposition of the European rules on related party transactions can only be considered completed once the legislative delegation has been executed and the relevant secondary rules have been properly aligned, to the extent deemed necessary. To this end, on 31 October 2019 Consob submitted for consultation a proposal to amend Consob Regulation no. 17221/2010 ("RPT Regulation") and announced that it will also update the related regulations. The consultation to implement the delegation contained in Italian Legislative Decree no. 49 of 10 May 2019 ended last December. At the date of this report, the final measures had not yet been taken by the authority.

- The planned amendment of the RPT Regulation and Consob Communication DEM/10078683 of 24 September 2010 will require issuers to carry out the necessary assessments to identify corrective measures for their internal procedures regarding related party transactions.
- It follows that the discipline outlined by the new article 2391-bis of the Italian Civil Code, which currently still needs to be adequately implemented as part of the revision of the RPT Regulation, is not immediately applicable.
- It is understood that as soon as the new RPT Regulations are adopted, the Company will have to carry out an analysis – in addition to the activities carried out so far – of the new provisions introduced in order to update the RPT Procedure.

7. Supervisory activities pursuant to the Consolidated Law on Statutory Audits

The Board of Statutory Auditors, identified by the Consolidated Law on Auditing as the "Committee for Internal Control and Statutory Audit", oversaw:

- The financial reporting process.
- The effectiveness of internal control, internal audit and risk management systems.
- The statutory audit of annual accounts and consolidated accounts.
- The independence of the external auditor (hereinafter also "auditor", "external auditor" or "audit firm"), in particular as regards the provision of non-audit services.

The Board of Statutory Auditors examined the reports prepared by the external auditor PwC SpA, whose activity supplements the general framework of the control functions established by the regulations with regard to the financial and non-financial reporting process.

On 27 April 2017, the Acea SpA Shareholders' Meeting appointed PwC SpA to audit the accounts for the period 2017-2025, including the statutory audit of the consolidated and separate financial statements, the limited audit of the condensed separate financial statements at 30 June and the audit of the separate annual accounts of Group companies that fall within the scope of unbundling regulations.

These reports, issued on 16 April 2020 in accordance with article 14 of Italian Legislative Decree no. 39/2010, to which reference should be made, show that the Group's separate financial statements and consolidated financial statements were prepared in accordance with the IAS/IFRS standards issued by the International Accounting Standards Board, adopted by the European Union and in force at 31 December 2019, as well as in accordance with the measures issued to implement art. 9 of Italian Legislative Decree no. 38/2005 and subsequent amendments and additions.

Therefore, they are clearly stated as having been prepared in such a way as to give a true and fair view of the financial position, results of operations and cash flows for the year ended 31 December 2019.

During 2019 there were no changes in the accounting standards compared to those used in the previous year for the preparation of the financial statements, with the exception of the effects of IFRS 16 (the impacts for the Group deriving from the application of this standard were not significant, and the independent auditors did not comment on the approach followed for the transition – modified retrospective – and on the decision not to account separately for the non-lease component of mixed contracts) and IFRIC 23.

Moreover, in the opinion of the external auditor, the Management Report and the information referred to in paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) of art. 123-bis of the TUF contained in the Report on Corporate Governance are consistent with the financial statements.

The Board of Statutory Auditors also examined the additional report issued by the external auditor to the "Internal Control and Audit Committee" on 16 April 2020, pursuant to article 19 of Italian Legislative Decree no. 39/2010, in which it illustrated: i) the main aspects of the audit; ii) the levels of significance for the consolidated and separate financial statements; iii) the audit plan; iv) the scope and method of consolidation; v) the audit methodology and valuation methods applied in the consolidated and separate financial statements; vi) the areas of focus relating to the consolidated and separate financial statements; vii) the activities carried out by the audit team.

In the same document, the external auditor also certified that no significant audit differences were found in the consolidated and separate financial statements, nor were significant deficiencies identified in the internal control system with respect to the financial reporting process, listing the obligatory communications made to the corporate bodies and finally acknowledging that, from the checks on the regular maintenance of the corporate accounts and the correct recording of operating events in the accounting records, no significant aspects emerged to report.

The main areas covered in the report (also expressed as references to information in the certification report) mainly relate to:

- Receivables due from Roma Capitale (as part of the activities necessary for the first consolidation of the Acea Group in the 2018 financial statements of Roma Capitale, a roundtable was launched to reconcile the related receivables and payables and it formally concluded its activities in October 2019. In December 2019, the municipality of Rome published its consolidated financial statements for the year 2018, showing the credit and debit positions recorded against the Acea Group, which substantially coincide with the positions reported by the Acea Group on the same date. The Board of Statutory Auditors believes that the controlling partner, in the role of customer/supplier of the Acea Group, also in light of the importance of its conflict of interest as a controlling partner/customer/supplier, must be able to ensure punctual fulfilment in the continuous complex process of the local authority aimed at the validation and settlement of the Acea Group's receivable claims, thus allowing the continuation of a balanced financial situation that prevents the existence of significant receivables from the controlling shareholder. Likewise, it recommends that discussions be held with Roma Capitale to reconcile the receivables and payables for 2019, along the lines of what was done for 2018).
- Ato 5 SpA (a company involved in significant tax, regulatory, administrative and criminal litigation against various authorities, fully described in the documents of

the consolidated financial statements, which require continuous monitoring for the consequent assessments prescribed by the accounting standards of reference. In particular, in the documentation submitted for your approval, you will find the current developments with regard to the ongoing investigations by the Authorities into alleged violations of the applicable regulations, which may lead to the application of sanctions – some already imposed – of varying amounts within a very broad spectrum, depending on a multiplicity of factors. At the moment, investigations and litigation are under way, and therefore based on the information provided by the company's lawyers, where the risk has been assessed by them as possible since it is not possible to quantify its final effect precisely, information has been provided in the notes to the financial statements. Where the risk has been assessed as probable, provisions have been made based on the best information available. Although it is currently impossible to determine the exact form, extent or duration of any measures taken by the competent authorities, any liability that may arise could result in cash outflows or potentially have a negative effect on the shareholders' equity and net results of the Company and/or the Group. Acea SpA's shareholding in Ato 5 SpA was subject to an impairment test as at 31 December 2019 (together with all the other shareholdings recorded in Acea SpA's financial statements) which, in confirming the recoverability over time of the book value recorded in the financial statements in light of the business plan envisaged by management for the company, showed a small headroom (difference between carrying amount and equity value) such that future requirements for further write-downs of the book value of the investment cannot be excluded if the actual development of the company's business should differ from the forecasts in the business plan underlying the impairment test. The business plan is currently being implemented with the aim of overcoming existing critical issues through managerial actions aimed at (a) protecting water resources (b) combating abuse and (c) combating delinquency. Similarly, the company has a significant indebtedness to the parent company Acea SpA, whose full recoverability is expected in light of the financial plans envisaged by Ato 5 SpA, since the need to write down the receivable of Acea SpA cannot be ruled out if cash dynamics should emerge over time in Ato 5 SpA that differ from what is foreseen in the company's planning documents).

- The complexity of regulatory measures, with particular reference to matters underlying the approval process of water tariffs. Pending the completion of the approval procedures for some water tariffs that are still in progress, the revenues recorded by the Group for the integrated water service are determined on the basis of the tariff regimes previously approved by ARERA or the respective Area Governing Bodies. In this regard, on 5 February 2020 ARERA confirmed the approach used by the Group for the recognition of water revenues, indicating the following: "with regard to the proposals for the bi-annual update of the tariff arrangements for the years 2018 and 2019 sent by the area governing bodies, but not yet affected by specific acts of approval by the Authority, it is clarified that the Authority will complete the investigations aimed at ascertaining the consistency of the relevant technical and tariff data as part of the checks on the specific regulatory schemes proposed for the third regulatory period (2020-2023). For the two-year period 2018-2019, the tariff determinations adopted by the competent entity remain valid, which will be assessed by the Authority – as part of the quantification of the adjustment components – when approving the new regulatory scheme".

In line with its business plan, in 2018 and 2019 the Acea Group implemented a series of activities aimed at expanding the Group in its operating sectors. In particular, the transactions concerned both acquisitions of companies and the revision of shareholders' agreements of associated companies that led to the acquisition of control. Following the acquisition of control (both for acquisition and for the audit of shareholders' agreements), for the purposes of the consolidated financial statements the Company is required within 12 months to allocate the price paid on the basis of the requirements of IFRS 3. With regard to the 2018 acquisitions, the Company completed the purchase price allocation transactions for two companies, one of which (Gori SpA) consolidated through the modification of the shareholders' agreements (with the determination of the acquisition price by an independent expert carried out through the revaluation of the price paid on the original acquisition of the shares at the date of acquisition of control). For the companies included in the scope of consolidation during 2019, a provisional allocation of the price paid was made, in accordance with the accounting standards of reference. The purchase price allocation will be completed in 2020 and will involve 17 companies, one of which (AdF SpA) with acquisition of control, like Gori SpA, through the revision of the shareholders' agreements).

During the year, the Control and Risk Committee and the Board of Directors approved the updating of the impairment test procedure at the meetings held on 17 and 19 February 2020, respectively. With the updating of the procedure, the process, roles and responsibilities for the preparation of the impairment test have been more fully defined in line with the requirements of IAS 36.

During the meeting held on 9 March 2020, the Board of Directors examined the results of the impairment test at 31 December 2019 aimed at assessing the recoverability of the value in use of equity investments recorded in the financial statements and prepared in accordance with the aforementioned procedure, noting that there was no need to write down the book value of equity investments recorded in the financial statements submitted for your approval. The financial flows used for the valuations were drawn up on the basis of the 2020 budget and the business plan approved by the Board of Directors, drawn up with a constant regulatory scenario. Considering the difficulty of developing forecasts of long-term profitability, sensitivity analyses were also prepared considering hypotheses of an increase in the discount rate compared to the regulator's base rate which did not show any need for write-downs (with the substantial exception of the investment in Ato 5 SpA, which has particularly modest headroom – the difference between recoverable value and book value – even in the event of significant increases (compared to current forecasts of interest rate trends) in the discount rate of reference.

Since the market capitalisation of Acea SpA is higher than the value of the Group's shareholders' equity, the second-level impairment test was not carried out.

The external auditor periodically met with the Board of Statutory Auditors in accordance with the provisions of art. 150, paragraph 3 of the TUF for the purpose of exchanging reciprocal information, and did not bring to the attention of the Board of Statutory Auditors any acts or facts considered reprehensible or irregularities that required the formulation of specific reports pursuant to art. 155, paragraph 2 of the TUF.

In agreement with the external auditor, the Board of Statutory Auditors has defined Audit Quality Indicators whose purpose is to provide the Board of Statutory Auditors, in its function as Internal Control and Audit Committee, with support in assessing the quality of the audit, with a particular focus on the assessment of the quantitative and qualitative dimensions of the audit service, the assessment of the necessary skills of the auditor and the safeguards put in place by the auditor with regard to independence.

The agreed indicators relate to measures of the level of professional experience of audit team members, the level of training they have acquired over time, the involvement of senior audit team members (the assumption being that the quality of the audit increases with higher levels of involvement by senior members), with particular regard to indicators of the workload of partners and senior managers. The level of involvement of staff with specialised expertise in the audits is also monitored, as well as indicators to ensure auditor independence with regard to fees received for non-audit services.

In this regard, during the year the Board of Statutory Auditors proposed the adoption of a specific procedure for the approval of additional tasks to the independent auditors and their network within the Acea Group, which was approved to the extent of its respective responsibilities by the Board of Directors at its meeting of 31 July 2019 and which aims to ensure compliance with the independence requirement of the party appointed to perform the statutory audit, including through the timely application at the Acea Group level of the provisions of Regulation EU 537/2014.

Given the importance that the Board of Statutory Auditors attributes to the principle of professional scepticism that must characterise statutory auditing, a meeting was also organised between the Board of Statutory Auditors and the Quality Review Partner of PwC
SpA assigned to the Acea Group, during which the latter fully illustrated all the activities carried out with regard to the quality control of the auditing process.

The Board of Statutory Auditors examined the declaration on the independence of the external auditor pursuant to article 17 of Italian Legislative Decree no. 39/2010, issued by the latter on 16 April 2020, which does not indicate situations that have compromised its independence or causes of incompatibility pursuant to articles 10 and 17 of that decree and its implementing provisions.

Based also on the declaration of the external auditor, the Board of Statutory Auditors points out that in addition to the audit engagements envisaged by the Shareholders' Meeting resolution, during the 2019 financial year the PwC network was awarded a fee for the following non-auditing services:

Services other than auditing provided to Acea SpA during the year 2019

Category	**Supplier**	**Service Description**	**Amount (/mgl)**
Audit Related	PwC SpA	Review limited to DNF 2019	50
Audit Related	PwC SpA	Audit of separate annual accounts 2019	15
Audit Related	PwC SpA	Comfort Letter issue on ENTM	120
Audit Related	PwC SpA / Network PwC	ISA 805 audit research and development tax credit	250
Total certification services			**435**
Non-Audit Service	PwC SpA	Support for activities related to requirement law 262/05	113
Non-Audit Service	PwC Network	Test verification system for automated tax calculation	150
Non-Audit Service	PwC Network	Financial & Tax due diligence	180
Total other services			**443**

8. Supervision of the financial disclosure process

The Board of Statutory Auditors has examined the internal rules relating to the internal control system for financial reporting, i.e. all the activities to identify risks/controls and the procedures adopted to ensure the achievement of the objectives of accuracy, reliability and timeliness of financial reporting with reasonable certainty. This system constitutes the presumption that the Executive responsible for preparing the company's financial reports (hereinafter the "Financial Reporting Officer") appointed pursuant to Italian Law 262/2005, together with the Managing Director, can issue the declarations required by art. 154-bis of the TUF.

In its capacity as the Internal Control and Audit Committee pursuant to Italian Legislative Decree no. 39/2010, the Board of Statutory Auditors met periodically with the Financial Reporting Officer and the Independent Auditors for an exchange of information that involved, among other topics, the new management and control model of the Acea Group pursuant to Italian Law no. 262/2005 (hereinafter the "262 Model").

In fact, in 2018 the opportunity arose within the Acea Group to revise and update the 262 Model to bring it in line with the Group's evolution and best practices. On 15 May 2019 the Acea SpA Board of Directors therefore approved a new management and control model for the Acea Group pursuant to Italian Law 262/05, which was subsequently also approved by the Boards of Directors of the subsidiaries relevant for the purposes of Italian Law 262/05. The model defines the guiding principles and methodological approach for the establishment, assessment and maintenance of the internal control system that oversees the preparation of the financial statements, illustrating the main components of the 262 framework adopted by the Acea Group. The model is supplemented by a regulation (which establishes the position of Financial Reporting Officer and regulates his/her activities) and an annex to the regulation that regulates the internal information flows within the Acea Group (internal chain of certificates) to allow the issuing of the certificates referred to in art. 154-bis of the TUF. In addition to the documents mentioned above, the internal control system for financial reporting consists of the manual of group accounting standards, the guide to the closure of the consolidated financial statements and the checklist for the collection and processing of accounting data at the end of the period.

The definition of the Acea model is based on the principles set out in the COSO Report, supplemented by the principles of the COBIT framework with regard to the design and operation of IT controls.

The Board of Statutory Auditors reviewed the independent test plan of the Financial Reporting Officer and the results of the first phase of a project aimed at implementing the improvement actions highlighted by an overall administrative and accounting risk assessment.

In fact, the activities carried out in 2018 had found an internal control system for financial reporting with some opportunities for improvement, and in response an overall updating of all administrative and accounting procedures was launched in 2019.

This activity was carried out on the basis of a risk-based approach that involved the identification of risks at an inherent level, the identification of relevant controls and the assessment of residual risk net of the controls. Where possible, the updating of procedures led to an increase in the controls to be put in place, with a consequent reduction in the residual risk. Where this is not possible, the relevant actions to mitigate high residual risks were defined through the definition of appropriate compensatory verification procedures.

In 2019 a first tranche of administrative and accounting processes was analysed concerning both the quantitatively significant operating companies (Acea Energia, *a*reti, Ato 2) and the activities of Acea SpA directly related to the preparation of the financial statements (for a total of 43 processes out of a total of 83 processes that will be the subject of analysis and updating). During 2020 this activity will be completed through the analysis and updating of the remaining 40 processes in the scope.

In addition, in view of the declarations made by the process managers and in order to have an independent audit to ensure the effective performance of the controls and their substantial effectiveness, testing was performed by the Financial Reporting Manager.

The Board of Statutory Auditors noted that in addition to making the relevant declarations, the Financial Reporting Officer reported to the Board of Directors on the activities and controls carried out with regard to the financial statements as at 31 December 2019, without finding any critical issues to be included in this report.

The companies included in the "262 Model" have been identified as either quantitatively relevant (based on total assets, net revenues, net result) or qualitatively relevant (Acea Ato 5, Acea Ambiente, Gori). The relevant processes have been identified using as a quantitative parameter the "materiality" applied to the consolidated financial statements (based on pre-tax profit, total assets, shareholders' equity).

The analyses carried out revealed 91 significant processes, which led to the identification of 1,860 activities related to them, on which 3,436 controls are still in place.

In 2019 the Group implemented a specific strategy for training employees on Acea's internal control system for financial reporting, which involved the provision of e-learning courses that were successfully passed by 88% of participants.

The Board of Statutory Auditors considers particularly important the current activities aimed at eliminating a still significant manual component of the management system for information flows within the Group, to be carried out through the adoption of a web-based information system with peripheral contributors (the companies of the Group) and recommends that it be completed and launched on time.

The Board of Statutory Auditors therefore recommends that the Group continue on the path of refining the current setup of the administrative and accounting system – in terms of accounting policies, processes and procedures, organisational structure, IT and data governance – considering it very important that in 2020 the process of analysis and updating of the processes within the scope be completed, as well as:

- Defining guidelines of a general nature that reduce the margins of discretion in the application of accounting standards in order to present an increasingly clear picture of the responsibilities and competences of the various parties involved in the accounting process between subsidiaries and the parent company.
- Providing for a strengthening of the parent company's ability to align and control the conduct and choices adopted by the subsidiaries, while respecting their decision-making and organisational autonomy.

During periodic meetings with the Board of Statutory Auditors for the purpose of exchanging information, the Financial Reporting Officer did not report any significant shortcomings in the operating and control processes that could affect the opinion on the adequacy and effective application of the administrative-accounting procedures, in order to provide a correct economic, equity and financial representation of operations in accordance with international accounting standards. Based on the work done, having also taken into account the results of the testing carried out in accordance with the monitoring plan of the system of controls on the financial reporting process, as well as the areas of improvement identified in the activities carried out for the purposes of the relevant declarations, the latter signed the declaration of the separate and consolidated financial statements as at 31 December 2019 pursuant to art. 154-bis of Italian Legislative Decree no. 58/98.

During the periodic meetings held to exchange information, as well as in the additional report prepared pursuant to art. 19 of Italian Legislative Decree no. 39/2010, the Statutory Auditor in turn did not report any significant critical aspects of the internal control system relating to the financial reporting process.

In light of the information received and the documentation examined, having recommended the completion of the improvement actions planned by the management within the set time frame, having taken note of the activities being completed on the overall redesign of the administrative and accounting procedures and those relating to the implementation of an automatic information flow management system within the Acea Group, and considering the support that will be provided to the Financial Reporting Officer by the Internal Audit Department, which has specialised IT skills to verify the design and operation of IT General Controls, the Board of Statutory Auditors considers the administrative and accounting system in place to be substantially adequate to the requirements of current regulations.

9. Supervision of the non-financial reporting process

The Board of Statutory Auditors examined the process for the preparation of the Sustainability Report - Non-Financial Statement pursuant to Italian Legislative Decree no. 254/2016 (prepared in accordance with GRI standards) and the related Environmental Report.

This Declaration has been subjected to a limited assurance by PriceWaterhouseCoopers SpA, which issued a statement regarding the conformity of the information provided with respect to the requirements of Italian Legislative Decree no. 254/2016 and with respect to the principles and methods set out in the adopted reporting standard.

The auditor also carried out sample checks on the processes that support the acquisition and consolidation of the quantitative and qualitative data set out in the statement and substance tests on the performance indicators (KPIs) defined according to the standards adopted or defined by the Group (GRI).

In the course of meetings with the management responsible for preparing the documentation in question, the Board of Statutory Auditors was informed of the corporate scope of the statement and received full information on the various stages of the process that led to the development of the materiality matrix (noting the selection of the GRI standard indicators applied by the Acea Group in its non-financial reporting).

The subject of a specific procedure, this process aims to identify the main financial, governance, social and environmental issues (so-called "material" issues) related to the company's business and to define their prioritisation on the basis of the assessments expressed by stakeholders and the company.

Besides being a strategic reference, the identification of the "Acea materiality matrix" through direct discussions with the stakeholders is necessary to identify the aspects to be included in the sustainability report in greater or lesser depth depending on the results of prioritisation, and to select the indicators required by the adopted standards.

The data and information published are provided by the Industrial segments, the companies included in the reporting scope and the parent company functions responsible for the data requested (data owner). The data and information are processed – and if necessary reclassified in application of the standards of reference – by the working group within the parent company that drafts the document, and submitted again to the areas/companies/functions responsible for final validation, formalised by the issue of a specific declaration.

The Board of Statutory Auditors highlights the work carried out by the Company to ensure consistency between the UN Sustainable Development Objectives ("Agenda 2030"), the value guidelines expressed in the Acea Code of Ethics and the Group's strategic objectives.

Among these, for the Board of Statutory Auditors it is particularly important for Acea to implement a Group innovation model that aims to promote the spread of a culture of innovation involving all the people of the Group through the adoption of processes and approaches typical of open innovation, also strengthening Acea's position in the innovation ecosystem through the identification of new business opportunities.

Similarly important in the opinion of the Board of Statutory Auditors is the centrality attributed by management to human resources, seen as an essential corporate resource needed to respond effectively to business challenges. Entrepreneurship, teamwork and action are the three driving values of the Leadership Model which the Group's initiatives are built on to achieve the goals of the strategic plan and the sustainability plan (which include the recognition of the strategic value of diversity and the health and safety of workers).

Equally important for the Board of Statutory Auditors is the virtuous partnership that the Company seeks to establish with the supply chain. In fact Acea attributes greater value and reliability to contractors that have certified quality, environmental, safety, energy and social responsibility management systems and provides a self-assessment questionnaire on these issues for the majority of suppliers that register for qualification systems. With the aim of raising awareness and supporting the continuous improvement of the supply chain, Acea also carries out second-party verifications and strict safety controls at construction sites. This brings to light good practices and, at the same time, identifies shared paths towards growth and improvement.

In this perspective of increasing alignment between the business and sustainability strategies, in 2019 Acea updated its Sustainability Plan to 2019-2022, which was approved by the Board of Directors in December 2019.

In this regard, it is particularly important for the Board of Statutory Auditors to progressively incorporate sustainability aspects into the company's management, taking into account both the sustainability aspects related to the industrial guidelines of the business areas and the material issues defined by listening to stakeholders and the sustainable development objectives of Agenda 2030.

In this sense, the guidelines expressed in the Group's two strategic plans – business and sustainability – must be read in an integrated manner, which enhances the peculiarities and complementarity between the two, one focused on aspects related to the financial solidity of business growth, and the other on the expected results with respect to stakeholders and from a social and environmental point of view, all within the framework of the relevant UN sustainable development objectives (SDGs).

In the opinion of the Board of Statutory Auditors, the issue of climate change is of particular importance and represents one of the elements demanding the greatest attention from a social, environmental and economic point of view, as evidenced by the positions expressed by the European Union or by qualified international bodies, like the TCFD (Task Force on Climate-related Financial Disclosures) set up within the Financial Stability Board. In this context, the Board of Statutory Auditors particularly appreciated CDP's latest A- rating for Acea (improving on the rating received the previous year), falling into the Leadership category.

In addition to more challenging environmental objectives, linked in particular to the fight against climate change (mitigation and adaptation), the efficient use of resources and a logic of circular economy, new targets have been set for the development of a structured approach to stakeholder involvement, employee welfare and the widespread dissemination of a culture of safety within the Group and along the supply chain, as well as technological innovation applied to all the Group's infrastructure, to increase its intelligence and resilience, including by pooling excellence and skills as well as working with partners to develop research projects.

In this context, the investments envisaged in the 2019-2022 Business Plan related to sustainability targets amount to a total of € 1.7 billion.
During 2019, the amount of investments related to sustainability objectives amounted to approximately € 328.5 million (€ 503.5 million in 2018/2019).

This attention to sustainability issues, fully shared by the Board of Statutory Auditors, was also expressed in October 2019 on Acea Sustainability Day, an opportunity for the Company and representatives of institutions, research, businesses and experts in the field to discuss the scenarios and challenges posed by an economic and social system progressively marked by sustainable development.

Particularly important for the Board of Statutory Auditors is the implementation in most of the Group companies of suitable integrated management systems certified according to UNI EN ISO standards, monitored by the Quality, Environment, Safety and Energy Function of Acea SpA, which facilitates environmental compliance and a sustainability policy that guides the Group's approach to respect and protection of the environment, also in line with the principles specified in the Code of Ethics.

10. Supervision of the adequacy of the internal control system, risk management and organisational structure

A. Internal Control System

Acknowledging the contents of the Corporate Governance Report on the adequacy and effective operation of the internal control system, the Board of Statutory Auditors reviewed the 2019 Reports of the Internal Audit Function and the Control and Risk Committee.

In particular, the Board of Statutory Auditors points out that during the year:

- The necessary functional and informative liaison was maintained with the Control and Risk Committee, the Supervisory Board and the Heads of the Internal Audit and Risk & Compliance Functions on the methods of carrying out the assessment, supervision and control tasks entrusted to them, relating to the adequacy, full operation and effective functioning of the internal control and risk management system, as well as the results of the audits performed by the Internal Audit Function in accordance with the audit plan approved by the Board of Directors and the results of the risk assessment carried out by the Risk Management Function.

- It noted that the Control and Risk Committee issued the relevant opinions, as required by the Code of Conduct for Listed Companies, without finding any critical issues to be included in this report.

Acea adheres to the Code of Conduct for Listed Companies and has adopted an Internal Control and Risk Management System (hereinafter also referred to as the "System" or "SCIGR") consisting of all the people, tools, organisational structures, rules and regulations designed to enable the Acea Group to be managed soundly, correctly and consistently with corporate objectives through an adequate process of identification, measurement, management and monitoring of the main risks.

The Manager of the Internal Audit Function has periodically updated the Board of Statutory Auditors on the activities carried out and the main results of the audits performed, communicating the corrective actions identified and shared with the Company's management, indicating implementation deadlines and specific implementation responsibilities.

The documents presented during the periodic exchange of information with the Board of Statutory Auditors summarised the results of the audits carried out – both planned and on request – underscoring the macroprocesses analysed, the companies involved and the audit team's summary opinion on the process control system for each audit. For each completed audit, based on the findings, suggestions and recommendations improvement plans were issued by the managers of the processes analysed and the companies concerned, complete with the responsibilities and timing for each activity. Their implementation by the agreed deadline is considered essential and not postponable by the Board of Statutory Auditors.

In January 2020 the Board of Statutory Auditors also examined the proposal for the 2020 Audit Plan prepared by the Internal Audit Function starting from the areas to be audited in 2020 as per the three-year calendar prepared in 2019, supplemented by the assessments shared with Acea's Directors and Managing Director and the areas to be given special attention as designated by the control bodies and second-level supervisors.

Having consulted with the Board of Statutory Auditors, the Control and Risk Committee expressed its favourable opinion on the proposed Audit Plan for 2020 prepared by the Internal Audit manager.

The Board of Statutory Auditors also noted that once the new risk map is available, the audited areas in the proposed 2020 risk-based audit plan may be reconsidered in light of the new analysis, and if necessary a revised 2020 Audit Plan may be produced.

The Board of Statutory Auditors also noted that in its periodic report for 2019 on the activities of the Internal Audit Function it expressed an opinion on the overall adequacy of the internal control and risk management system, an opinion rendered on the basis of the activities carried out during the period and taking into account the projects launched by the Company during 2019, aimed at strengthening the structural components of the Internal Control and Risk Management System and incorporating these elements into the more general organisational and corporate governance structure.

In fact, taking into account the Company's concrete launch in 2019 of the projects aimed at strengthening the structural components of the Internal Control and Risk Management System, and the integration of these elements into the more general organisational and corporate governance structures, in addition to the activities carried out by the Internal Audit Function (audits performed; follow-up on the audit findings and monitoring of second-level control measures), the internal control and risk management system is considered by the Internal Audit Function and by the Control and Risk Committee to be adequate and operational as a whole, although there are areas for improvement on design aspects that have already been identified by management and are being resolved.

This assessment therefore takes into account not only the individual areas of improvement identified during the audits performed, but also the projects launched by the Company in 2019, aimed both at strengthening the structural components of the Internal Control and Risk Management System and at incorporating these elements into the more general organisational and corporate governance structures.

In particular, the Company launched a long-term project to define a comprehensive Control Model for the Acea Group, with the aim of strengthening and consolidating a solid risk control and governance culture.

As part of this project, the Company:

- Revised the Guidelines of the Internal Control and Risk Management System, which are considered a fundamental first step in the definition of the Acea Group's Control Model. The purpose of the Guidelines is to (a) identify roles and responsibilities of the SCIGR actors and governance structures, (b) define the architecture of the SCIGR and (c) define the matrix of control flows between the different actors and governance structures.

- Assigned specific responsibilities regarding the design, implementation and updating of the Group's Governance model and related processes to the Risk & Compliance Function in order to standardise company processes and allow the achievement of the performance targets, in compliance with current regulations and in accordance with market best practices. The Function offers support to the relevant structures in process analysis and optimisation initiatives. The goal of the Structure, in addition to the definition of agovernance model for the Acea Group – including the alignment of the scopes of the control and governance models – is an overall standardisation of business processes, to be correlated to the related risks consistent with the organisational structure. The project will also make it possible to integrate the control flows currently defined within the SCIGR Guidelines with the governance flows.

- Further developed the ERM Programme based on the COSO framework "Enterprise Risk Management (ERM) - Integrating with Strategy and Performance", which is designed to represent the type and severity of the main risk scenarios – including sustainability scenarios – in terms of probability and economic-financial and/or reputational impacts that could jeopardise the achievement of the Group's strategic and business objectives, as well as address the resulting additional mitigation actions.

With this in mind, sharing and valuing the initiatives launched by management, the Board of Statutory Auditors recommends progressive development in accordance with the work plan during 2020, it being a fundamental element of the needed strengthening of the internal control system and risk management culture within the Group.

In fact, the Board of Statutory Auditors considers the completion of the development of the Group's overall "internal control model" to be very important, with the consequent integration of the SCIGR's Guidelines with the ongoing projects on the Group's organisational structure and risk management system, on the definition of a unique taxonomy of processes and procedures correlated with risks and consistent overall with the responsibilities envisaged by the company organisation, as well as with the various specialised control mechanisms envisaged under the various regulations applicable to the company's business (262, privacy, 231, antitrust, ISO, safety at work, etc.).

Thus defining an overall paradigm of reference for the expression of the judgements of the Internal Audit Function. An "internal control model" that also allows for an overall alignment of the scopes of the various specialised control bodies and related activities, if necessary to be carried out through integrated governance systems of controls (single control room).

Particularly important in this context is the ongoing introduction of innovative detection audit methodologies aimed at allowing the mass auditing of data of some business processes and the identification of specific key control indicators, useful for the detection of errors, deficiencies in the internal control system, misalignments between operating practices and procedures in place, potential inefficiencies or anomalous process trends, misalignments in information systems and incorrect behaviour by users. In fact this would allow for a mass verification of transactional data and would allow the concentration of internal auditing on checking the management of anomalies by first- and second-level control bodies.

As part of its supervisory activities, the Board of Statutory Auditors also considered the current effectiveness of the Acea Group's quality, environmental, safety and energy management system.

During 2019, the Integrated Certification Systems Unit of Acea SpA performed audits on all processes included in the four management systems, as defined by the annual calendar of internal audits.

Legislative compliance checks were carried out both at the various operating companies of the Group (Acea Ato 2; Acea Ato 5; *a*reti; Acea Elabori; Crea Gestioni; Aquaser, Ecogena, Acea Produzione) and at the suppliers of Acea SpA services.

During these audits no particular critical issues were brought to the attention of the Board of Statutory Auditors, and the integrated quality, environment, safety and energy management system is assessed by the relevant function of the parent company as having been implemented, kept under control and adequate.

Similarly, the Board of Statutory Auditors supervised the issues related to safety at work in the Acea Group, in particular further assessing the role played by the parent company in Safety Governance (including through the adoption of safety management software, which the Board of Statutory Auditors recommends be promptly implemented), the trend of the accident indices and the existing cross-cutting initiatives/projects aimed at organisational well-being, the protection of diversity and the protection of disabilities. One of these is the launch of a project in partnership with INAIL in 2020 aimed at reducing and eliminating accidents.

During the periodic exchange of information with the Board of Statutory Auditors, the various company departments did not identify any critical issues to be included in this report.

The Board of Statutory Auditors particularly appreciated the management's handling of the current emergency crisis caused by the coronavirus, noting that the Group has taken prompt action, in some cases even prior to the relevant regulatory measures, to ensure the most complete protection of the health of its employees and the communities the Group operates in.

The Board of Statutory Auditors also found that in its internal processes the Company implements the measures envisaged by the Privacy Authority and acts in substantial compliance with the provisions of EU Regulation no. 679 of 27 April 2016 ("GDPR"), of Italian Legislative Decree no. 196 of 30 June 2003, as amended by Italian Legislative Decree no. 101 of 10 August 2018 and other applicable regulations on the protection of personal data.

The Board of Statutory Auditors noted that in the course of periodic discussions and in reports to the Board of Directors, the Data Protection Officer did not find any critical issues to be included in this report. However, it should be noted that the analyses carried out give a picture of a privacy governance model that, while implemented in the essential parts, is yet to be consolidated in certain areas, some of which have already been considered for optimisation and which the Board of Statutory Auditors believes should be fully implemented in 2020.

In fact, the Board of Statutory Auditors believes that the protection of personal data held by the Acea Group is a founding value of the corporate identity, and as such it must necessarily become a constituent element of the management of the company's processes and procedures at all levels, with a widespread awareness among employees of the importance of what is needed for this purpose.

The Board of Statutory Auditors has also favourably noted management's attention to compliance, including through the establishment of a dedicated business unit, and recommends that this compliance unit continue its efforts, encouraging the growth of the culture of compliance and controls within the Group.

In this context, an antitrust compliance programme was implemented as a first step of a necessarily broader industrial compliance initiative, characterised by a first phase of risk assessment followed by the mapping of sensitive areas, the analysis of business processes at risk, the inclusion of specific control points in individual company procedures, and the boosting of risk owners' awareness of the potential risks associated with the violation of regulations through training sessions, defining internal regulatory documents for the prevention of the risks of violations of antitrust and consumer protection regulations (antitrust and consumer protection compliance manual, organisational regulation antitrust compliance and unfair business practices).

In this regard, the Board of Statutory Auditors recommends that all activities necessary to ensure that the programme remains effective over time are guaranteed.

The Board of Statutory Auditors has also favourably noted the establishment of an Ethics Officer with the aim of monitoring compliance with the values of transparency, legality, fairness and ethical integrity in relations with employees, suppliers, customers and all stakeholders, as well as the adoption of an open, transparent and confidential system that allows anyone to contact this Ethics Officer and report alleged violations of the Code of Ethics ("Whistleblowing" system), the law, the internal rules governing the Group's activities and any conduct in violation of the principles of conduct that the Acea Group has given itself.

The Board of Statutory Auditors hopes that the Acea Group will continue along the path agreed to so that compliance can become an integral part of the company's mission, protecting the business from potential risks of non-compliance according to a logic of preventive intervention and a principle of proximity of compliance structures to operational structures.

The Board of Statutory Auditors has continuously provided information to the Supervisory Board. In this regard, the Board acknowledges that with regard to the provisions of Italian Legislative Decree no. 231/2001, the Company recently updated its "Organisation, Management and Control Model pursuant to Italian Legislative Decree no. 231/01", the implementation of which was monitored by the Supervisory Body, which, in its periodic report to the Board of Directors, did not find any significant critical issues to be included in this report.

The updating of the model involved a re-execution of the risk assessment, with a related reassessment of the adequacy of the existing controls. It is understood that in the near future this model will have to be updated again by the Company as regulations are updated.

In the opinion of the Board of Statutory Auditors, it is important that in 2020 the Company fully implement the recommendations made by the Supervisory Board with regard to certain areas of improvement inherent in the procurement governance processes.

In addition, it is considered essential to complete the ongoing activities aimed on the one hand at the complete implementation of immediate information flows to the Supervisory Body in the presence of significant events, and on the other hand at better documentation of the improvement initiatives agreed to in the face of any problems encountered (remedial plan, related operating procedures, definition of timing and responsibilities).

B. Risk Management System

Since 2018, Acea SpA has put in place a system aimed at allowing the main risks relating to the company and its subsidiaries to be correctly identified, as well as adequately measured, managed and monitored, with the aim of determining the degree of compatibility of these risks with a management of the company consistent with its strategic objectives.

With this in mind, the company's organisational structure has expanded to include a Risk & Compliance Function that has the mission of "identifying, describing and measuring the main risk factors that may compromise the achievement of the Group's strategic objectives, supporting management in defining action plans aimed at bringing risk back to a level deemed acceptable and monitoring their implementation".

At its meeting of 22 January 2020, the Board of Directors approved a revision of the guidelines of the Acea Group's internal control and risk management system in accordance with the guiding principles and application criteria of the Corporate Governance Code. Among other things, these guidelines define the principles that the Group intends to follow in the process of identifying, measuring, managing and monitoring the main business risks.

With the support of a leading consultant, in 2019 the Company therefore developed an Enterprise Risk Management programme with the aim of further improving the tools and methods used to support the process of identifying and measuring business risks.

The project's objectives are:

- A strengthening of the areas related to risk governance (review of the SCIGR guidelines in the ERM area, definition of a group risk policy, definition of the organisational provisions of the ERM Function and the risk ownership matrix) in parallel with an overall project to review processes and procedures.
- The assessment, review and development of current risk analysis tools and methods with the introduction of new quantitative methods and reporting models to top management.
- The development and implementation of staff training plans.

The Board of Statutory Auditors recommends the prompt, on-time completion of the activities in progress.

This project has also enabled the relevant ERM Function to carry out a complex Group risk assessment process, identifying the main business risks (including those related to ESG issues) the Acea Group is exposed to, the current methods of managing them and the further mitigation actions proposed by management.

At the meeting held on 9 March 2020 the Board of Directors analysed the risk assessment proposed by the ERM Function, considering the risks identified according to their nature and level of severity net of further mitigation actions illustrated by the Managing Director, as the director responsible for managing the internal control and risk governance system, both at the meeting of the Control and Risk Committee held on 4 March 2020 and at the subsequent Board meeting, compatible with a management of the company consistent with the Group's strategic objectives as outlined in the 2019-2022 business plan.

While appreciating the efforts made, the Board of Statutory Auditors recommended consolidating the management and control of Group risk indicators and related activities like monitoring and reporting (Dashboard), hoping for an increasing alignment with best practices in terms of risk governance, risk appetite and risk culture, as well as an overall integration of ERM with the processes of strategic option assessment, planning and budgeting, current business management and execution of the defined strategies in order to define decision-making processes in the Board of Directors based on risk considerations - expected return (M&A at risk).

From a more general point of view, the Acea Group is significantly involved in the management of regulated infrastructure of strategic importance for the provision of essential public services to the communities it operates in. Over time, the Group has developed significant project initiatives aimed at reducing the risk inherent in these strategic infrastructures (for example, activities aimed at increasing the resilience of electrical grids through the creation of nodal systems and alternative remote control methods, as well as the development of advanced water pollution control systems for aqueducts). It has also developed specific skills in water crisis management. In the opinion of the Board of Statutory Auditors, it is now necessary that the Public Authorities from which the Acea Group has requested authorisation for the development of new strategic infrastructures of extreme importance for the operational continuity of essential public services (for example, the design of the Peschiera aqueduct as well as the important plan for the modernisation of the public lighting network presented to Roma Capitale) promptly complete the relevant preliminary processes in order to allow the concessionaire to fully exploit its technical and operational potential at the service of the communities involved.

C. Organisational Structure

The Board of Statutory Auditors examined the documentation concerning the overall organisational structure of Acea SpA.

The Board of Statutory Auditors therefore noted the existence of:

i. An organisational chart and related company documentation detailing the roles and responsibilities of the organisational structures.
ii. A structured system of delegations exercised in accordance with the roles and powers assigned to each of the functions/committees involved.
iii. Corporate regulations for the exercise of governance by Acea SpA as part of its functions of guidance, coordination and control of the Group's legal entities.
iv. Company regulations for the performance of the activities of each managerial function.

The Board of Statutory Auditors stressed the importance of prompt completion of ongoing activities for the overall revision of the system of governance of internal rules. An activity aimed at regulating the drafting, approval and management of the internal rules governing the company's activities and processes in a more effective and uniform manner. An objective to be achieved through a clear procedural management model in the hierarchy of sources and consequent responsibilities. Ensuring on the one hand that the internal rules are consistent with the risk and control system through the precise verification of the effectiveness and efficiency of the control mechanisms inherent in the various control models envisaged by the corporate governance, and on the other hand a precise, exhaustive information flow of controls and governance between the parties involved.

The Board of Statutory Auditors considers very important the ongoing project aimed at achieving a uniformity of the taxonomy of processes among the various company functions, as well as a single procedure for the analysis of critical aspects of the processes themselves.

This is a central issue that not only involves the internal control and risk management system, but more generally also the Acea Group's organisational model and the way it exercises the parent company's management and coordination power/duty, with the aim of creating a governance model aimed at ensuring greater operational autonomy for its subsidiaries and greater focus on the parent company's management, coordination and control.

With this in mind, in the context of the activities carried out to further strengthen corporate governance and the internal control and risk management system, after approving the revision of the guidelines of the internal control and risk management system, as part of the broader path also aimed at strengthening the risk management system and the overall structure of business processes and procedures, the Board of Directors has begun to reflect on possible guidelines for the Acea Group's governance model, analysing a hypothesis of a group orientation aimed at ensuring uniform organisational and management rules for the most relevant aspects within the Acea Group in order to fully regulate the exercise of its management and coordination by the parent company while respecting the corporate autonomy of the subsidiaries, also in order to ensure the timely fulfilment of the obligations, in particular reporting, imposed on the parent company and its directors by applicable regulations. To this end, the Board of Statutory Auditors recommends that the Board of Directors appointed by the next Shareholders' Meeting implement all the consequent decisions necessary to implement the contents of the guidelines examined by the Board in order to put in place an effective system of Control Governance both from an organisational and corporate governance standpoint. In fact, it is necessary to promptly proceed with a better clarification of the parent company's role of strategic guidance and governance in compliance with the principles of proper corporate management and entrepreneurial autonomy of directed and coordinated companies, including through a more complete definition of the Group's organisational architecture that better regulates the relationships between the bodies and organisational functions of the parent company and those of directed and coordinated companies, as well as the related information flows, including through a clear definition of the scope of governance and services carried out by the parent company. With regard to the services provided by the parent company to the subsidiaries, the Board of Statutory Auditors recommends the timely completion of the project aimed at updating the structure and contents of the contracts governing inter-company relations among the companies of the Acea Group, scheduled for 2020.

D. Conclusions

In light of the supervisory activities carried out in accordance with the procedures summarised above, for the matters within its remit the Board of Statutory Auditors therefore welcomes the numerous initiatives agreed to by management, as supplemented where necessary by further activities still in the process of being defined, in order to ensure the overall adequacy and operation of the internal control system, the management of the risks and the organisational structure.

Indeed these initiatives need to be completed as they are intended to resolve situations related to the aforementioned areas of improvement.

11. Remuneration policies

The Board of Statutory Auditors noted that at its meeting of 9 March 2020 the Board of Directors approved the report on the remuneration policy and compensation paid pursuant to art. 123-ter of Italian Legislative Decree no. 58/98 (as amended by Italian Legislative Decree no. 49/2019 implementing EU Directive 2017/828 - SHRD II - and art. 84-quater of the so called Regulations for Issuers). This report was also prepared having regard to the contents of art. 6 of the Corporate Governance Code for Listed Companies.

The Board of Statutory Auditors notes that the EU Directive provides for the involvement of shareholders in the definition of remuneration policies for directors, including through the expression of a binding vote on the section of the report that illustrates these policies and that describes the various components of fixed and variable compensation, including all other monetary and non-monetary bonuses and benefits that may be awarded to directors and executives with strategic responsibilities (those responsible for the Water, Commercial and Trading, Environment, Energy Infrastructure segments and those responsible for Administration, Finance and Control and Corporate Affairs and Services), at least for the following year.

In particular, the Board of Statutory Auditors points out that in the document submitted to the Shareholders' Meeting the Board of Directors intended to create a greater link between the short-term management incentive plan and sustainability objectives, an objective achieved by increasing the percentage weight of indicators linked to ESG factors considered material for the Acea Group as objectives of the management incentive system.

Similar considerations have been made with regard to possible changes to be made to the long-term incentive plan which expires at the end of 2020, in relation to which the Board of Statutory Auditors hopes for a prompt analysis at the time of renewal of the Board of Directors and timely consequent Board resolution in light of the guidance issued by the outgoing Board of Directors.

The report is divided into two separate sections. The first section details the Company's policy on the remuneration of directors, including those with executive or special duties, executives with strategic responsibilities and the Board of Statutory Auditors applicable for the year 2020.

The second section, by name for members of the management and control bodies, and in aggregate for executives with strategic responsibilities, provides a representation of each of the items that make up remuneration, including the treatments envisaged in the event of termination of office or termination of employment, giving an account of the remuneration paid by the Company for the year 2019 for any reason or in any form.

The Board of Statutory Auditors also noted that the Appointments and Remuneration Committee examined the results of the succession planning process aimed at meeting organisational needs, both in emergency and scheduled, also by creating career paths capable of developing people's ability to manage complex and changing situations and activities in an autonomous and proactive manner, paths that are considered by the Board of Statutory Auditors to be of the utmost importance given the function of ensuring the sustainability of the Group's top management culture over time.

From this point of view, the Board of Statutory Auditors notes how the recent health emergency related to the coronavirus and the related regulatory measures aimed at containing the spread of the epidemic have led to significant changes in the way in which work is carried out in companies, with an important increase in teleworking and the implementation of different ways of sharing experiences, information and decision making.

The Board of Statutory Auditors believes that these changes forced by the health emergency may also provide an opportunity to encourage a partial rethinking of the ways human resources are managed and therefore of the company's needs, with the related necessity to update both the organisational and management priorities (e.g. a strengthening of the company's information systems, the way they are connected, the need for operational continuity and the need for IT security of widespread systems), as well as the methods of human resources management, starting from the dissemination and maintenance of a uniform and shared corporate culture, where the company should over time assume more and more widespread neural forms of management of its activities and staff.

In light of the provisions of the Supervisory Authorities regarding remuneration and incentive systems, the Board of Statutory Auditors has therefore verified the adequacy and compliance with the regulatory framework of the remuneration and incentive policies and practices adopted by Acea SpA.

12. Corporate Information System

The Board of Statutory Auditors also paid particular attention to the various initiatives implemented by the Acea Group with regard to the development of the corporate information system and the protection of business continuity, with a particular focus on cybersecurity issues.

The security management model prepared by Acea provides for the adoption of a centralised governance of information security, managed in accordance with the national framework for cybersecurity and data protection.

From this point of view, the company's planning envisages an analysis and revision of the organisational model for the management of information security while maintaining respect for the autonomy and responsibilities of the various group entities, and as far as processes are concerned an analysis and revision of those that support the cybersecurity management model of Acea and the Group. It is also planned to identify and design technological components for the constant monitoring and management of the main security countermeasures on the network and system infrastructure.

In the opinion of the Board of Statutory Auditors, the resilience of the information system is of central importance. The Board of Statutory Auditors has therefore carefully monitored the assessment of infrastructure and applications, those relating to operational continuity and disaster recovery, and recommends that the actions provided for in the ICT master plan – which it will carefully follow as it develops – be carried out on time with all the necessary resources allocated to the project.

The Board of Statutory Auditors considers critical the current activities to ensure the introduction, development and management of a business intelligence model capable of monitoring company performance through the identification of KPIs (Key Performance Indicators), enabling all Group Departments, Functions and Companies to perform data analysis using technologies and methods based on big data, analytics and artificial intelligence.

From this point of view, it is important to introduce a data governance model aimed at guaranteeing both data quality and any in-depth analysis that may be necessary.

These business intelligence and analytics systems have allowed the creation of a first release of an Executive Dashboard consisting of a series of reports and KPIs to allow data-driven decision making, which the Board of Statutory Auditors recommends will soon constitute a complete Board report to allow an immediate understanding not only of the economic, financial and equity performance of the Acea Group, but also of its operating performance in the main industrial areas that make up its business.

The Acea Group has launched a series of innovative initiatives in business management control activities (operational key performance indicators dashboard), internal control system monitoring (detection audit of the Internal Audit Function, with possible related development of key control indicators), risk management activities (risk assessment with possible development of key risk indicators) and activities related to sustainability issues (ESG indicators).

With the completion and overall integration of the various projects under way, the development of a comprehensive dashboard for the Company's Board of Directors is therefore possible, providing a holistic view of the Group's business activities through the representation of economic, financial and equity indicators, key operational performance indicators, key control indicators, key risk indicators and ESG indicators.

13. Further activities of the Board of Statutory Auditors and disclosure required by Consob

As required by art. 149 of the TUF, in the performance of its duties the Board of Statutory Auditors:

- Over saw 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 Acea SpA declares its compliance. Acea SpA adheres to the Corporate Governance Code promoted by Borsa Italiana SpA, and pursuant to art. 123-bis of the TUF and art. 144-decies of the Issuers' Regulations has prepared an annual "Report on Corporate Governance and Ownership Structure" providing the following information:

1. The corporate governance practices actually applied.
2. The main characteristics of its risk management and internal control systems.
3. The mechanisms for the organisation of the Shareholders' Meeting, its main powers, the rights of shareholders and the manner in which they are exercised.
4. The composition and operations of the management and control bodies and their committees, as well as other information required by art. 123-bis of the TUF.

- It has taken note that pursuant to letter d-bis of art. 123-bis, paragraph 2 of Italian Legislative Decree no. 58/98, the Board of Directors of Acea SpA expressed its opinion on the policies to be applied with respect to the composition of the administrative, management and control bodies pertaining to aspects like age, gender composition or training and professional career. In this regard, at its meeting of 9 March 2020 the Board of Directors approved a diversity policy that represents the diversified characteristics of the members of the management and control bodies considered necessary for an optimal composition of these bodies. Based on this policy, and in compliance with the recommendations of the current Corporate Governance Code of Listed Companies, the Board of Directors has also developed its own orientation on the future size and composition of the board of directors in view of the next Shareholders' Meeting. Furthermore, in line with the principles expressed in the Code of Ethics, the Company has promoted a culture of equal opportunities and diversity management/enhancement through the adoption of a Charter for Diversity Management.

- It monitored the adequacy of the instructions given to subsidiaries pursuant to art. 114, paragraph 2 of the TUF. While appreciating the efforts made, the Board of Statutory Auditors nevertheless recommended to the relevant corporate functions of the parent company to direct the subsidiaries' boards of directors to fully approve and adopt all Group policies. To this end, the Board of Statutory Auditors recommended that the differences in interpretation and application made by the investee companies be carefully monitored, also calling for the completion of internal regulations through the issue of specific operating instructions.

- It exchanged information with the Boards of Statutory Auditors of directly controlled companies as required by art. 151, paragraph 2, of the TUF. In order to allow for this exchange of information, a questionnaire was sent to the control bodies of the subsidiaries concerning the supervisory activities carried out by them during 2019 and the performance of the company's business. From the analysis of these questionnaires, which were completed and returned by the control bodies of the investee companies, no reports were made or facts emerged worthy of note in this report.

The Board of Statutory Auditors received communications and/or reports that also qualified as such pursuant to art. 2408 of the Italian Civil Code. Specifically: the Board of Auditors received:

- A communication from a shareholder that noted an omission in the information relating to the list of corporate offices held by a director contained in the 2019 Corporate Governance and Ownership Structure Report. Through the relevant company structures, the Board of Statutory Auditors ascertained that this was a mere transcription error of an office disclosed in such a way as to be considered absolutely known and that the total number of corporate offices held by the director in question was fully within the statutory limits of the maximum number of corporate offices held by a director of Acea SpA Lastly, the Board of Statutory Auditors ascertained that the Report on Corporate Governance and Ownership Structure 2020 contains the information in question.

During the course of the financial year, the Board of Statutory Auditors issued opinions and expressed the observations that current legislation assigns to its remit, including the following:

(a) An opinion on the remuneration of the Managing Director.
(b) An opinion on the appointment by co-optation of a new director. On 11 December 2019 the Board of Directors of Acea took note of the resignation of Fabrice Rossignol from the position of Director for professional reasons. Based on the guidance of the Appointments and Remuneration Committee and with the favourable opinion of the Board of Statutory

Auditors, the Board of Directors co-opted Diane Galbe, a new director to replace the resigning director pursuant to art. 2386 of the Italian Civil Code and art. 15, paragraph 3 of the by-laws, as the first of the unelected candidates on the same list.

In addition, the Board of Statutory Auditors reports:

- To have noted that the Board of Directors has positively assessed the adequacy of its size, composition and operation, also in light of the results of the self-assessment that was performed with the support of the consultant Eric Salmon & Partners, having met the required independence requirements.

- That, aside from board meetings, it attended off-site meetings and induction sessions. Given the complexity of the agenda of Board meetings, the Board of Statutory Auditors called for reflection on the best ways to simplify and rationalise an information flow that is sometimes too voluminous and unfocused and to improve coordination among the various bodies in the performance of their respective functions and responsibilities, with a view to optimising increasingly integrated governance, aimed at avoiding duplication of analysis and repetition of presentations and hoping for the necessary full focus of the Board on the strategic dimension.
  With regard to vertical governance (Board/Management), the issues that are important are those relating to the content of the information to be submitted to the Board (requiring an effort aimed at selecting the information deemed relevant because it relates to strategic choices and/or critical issues to be resolved, in order to make the documentation submitted for Board analysis neither too voluminous nor too dispersive), thus supporting the Chairman of the Board of Directors in facilitating virtuous dynamics of examination and discussion within the Board itself.
  Conversely, in horizontal governance the focus is placed on the advisability of better regulating information flows among board committees and the board of directors, which must necessarily be based on the summary role of the committee chairmen in order to avoid redundancies and/or duplication of presentations and briefs. The complexity of the company's activities and the problems associated with them together with the limited time of the Directors require that they be assisted in focusing their attention on the relevant issues of assessment and strategic direction during board meetings so as to allow for an appropriate and complete development of the board's debate.

- To have verified that its members meet the same independence requirements as those required of Directors in accordance with the recommendations of the Borsa Italiana Corporate Governance Code.

- To have found the correct application of the criteria and procedures adopted by the Board of Directors to assess the independence of its members on an annual basis. In this regard, the Board of Statutory Auditors hopes that, in application of the recommendation of the Italian Committee for Corporate Governance, in the near future the Board of Directors will define ahead of time the quantitative and qualitative criteria to be adopted for the evaluation of the significance of the relationships that could be found for the correct application of the independence criteria. It also hopes that the Board of Directors will adopt the board resolution on the maximum number of appointments in listed companies or significant companies compatible with the office in a corporate body of the Acea Group, in force since 2011, in accordance with the most restrictive approaches taken by the best practices of reference, while defining the qualitative and quantitative characteristics inherent in the definition of "significant company".

- That with regard to the provisions of art. 36 of the Market Regulation approved by Consob with resolution 16191/2007 and subsequent amendments and additions it has verified that the subsidiaries established and regulated by the law of countries outside the European Union regularly provide the economic and financial data necessary for the preparation of the consolidated financial statements.

No separate meeting of the independent directors was held during the year, as they considered it unnecessary in view of the quality of the information received from the delegated bodies and their active participation in the Board of Directors and in the Board Committees.

At present, the requirements of the Corporate Governance Code for Listed Companies for the establishment of the position of lead independent director are not met, given that the Chairman of the Board of Directors does not hold the position of Managing Director and does not have a controlling interest in the company.

As a result of the supervisory activities carried out by the Board of Statutory Auditors, no reprehensible facts, omissions or irregularities have emerged that should be included in this Report.

The Board of Statutory Auditors does not deem it necessary to exercise the right to make proposals to the Shareholders' Meeting pursuant to art. 153, paragraph 2, of the TUF.

Conclusions

In view of all the above, considering the content of the reports prepared by the external auditor, having taken note of the declarations issued jointly by the Managing Director and the Financial Reporting Officer, to the extent of its remit the Board of Statutory Auditors has not found any reasons preventing the approval of the proposal for the individual financial statements at 31 December 2019 and the dividend distribution formulated by the Board of Directors.

The Board of Statutory Auditors points out that with the approval of the Company's financial statements as at 31 December 2019 the term of office of the current Board of Directors expires, and that therefore it is necessary for the Shareholders' Meeting to resolve on the appointment of the new Board of Directors, taking all necessary and appropriate resolutions in this regard.

To this end, it hopes that shareholders will take due account of the guidelines on the quantitative and qualitative composition of the board expressed by the outgoing Board of Directors.

Rome, 16 April 2020

For the Board of

Statutory Auditors

The Chairman
Maurizio Lauri

The Standing
Auditor Pina Murè

The Standing Auditor
Maria Francesca Talamonti

**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 2019

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 2019, statement of changes in equity, cash flow statement 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 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

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

Emphasis of matter

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

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Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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- The uncertainties regarding the subsidiary Acea Ato5 SpA linked to the ongoing tax litigation and the complex in and out of court legal dispute with the Area Authority which is mainly related to the termination of the concession agreement, the approval of the 2016-2019 tariffs, the contractual penalties charged to the company for alleged non-fulfilments, the recognition of receivables related to higher operating costs incurred in the 2003-2005 period (as per the settlement agreement of 27 February 2007) and the determination of the concession fees;
- The complex regulatory measures, with particular reference to what lies behind the approval process of water tariffs.

We also draw attention to paragraphs "Information on Related Parties" and "Receivables from Parent Companies – Roma Capitale" in the notes to the financial statements, as well as to paragraph "Relations with Roma Capitale" included in section "Summary of Results" of the report on operations, where the directors describe the existing commercial relations with the Municipality of Rome and related net receivable balance at 31 December 2019.

Our opinion is not qualified in respect of these matters.

Key Audit Matters

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

Key Audit Matters	***Auditing procedures performed in response to key audit matters***
Recoverability of the value of investments in subsidiaries and associates *Note 15 to the financial statements "Investments in subsidiaries and associates"*	
The Company recognised in the financial statements as of 31 December 2019 investments in subsidiaries and associates for an amount equal to Euro 1,814 million. Annually, the Company, on the basis of its internal procedures, verifies the presence, if any, of impairment losses of investments in subsidiaries and associates in accordance with IAS 36 (impairment test), comparing their book value with their estimated recoverable amount measured through the Discounted Cash Flow method. Such verification is carried out on the	We addressed our audit procedures in order to evaluate if the method to estimate the recoverable amount used by the Company was consistent with what envisaged by IAS 36 and by the evaluation practice, verifying i) the appropriateness of the types of cash flows used and their consistency with the 2019-2022 Industrial Plan of the Group approved by the Board of Directors on 1 April 2019 and updated to take account of the events occurred during FY 2019 and ii) the mathematical accuracy of the quantification of the recoverable amount.

main investments apart from the presence of any impairment indicators emerged during the year.

As part of our audit activities, we paid particular attention to the risk that there could be impairment losses in the abovesaid investments, inasmuch as the process for the estimate of their recoverable amount is particularly complex and based on valuation assumptions affected by future economic, financial and market conditions which are hard to forecast.

In particular, our audit activities were focused on the verification of the reasonableness of the main assumptions underlying the expected cash flows and the discounting rates used to perform the impairment test (also through a comparison with the budget data deriving from external information sources, if available).

We compared the forecasts of the prior years with the corresponding final data and finally we verified the sensitivity analyses performed by the Company and carried out independent sensitivity analyses.
As part of our audit activities, we availed ourselves, where necessary, of the support of the PwC network experts in valuations.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

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

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

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

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

The directors of Acea SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Acea SpA as of 31 December 2019, 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 2019 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 2019 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, 16 April 2020

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 2019.

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, 16 April 2020

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