
ACEA BUSINESS PLAN 2019-202
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CONSOLIDATED FINANCIAL STATEMENTS

FORM AND STRUCTURE

GENERAL INFORMATION

The Consolidated Financial Statements at 31 December 2019 of the Acea Group were approved by the Board of Directors on 9 March 2020, which authorised their publication. The Parent Company, Acea SpA is an Italian joint-stock company, with its registered office in Rome, at Piazzale Ostiense 2 and whose shares are traded on the Milan Stock Exchange. The Acea Group's principal operating segments are described in the Report on Operations.

COMPLIANCE WITH IAS/IFRS

These Condensed Financial Statements have been prepared in compliance with the international accounting standards in effect on the date of the financial statements, approved by the International Accounting Standards Board (IASB) and adopted by the European Commission according to the procedure set forth in art. 6 of the regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and pursuant to art. 9 of Italian Legislative Decree 38/2005.
The international accounting standards include the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and Standard Interpretations Committee (SIC), collectively the "**IFRS**".

BASIS OF PRESENTATION

The Consolidated Financial Statements consist of the consolidated statement of financial position, consolidated income statement, statement of consolidated comprehensive income, consolidated statement of cash flows and the statement of changes in consolidated shareholders' equity. The Report also includes notes prepared under the IAS/IFRS currently in effect.
The Income Statement is classified according to the nature of the costs, the items of the Statement of Financial Position according to the criterion of liquidity, with the items classified as current and non-current, while the Statement of Cash flows is presented using the indirect method.
The Consolidated Financial Statements are presented in Euros and all amounts are rounded off to the nearest thousand Euros unless otherwise indicated.
The figures in these Consolidated Financial Statements are comparable with the figures for the previous period.

USE OF ESTIMATES AND ASSUMPTIONS

Drafting of the Consolidated Financial Statements, in application of the IFRS, requires the making of estimates and assumptions that affect the values of revenues, costs, assets and liabilities in the financial statements and information on potential assets and liabilities reference date. 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. Estimates are used to determine some sales revenues, provisions for risks and charges, provisions for impairment of receivables and other provisions for depreciation, amortisation, valuation of derivatives, employee benefits and taxes. The estimates and assumptions are reviewed periodically and the effects of each change are immediately recorded in the financial statements.
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.

EFFECTS OF THE SEASONALITY OF TRANSACTIONS

For the type of business in which it operates, the Acea Group is not subject to significant seasonality. Some specific operating segments, however, can be affected by uneven trends that span an entire year.

CONSOLIDATION POLICIES, PROCEDURES AND SCOPE

CONSOLIDATION POLICIES

Subsidiaries

The scope of consolidation includes the Parent Company Acea SpA and the companies over which it directly or indirectly exercises control or when the Group is exposed or entitled to variable returns deriving from the relationship with the investee and has the capacity to influence its returns through the exercise of its power over the investee. Power is defined as the capacity to manage the significant activities of the subsidiary by virtue of existing substantial rights.
Subsidiaries are consolidated from the date on which control is effectively transferred to the Group and are de-consolidated from the date on which control is transferred out of the Group.
According to accounting standard IFRS 10, control is obtained when the Group is exposed or has the right to variable performance deriving from relations with the subsidiary and is able, through exercising power over the subsidiary, to influence its performance. Power is defined as the capacity to manage the significant activities of the subsidiary by virtue of existing substantial rights.
The existence of control does not depend exclusively on possession of the majority of the voting rights, but on the substantial rights of the investor over the investee. Consequently, the opinion of the management team is required to assess specific situations leading to substantial rights attributing to the Group the power to manage the significant activities of the subsidiary so as to influence its performance.
In order to assess the requirement of control, the management team analyses all facts and circumstances, including agreements with other investors, the rights deriving from other contracts and potential voting rights (call option, warrant, put option assigned to minority stakeholders, etc.). These other facts and circumstances may be particularly significant in the assessment, especially if the Group holds less than the majority of the voting rights or similar rights in the subsidiary.

The Group reviews the existence of control over a subsidiary when the facts and circumstances indicate that there has been a change in one or more elements considered in verifying its existence. Lastly, it must be noted that in assessing the existence of the control requirements, no situations of de facto control were encountered.
Changes in the possession quota of equity investments in subsidiaries that do not imply the loss of control are recorded as capital transactions adjusting the quota attributable to the stakeholders of the Parent Company and that of third parties to reflect the change in the quota owned. The eventual difference between the amount received or paid and the corresponding fraction of the shareholders' equity acquired or sold is recorded directly in the consolidated shareholders' equity. When the Group loses control, any residual equity investment in the company previously controlled is re-measured at fair value (with counterpart in the income statement) on the date on which control is lost. Also, the quota of the OCI of the subsidiary over which control is lost is dealt with in the accounts as if the Group has directly disposed of the relevant assets or liabilities. Where there is loss of control of a consolidated company, the Consolidated Financial Statements include the results for the part of the reporting period in which the Acea Group had control.

Joint ventures

A joint venture is a contractual arrangement in which the Group and other parties jointly undertake a business activity, i.e. a contractually agreed sharing of control whereby the strategic, financial and operating policy decisions can only be adopted with unanimous consent of the parties sharing control. The Consolidated Financial Statements include the Group's share of the income and expenses of jointly controlled entities, accounted for using the equity method.
According to IFRS 11, a joint venture is an arrangement over which one or more parties have joint control. Joint control is held when unanimous consent or that of at least two of the parties to the arrangement is required for decisions concerning the significant activities of the joint venture. A joint agreement can either be a joint venture or a joint operation. A joint venture is a joint control arrangement in which the parties holding joint control have all the rights over the net assets of the arrangement. On the other hand, a joint operation is a joint control arrangement in which the parties holding joint control have rights to the assets and obligations for the liabilities in the arrangement. To determine the existence of joint control and the type of joint arrangement, the opinion of the management team is required, which must assess the rights and obligations deriving from the arrangement.
To this end, the management team considers the structure and legal form of the arrangements, the terms agreed between the parties in the contractual agreement and, if significant, other facts and circumstances. The Group reviews the existence of joint control when facts and circumstances indicate that there has been a change in one or more elements previously considered in verifying the existence of joint control and the type of joint control.

Associates

An associate is a company over which the Group exercises significant influence, but not control or joint control, through its power to participate in the financial and operating policy decisions of the associate. The Consolidated Financial Statements include the Group's share of the results of associates at Net equity, unless they are classified as held for sale, from the date it begins to exert significant influence until the date it ceases to exert such influence.
In determining the existence of significant influence, the opinion of the management team is required, which must assess all facts and circumstances.
The Group reviews the existence of significant influence when facts and circumstances indicate that there has been a change in one or more elements previously considered in verifying the existence of significant influence.
When the Group's share of an associate's losses exceeds the carrying amount of the investment, the interest is reduced to zero and any additional losses must be covered by provisions to the extent that the Group has legal or implicit loss cover obligations to the associate or in any event to make payments on its behalf. Any excess of the cost of the acquisition over the Group's interest in the fair value of the associate's identifiable assets, liabilities and contingent liabilities at the date of the acquisition is recognised as goodwill.
Goodwill is included in the carrying amount of the investment and is subject to impairment test together with the value of the investment.

CONSOLIDATION PROCEDURES

General procedure

The financial statements of the Group's subsidiaries, associates and joint ventures are prepared for the same accounting period and using the same accounting standards as those adopted by the Parent Company. Consolidation adjustments are made to align any dissimilar accounting policies applied.

All Intragroup balances and transactions, including any unrealised profits on Intragroup transactions, are eliminated in full. Unrealised losses are eliminated unless costs cannot be subsequently recovered.

The carrying amount of investments in subsidiaries is eliminated against the corresponding share of the shareholders' equity of each subsidiary, including any adjustments to reflect fair values at the acquisition date. Any positive difference is treated as "goodwill", while any negative difference is recognized through profit or loss at the acquisition date.

The minority interest in the net assets of consolidated subsidiaries is shown separately from shareholders' equity attributable to the Group. This interest is calculated on the basis of the percentage interest held in the fair value of assets and liabilities recognised at the original date of acquisition and in any changes in shareholders' equity after that date. Losses attributable to the minority interest in excess of their portion of shareholders' equity are subsequently attributed to shareholders' equity attributable to the Group, unless the minority has a binding obligation to cover losses and is able to invest further in the company to cover the losses.

Business combinations

Acquisitions of subsidiaries are accounted for under the acquisition method. The cost of the acquisition is determined as the sum of the fair value, at the date of exchange, of the assets acquired, the liabilities incurred or acquired, and the financial instruments issued by the Group in exchange for control of the acquired company.

The identifiable assets, liabilities and contingent liabilities of the acquired company that meet the conditions for recognition under IFRS 3 are accounted for at fair value on the date of acquisition, with the exception of non-current assets (or disposal groups), which are classified as held for sale under IFRS 5 and accounted for at fair value net of costs to sell.

If the business combination is achieved in stages, the fair value of the investment previously held has to be re-measured and any resulting gain or loss is recognised in profit or loss.

The purchaser has to recognise any contingent consideration at fair value, on the date of acquisition. The change in fair value of the contingent consideration classified as asset or liability is recognised according to the provisions included in IFRS 9, in the income statement or among the other components of the comprehensive income statement.

The costs directly attributable to the acquisition are included in the income statement.

The purchase cost is allocated by recording the identifiable assets, liabilities and contingent liabilities of the acquisition at fair value on the date of acquisition. Any positive excess between the payment transferred, valued at fair value on the date of acquisition, and the amount of any minority interest, with respect to the net value of the amounts of the identifiable assets and liabilities of the acquisition valued at fair value is recorded as goodwill or, if negative, in the Income Statement.

For every business combination, the purchaser must value any minority stake in the acquired entity at fair value or in proportion to the share of the minority interest in net identifiable assets of the acquired entity.

Consolidation procedure for assets and liabilities held for sale (IFRS 5)

Non-current assets and liabilities are classified as held for sale, in accordance with the provisions of IFRS 5.

Consolidation of foreign companies

The financial statements of investee companies operating in currencies other than the Euro, which is the functional currency of the Parent Company Acea, are converted into Euros by applying the exchange rate at the end of the period to the assets and liabilities, and the average exchange rates for the period to income statement items and to the cash flow statement.

The exchange differences arising from the translation of the financial statements of investee companies operating in currencies other than the Euro are recognised directly in equity and are shown separately in a specific reserve of; this reserve is reversed to the income statement at the time of complete disinvestment or loss of control, joint control or significant influence over the investee company. In the case of partial disposal:

without loss of control, the share of the exchange differences relating to the shareholding sold is attributed to the shareholders' equity pertaining to minority interests;

without loss of joint control or significant influence, the portion of exchange differences relating to the shareholding sold is recognised in the income statement.

SCOPE OF CONSOLIDATION

The Acea Group's Consolidated Financial Statements include the financial statements of the Parent Company, Acea, and the financial statements of the Italian and foreign subsidiaries, for which, in accordance with the provisions of IFRS 10, there is exposure to the variability of returns and of which a majority of voting rights in the ordinary meetings is held, either directly or indirectly, and consequently the ability to influence the investee returns by exerting management power. Furthermore, the companies on which the Parent Company exercises joint control with other shareholders are consolidated using the equity method.

A. Changes in the scope of consolidation

With regard to the scope of consolidation, as at 31 December 2019 it should be noted that:

- the line-by-line consolidation of the company Pescara Distribuzione Gas, which the Parent Company acquired a 51% stake in on 18 March;
- the line-by-line consolidation of the companies Acea Solar and Acea Sun Capital established on April 30 (subsidiaries of Acea Produzione). The latter has the function of accommodating acquisitions of photovoltaic systems. The first acquisition took place on 27 June through the acquisition of 100% of KT4. During the months of July and August, Belenergia acquired 65% of the following companies: Acquaviva, Compagnia Solare 2, Compagnia Solare 3, SPES, Solaria Real Estate, Brindisi Solar; on 26 September the acquisitions of Sisine Energia and Luna Energia were completed; on 10 October the purchase of Marche Solar was completed, on 12 November the companies Urbe Solar and Urbe Cerig were acquired and finally in December the purchase of Trinovolt was completed;
- the line-by-line consolidation of the companies acquired by Acea Ambiente: 90% Demap, a company operating in Piedmont in the field of plastics recycling, acquired on 4 July, and 60% Berg, a company performing waste management in the Municipality of Frosinone, acquired on 18 October;

- the full consolidation of the newly formed Acea Innovation, operating in the field of Technological Innovation, as of 25 June 2019;
- the line-by-line consolidation of AdF effective 7 October 2019 following the amendment of the shareholders' agreements that allowed Acea to exercise control over the company in accordance with IFRS 10.

It should also be noted that the company Acea Illuminazione Pubblica SpA, placed in liquidation on 13 December 2018, approved the Final Financial Statements and the related distribution plan on 7 February 2019, and that the company Lunigiana Acque SpA, placed in liquidation on 28 July 2011, was deleted from the Company Register on 20 December 2019.

B. Unconsolidated investments

Tirana Acque S.c.a.r.l. in liquidation, 40% owned by Acea, is recognised at cost. The subsidiary, entirely devalued, is excluded from the scope of consolidation as it is not operational and its relevance in qualitative and quantitative terms is not significant.

ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

MEASUREMENT CRITERIA

Currency conversion

Transactions in foreign currencies are initially recognised at the exchange rate in force on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies were converted 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 Consolidated 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 assets and liabilities denominated in foreign currency and recorded at historical cost are converted using the exchange rate in force on the date of initial recognition of the transaction. Non-monetary assets and liabilities denominated in foreign currencies and recognized at fair value are converted using the exchange rate on the date of determination of this value. Any emerging exchange differences are reflected in the income statement.
Non-monetary items recorded at fair value are converted using the exchange rate on the date of calculation of this value.

Revenue recognition

In accordance with the provisions of IFRS 15 "Revenue from contracts with customers", revenues are recognised for an amount that reflects the consideration to which the entity believes it is entitled in exchange for the transfer of goods or services to the customer.
The fundamental parts for accounting purposes are:

1. identify the commercial contract, defined as a (written or verbal) agreement between two or more parties which results in rights and obligations with the customer having the right to legal protection;
2. identify the separately identifiable obligations to do something (also "performance obligations") contained in the contract;
3. determine the price of the transaction, as the fee the enterprise expects to receive for the transfer of assets or the performance of services to the customer, in accordance with the techniques in the Standard and depending on the possible presence of financial and variable components;
4. allocate a price to each performance obligation;
5. to recognize the revenue when the revenue obligation is fulfilled by the entity, allowing for the fact that the services may not be provided at a specific time, but over a period of time.

Revenues are valued at the fair value of the consideration received or receivable, taking into account the value of any commercial discounts, returns and rebates granted by the Group. Specifically:

- **revenues from the sale and transport of electricity and gas** are recognised at the time the service is supplied or supplied, even if they are not invoiced, and are determined by adding estimates calculated on the basis of pre-established reading calendars. These revenues are calculated on the basis of the provisions of the law, of the resolutions of the Authority for electricity and gas and the water system in force during the period, also taking into account the pro tempore equalisation measures in force; it should be noted that with reference to the valorisation of revenues from the transport of electricity, if the admission of investments in tariffs that establishes the right to payment for the operator is virtually certain already in the year in which they are realized, the corresponding revenues they are ascertained on an accrual basis regardless of how they will be financially recognized as a result of ARERA Resolution 654/2015;
- **the revenues of the integrated water service** are determined on the basis of the Water Tariff Method (MTI), valid for the determination of the tariffs for the years 2016-2019, approved with Resolution no. 664/15/R/idr and subsequent modifications by ARERA. Based on the interpretation of the legal nature of the tariff component Fo.NI. (New Investments Fund) is entered among the revenues for the year the relative amount due to the Water Companies where expressly recognized by the Area Authorities which establish the intended use. The adjustment for the so-called pass-through items is also entered among the revenues of the year (i.e. electricity, wholesale water) of which the aforementioned resolution provides specific details as well as any adjustment relating to costs pertaining to the Integrated Water System incurred for the occurrence of exceptional events (i.e. water and environmental emergencies) if the preliminary investigation for their recognition gave positive results.

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.
Water connection fees are recorded among other non-current liabilities and released to the income statement over the life of the investment to which they refer, if related to an investment, and fully recognized as income if they are related to costs incurred.
Operating grants (granted for the purpose of providing immediate financial assistance to the company or as compensation for expenses and losses incurred in a previous year) are recognised in full in the 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.

Employee benefits

Benefits guaranteed to employees paid in connection with or following termination of employment through defined benefit and de-

fined 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.

Financial income

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

Dividends

These are recognised when the unconditional right of shareholders is established to receive payment. They are classified in the income statement under the item investment income.

Taxes

Income taxes for the year represent the sum of current and deferred taxes.
Current taxes are based on the taxable results for the year. Taxable income differs from the results reported in the 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 and/or taxation for transparency).
Deferred taxes are the taxes that are expected to be paid or recovered on temporary differences between the book value of assets and liabilities in the financial statements and the corresponding tax value used in the calculation of the taxable income, recorded according to the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, while deferred tax assets are recognised to the extent where it is probable that there will be future taxable results that allow the use of deductible temporary differences. These assets and liabilities are not recognized if the temporary differences derive from goodwill or from initial recognition (not in business combination transactions) of other assets or liabilities in transactions that have no influence on the accounting result or on the taxable result.
Deferred tax liabilities are recognized on the taxable temporary differences relating to investments in subsidiaries, associates and joint ventures, with the exception of cases in which the Group is able to control the cancellation of such temporary differences and it is probable that the latter will not they will cancel in the foreseeable future.
The carrying amount of deferred tax assets is revised at each balance sheet date and reduced to the extent that, based on the plans approved by the Board of Directors of the Parent, the existence of sufficient taxable income is not considered likely to allow all or partly the recovery of these assets.
Deferred taxes are calculated based on the tax rate that is expected to be in effect at the time the asset is realised or the liability is relieved. 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 recognised in equity.

Tangible assets

Tangible assets are recognised at historical cost, including ancillary costs directly attributable and necessary for putting the asset into service for the use for which it was purchased, net of the relevant accumulated depreciation and any accumulated impairment losses.
The cost includes the costs of the dismantling and removal of the assets and the costs of reclamation of the site on which the tangible assets stand, if they comply with the provisions of IAS 37. The corresponding liability is recognized in the liability item for risks and charges. Assets composed of components of a significant amount with a different useful life.
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. Systems and equipment under construction for production purposes or for purposes yet unknown are recorded at cost, net of write-downs for losses in value. The cost includes any professional fees and, where applicable, capitalised financial charges. The depreciation of these assets, as for all other assets, begins when the assets are ready for use. For some types of complex goods for which long-lasting functional tests are required, the suitability for use is attested by the positive passing of these tests.

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. 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

Intangible assets refer to assets without identifiable physical substance, controlled by the company and capable of producing future economic benefits, as well as the goodwill purchased for consideration. Intangible assets 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. Goodwill and intangible assets with an indefinite useful life are not amortised. The recoverability of their carrying value is reviewed at least annually and whenever events or changes in circumstances indicate that the carrying value may be reduced. In contrast, depreciation of the useful life is calculated at constant rates based on the estimated useful life, which is reviewed annually and any changes, where possible, are made with prospective applications.

Depreciation begins when the intangible asset is available for use. Gains or losses deriving from the disposal of an intangible asset are determined as the difference between the disposal value and the carrying amount of the asset and are recorded in the Income Statement at the time of disposal.

Goodwill

Goodwill deriving from business combinations (including but not limited to, the acquisition of subsidiaries, jointly controlled entities or the acquisition of business units or other extraordinary transactions) represents the excess of the cost acquisition of the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly-controlled entity at the acquisition date compared to the Group's share of the fair value. Goodwill is recognised as an asset and reviewed annually to verify that it has not suffered any loss in value. If there is joint control, or even affiliated, the goodwill of investments recognised according to the equity method remains implicit in the value of the investment.
The losses in value are recorded immediately in the income statement and are not subsequently restored.
At the acquisition date, any emerging goodwill is allocated to each of the independent cash generating units that are expected to benefit from the synergistic effects deriving from the acquisition. Any loss in value is identified through assessments that refer to the capacity of each unit to generate cash flows to recover the part of goodwill allocated to it. In the event that the recoverable amount by the cash-generating unit is lower than the assigned load value, the relative loss in value is recorded.

In the event of the sale of a subsidiary or jointly controlled entity, the amount not yet amortized of the goodwill attributable to them is included in the determination of the gain or loss on disposal.

Concessions

This item includes the value of the concession right to the assets consisting of water and purification plants that were transferred. This value refers to state property belonging to the so-called "accidental state" of water and sewage treatment and is systematically amortised based on the residual duration of the concession. It should be noted that the residual depreciation period is in line with the average duration of the operations entrusted with a public procedure.
Also included in this entry:

- the net value of the goodwill deriving from the transfer of the sewerage service effected with effect from 1 September 2002 from Roma Capitale to Acea Ato 2;
- the higher cost, for the portion attributable to this item, deriving from the acquisition of the A.R.I.A. with particular reference to SAO, the company that manages the Orvieto landfill, now merged into Acea Ambiente.

Infrastructure law

In line with the provisions of IFRIC 12 "Service Concession Arrangements", based on the intangible asset model the Group reports the total amount of the physical infrastructure supplied for the management of the water service, since the service concession contract does not give the concessionaire the right to control the use of the public service infrastructure but rather allows access to the management of the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract.
In fact, the aforementioned interpretation requires the registration of a single intangible asset representing the concessionaire's right to charge the fee to users of the public service instead of the takeover of the physical infrastructure for the management of the service.
The amount also includes the capitalisation of the margin resulting from investments.

Rights of use of intellectual property

Costs related to this item are included under intangible assets and are amortized on the basis of a period of presumed usefulness of three / five years.

Impairment

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, the Company carries out an analysis of all the CGUs of the group 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.

Emission allowances, green certificates and white certificates

Different accounting policies are applied by the Group to allowances or certificates held for own use in the "Industrial Portfolio", and those held for trading purposes in the "Trading Portfolio".
Surplus allowances or certificates held for own use, which are in excess of the company's requirement in relation to the obligations accruing at the end of the year, are accounted for at cost in other intangible assets. Allowances or certificates assigned free of charge are accounted for at a zero value.
Given that these are assets for instant use, they are not amortised but are tested for impairment. The recoverable amount is the higher of the asset's value in use and its market value.
The burden resulting from the fulfilment of the energy efficiency

obligation is estimated on the basis of the average purchase price for the contracts entered into, taking into account the certificates in the portfolio at the financial statements date; a provision for liabilities is allocated for the negative difference between the said burden and the contribution estimated pursuant to AEEGSI Resolution 13/2014/R/efr, to be paid at the time the certificates are delivered in fulfilment of the obligation.

Allowances or certificates held for trading in the "Trading Portfolio" are accounted for in inventories and measured at the lower of purchase cost and estimated realisable value, based on market trends. Allowances or certificates assigned free of charge are accounted for at a zero value. Market value is established on the basis of any spot or forward sales contracts already signed at the end of the reporting period, or otherwise on the basis of market prices.

Inventories

Warehouse stock is valued as the difference between costs and net value of earnings. Costs include direct materials and, where applicable, direct labour, general production expenses and other costs sustained to bring the stock to its current conditions and location. Cost is calculated using the moving weighted average method. The net value of earnings is estimated sales price minus estimated costs for completion and estimated costs necessary to execute the sale. Devaluations of warehouse stock, according to its nature, are made through allocation funds, written in the balance sheet reducing assets entries, i.e. item by item, offsetting variations of leftover stock in the Income Statement.

Financial instruments

Financial assets and liabilities refer to the moment in which the Group became party to the instrument's contractual provisions.

Financial assets – debt instruments

Depending on the characteristics of the instrument and the business model implemented for its management, financial assets (which represent debt instruments) are classified into the following three categories: 1) financial assets measured at amortised cost; 2) financial assets measured at fair value with recognition of the effects among the other components of comprehensive income (hereinafter also OCI); 3) financial assets measured at fair value with recognition of the effects in the income statement.
Initial recognition takes place at fair value. For trade receivables without a significant financial component, the initial recognition value is represented by the transaction price.
Subsequent to initial recognition, financial assets that generate contractual cash flows exclusively representing capital and interest payments are valued at amortised cost if held for the purpose of collecting contractual cash flows (so-called "hold to collect" model). According to the amortised cost method, the initial recognition value is subsequently adjusted to take into account capital repayments, any write-downs and the amortisation of the difference between the repayment amount and the initial recognition value.
Amortisation is based on the effective internal interest rate, which represents the rate that makes the present value of expected cash flows and the initial book value equal at the time of initial recognition.
Receivables and other financial assets measured at amortised cost are presented in the balance sheet net of the related provision for bad debts.
The financial assets representing debt instruments whose business model envisages both the possibility of collecting contractual cash flows and the possibility of realising capital gains on disposal (so-called "hold to collect and sell" business model) are valued at fair value with allocation of the effects to OCI (hereinafter also FVTOCI).
In this case, changes in the fair value of the instrument are recognised under shareholders' equity among other components of comprehensive income. The cumulative amount of changes in fair value recognised in the shareholders' equity reserve that includes the other components of the overall profit is reversed in the income statement when the instrument is derecognised. Interest income calculated using the effective interest rate, exchange rate differences and write-downs is recognised in the income statement.
A financial asset representing a debt instrument that is not valued at amortised cost or at the FVTOCI is valued at fair value with the effects being charged to the income statement (hereinafter FVTPL). This category includes financial assets held for trading purposes.
When the purchase or sale of financial assets takes place according to a contract that envisages the settlement of the transaction and the delivery of the asset within a specified number of days, established by the market control bodies or by market conventions (e.g. purchase of securities on regulated markets), the transaction is recognised on the date of settlement.
The financial assets sold are derecognised when the contractual rights associated with obtaining the cash flows associated with the financial instrument expire or are transferred to third parties.

Write-downs of financial assets

The assessment of the recoverability of the financial assets representing debt instruments not valued at fair value with effects on the income statement is made on the basis of the so-called "Expected credit loss model".
In particular, expected losses are generally determined on the basis of the product between: 1) the exposure owed to the counterparty net of the relative mitigating factors (so-called "Exposure at Default"); 2) the probability that the counterparty does not comply with its payment obligation (so-called "Probability of Default"); 3) the estimate in percentage terms of the amount of credit that will not be able to be recovered in the event of a default (so-called "Loss Given Default"), based on past experience and possible recovery actions that can be taken (e.g. out-of-court actions, legal disputes, etc.).
In this regard, the internal ratings already used for the assignment have been adopted to determine the probability of default of the counterparties. For counterparties represented by State Entities and in particular for the National Oil Companies, the probability of default – essentially represented by the probability of late payment – is determined using as input the country risk premiums implemented for the purposes of determining the WACC for the impairment of non-financial assets.
For retail customers not having internal ratings, the assessment of expected losses is based on a provision matrix, constructed where appropriate by grouping the clustered receivables to which write-down percentages apply based on the experience of previous losses, adjusted where necessary to take account of forecast information regarding the credit risk of the counterparty or of clusters of counterparties.

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. In addition, the Group reports revenues on the contract for construction and improvement services, both for the part carried out internally by the Group and for the part of Third Parties. The margin recorded equal to 5% of the costs incurred is accounted for according to the provisions of IFRS 15 and amortised over the residual duration of the concession.

Cash and cash equivalents

This item includes cash and bank current accounts and deposits repayable on demand or very short term 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 other than derivative instruments – including financial payables, trade payables, other payables and other liabilities – are initially recognised at the fair value less any costs associated with the transaction. Subsequently they are recognised at amortised cost using the effective interest rate for discounting purposes, as illustrated in the previous point "Financial assets".
Financial liabilities are eliminated when they are extinguished or when the obligation specified in the contract is fulfilled, cancelled or expired.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset in the balance sheet when there is a currently exercisable legal right to offset, and the intention is to settle the relationship on a net basis (i.e. to sell the asset and simultaneously settle the liability).

Derivative financial instruments and hedge accounting

Derivative financial instruments, including implicit ones (Embedded derivatives) are assets and liabilities recognised at fair value according to the criteria specified in the point below, "Fair value valuations".
As part of the strategy and objectives set for risk management, the qualification of transactions as hedges requires: 1) verification of the existence of an economic relationship between the hedged item and the hedging instrument that can offset the related changes in value, and that this capacity to offset is not affected by the level of counterparty credit risk; 2) the definition of a hedge ratio consistent with risk management objectives, within the defined risk management strategy, where necessary making the appropriate rebalancing actions. Changes in risk management objectives, the absence of the conditions specified above for the classification of transactions as hedges or the implementation of rebalancing operations results in the total or partial prospective discontinuation of the hedge.
When hedging derivatives cover the risk of changes in the fair value of the hedged instruments (fair value hedge; e.g. hedging of the variability of the fair value of fixed rate assets/liabilities), the derivatives are recognised at fair value with the allocation of effects in the income statement. Similarly, the hedged instruments in the income statement reflect the changes in fair value associated with the hedged risk, regardless of the provision of a different valuation criterion generally applicable to the type of instrument.
When derivatives hedge the risk of changes in the cash flows of the hedged instruments (cash flow hedge; e.g. hedging of the variability of the cash flows of assets/liabilities due to fluctuations in interest rates or exchange rates), the changes in the fair value of derivatives considered to be effective are initially recognised in the shareholders' equity reserve relating to the other components of comprehensive income, and subsequently recognised in the income statement consistent with the economic effects produced by the hedged transaction. In the case of hedging of future transactions that involve the recognition of a non-financial asset or liability, the accumulated changes in the fair value of hedging derivatives, recognised in equity, are recognised as an adjustment to the carrying amount of the asset./non-financial liability subject to hedging (so-called basis adjustment).
The ineffective portion of the hedge is recorded in the income statement item "Financial (costs)/income". Changes in the fair value of derivatives that do not meet the conditions to be qualified as hedges, including any ineffective components of hedging derivatives, are recognised in the income statement. In particular, changes in the fair value of non-hedging derivatives on interest rates and currencies are recognised in the income statement item "Financial (costs)/income".

Embedded derivatives – embedded in financial assets – are not subject to separate accounting. In these cases, the entire hybrid instrument is classified according to the general criteria for the classification of financial assets.
Embedded derivatives embedded in financial liabilities and/or non-financial assets are separated from the main contract and recognised separately if the embedded instrument: 1) meets the definition of a derivative; 2) as a whole it is not valued at fair value with the effects being charged to the income statement (FVTPL); 3) if the characteristics and risks of the derivative are not strictly linked to those of the main contract. Verification of the existence of embedded derivatives to be separated and valued separately is carried out when the company enters into the contract, and subsequently if there are changes in the terms of the contract that lead to significant changes in the cash flows generated by that contract.

Valuation at fair value

The fair value is the consideration that can be received for the sale of an asset or that can be paid for the transfer of a liability in a regular transaction between market operators at the valuation date (i.e. exit price).
The fair value of an asset or liability is determined by adopting the valuations that market operators would use in determining the price of the asset or liability. The fair value measurement also assumes that the asset or liability is exchanged in the main market or, in the absence thereof, in the most advantageous market the company has access to.
The determination of the fair value of a non-financial asset is made considering the ability of market operators to generate economic benefits by using this asset in its highest and best use or by selling it to another participant in the market able to use it, maximising its value. The determination of the highest and best use of the asset is made from the point of view of market operators even in the case where the company intends to use it differently. It is assumed that the company's current use of a non-financial asset is its highest and best use unless the market or other factors suggest that a different use by market operators is able to maximise its value.
The valuation of the fair value of a liability, both financial and non-financial or of a capital instrument, takes into account the quoted price for the transfer of an identical or similar liability or equity instrument. If this quoted price is not available, the valuation of the corresponding asset held by a market operator at the valuation date is considered. The fair value of financial instruments is determined considering the credit risk of the counterparty of a financial asset (so-called "Credit Valuation Adjustment" – CVA) and the risk of default by the entity itself, with reference to a financial liability (so-called "Debit Valuation Adjustment" – DVA). In determining fair value, a hierarchy of criteria is defined based on the origin, type and quality of the information used in the calculation.

This classification aims to establish a hierarchy in terms of reliability of the fair value, giving precedence to the use of observable market parameters that reflect the assumptions that market participants would use in the valuation of the asset/liability. The fair value hierarchy has the following levels:

- level 1: inputs represented by quoted prices (unmodified) in active markets for identical assets or liabilities that can be accessed on the valuation date;
- level 2: inputs other than the prices included in Level 1 that are directly or indirectly observable for the assets or liabilities to be valued;
- level 3: unobservable inputs for the asset or liability. In the absence of available market quotations, the fair value is determined using valuation techniques appropriate to the individual cases that maximise the use of relevant observable inputs, minimising the use of unobservable inputs.

Provisions for risks and charges

Provisions for risks and charges are made when the Group 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)".
If the debt is related to the dismantling and/or renovation of material assets, the initial fund is reported as an offset to the asset it refers to; its incidence on the Income Statement takes place through the process of amortisation of the material fixed asset to which the obligation refers.

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 applies 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 is no accounting symmetry with the lessor, which continues 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 CLOSURE OF THE YEAR AND NOT ADOPTED IN ADVANCE BY THE GROUP

"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

IFRS 16 Leases

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 € 53.6 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 01/01/2019
NON-CURRENT ASSETS	5,735,514	53,679	5,789,192
of which Right of use	*0*	*53,679*	*53,679*

LIABILITIES

€ thousand	31/12/2018	IFRS16	Data as at 01/01/2019
NON-CURRENT LIABILITIES	3,374,134	46,015	3,420,149
of which Borrowings and financial liabilities	*3,374,134*	*46,015*	*3,420,149*
CURRENT LIABILITIES	2,290,670	7,664	2,298,333
of which Financial debts	*408,675*	*7,664*	*416,338*

For payable discounting purposes, the Group has used an IBR calculated based on a risk-free rate with a maturity equal to the residual duration for each contract plus the credit spread assigned to Acea SpA by Moody's. Finally, it should be noted that there are no significant differences between the commitments arising from lease contracts discounted at the same rate and the value recognised in accordance with IFRS 16.

"IFRIC 23 – Uncertainty over Income Tax Treatments"

With effect from 1 January 2019, the Group has analysed the possible impact of the application of IFRIC 23, published with the aim of clarifying how to apply the valuation criteria set out in IAS 12 to calculate income taxes when conditions of uncertainty about the amounts actually due exist. It should be noted that the interpretation does not introduce new methods, since they are already used by companies in the context of the estimates required by IFRS 15 and IAS 37 and are already widely applied in the context of the estimates required by IAS 12. Moreover, the interpretation does not add any additional disclosure requirements to those already envisaged in IAS 12 and IAS 1.
From the analysis carried out, the Group considered that since it has not revised its methods for estimating funds, considering them already consistent with the interpretation, there are no disclosure requirements that go beyond those already envisaged by IAS 1 and 12.
Therefore, the Group already provides adequate disclosure and has always applied the valuation criteria set out in IAS 12 and IAS 1, as set out in IFRIC 23, while the calculation of income taxes when conditions of uncertainty exist was carried out using criteria already consistent with IFRIC 23.

Given that, as mentioned above, IFRIC 23 has not introduced new and additional disclosure requirements, there are no uncertain positions for which the Acea Group does not already provide adequate disclosure in its financial statements.

CONSOLIDATED INCOME STATEMENT

Ref. Note		2019	Of which related party transactions	2018	Of which related party transactions	Change
1	Revenue from sales and services	3,022,193		2,836,890		185,303
2	Other revenue and proceeds	163,943		191,597		(27,654)
	Consolidated net revenues	**3,186,136**	**87,443**	**3,028,487**	**127,314**	**157,649**
3	Personnel costs	248,871		219,624		29,248
4	Costs of materials and overheads	1,936,434		1,918,936		17,498
	Consolidated operating costs	**2,185,306**	**39,349**	**2,138,560**	**47,225**	**46,746**
5	**Net income/(costs) from commodity risk management**	**99**				**99**
6	**Income/(costs) from equity investments of a non-financial nature**	**41,367**		**43,320**		**(1,953)**
	EBITDA	**1,042,297**	**48,093**	**933,247**	**80,088**	**109,050**
7	Net write-downs (write-backs) of trade receivables	66,814		75,080		(8,266)
8	Depreciation, amortisation and provisions	457,376		379,607		77,769
	Operating profit/(loss)	**518,107**	**48,093**	**478,560**	**80,088**	**39,547**
9	Financial income	15,787	5,194	17,838	13,303	(2,051)
10	Financial costs	(106,089)	(407)	(100,697)	0	(5,392)
11	Income/(Costs) from equity investments	2,585		13,332		(10,748)
	Profit/(loss) before tax	**430,390**	**52,880**	**409,033**	**93,391**	**21,357**
12	Income taxes	123,213		124,334		(1,121)
	Net profit/(loss)	**307,177**	**52,880**	**284,699**	**93,391**	**22,478**
	Net profit/(loss) from discontinued operations					
	Net profit/(loss)	**307,177**	**52,880**	**284,699**	**93,391**	**22,478**
	Profit/(loss) attributable to minority interests	23,491		13,700		9,791
	Net profit/(loss) attributable to the Group	**283,686**		**270,999**		**12,687**
13	Earnings (loss) per share attributable to Parent Company's shareholders					
	Basic	1.33208		1.27250		0.05957
	Diluted	1.33208		1.27250		0.05957

Amounts in € thousand

COMPREHENSIVE CONSOLIDATED INCOME STATEMENT

€ thousand	2019	2018	Change
Net income for the period	**307,177**	**284,699**	**22,478**
Profit/loss from conversion of financial statements expressed in foreign currency	**367**	**279**	**87**
Reserve for exchange differences	(5,299)	(11,103)	5,804
Tax reserve for exchange differences	1,272	2,665	(1,393)
Gains/losses from exchange rate difference	**(4,028)**	**(8,438)**	**4,411**
Effective portion of profits/(losses) on hedging instruments ("cash flow hedges")	(2,019)	22,657	(24,675)
Tax effect of other gains/(losses) on hedging instruments ("cash flow hedges")	1,108	(5,686)	6,795
Profit/loss from the effective portion on hedging instruments net of tax effect	**(910)**	**16,970**	**(17,881)**
Actuarial gains/(losses) on employee benefits recognised in equity	(6,424)	5,101	(11,525)
Tax effect on the other actuarial profit/(loss) on staff benefit plans	585	(1,487)	2,072
Actuarial profit/(loss) on defined benefit pension plans net of tax effect	**(5,839)**	**3,613**	**(9,452)**
Total components of other comprehensive income, net of tax effect	**(10,411)**	**12,424**	**(22,835)**
Total comprehensive income/loss	**296,766**	**297,123**	**(357)**
Total comprehensive income (loss) attributable to:			
Group	272,932	282,895	(9,964)
Minority interests	23,834	14,228	9,607

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Ref. Note	ASSETS	31/12/2019	Of which with related parties	31/12/2018	Of which with related parties	Change
14	Tangible fixed assets	2,609,485		2,365,019		244,466
15	Real estate investments	2,431		2,489		(58)
16	Goodwill	182,902		149,886		33,016
17	Concessions	2,484,483		2,126,120		358,362
18	Intangible fixed assets	222,358		147,229		75,129
19	Right of use	63,397				63,397
20	Equity investments in unconsolidated subsidiaries and associates	268,039		279,085		(11,046)
21	Other equity investments	2,772		2,614		158
22	Deferred tax assets	237,693		227,362		10,332
23	Financial assets	47,202	26,144	55,831	30,847	(8,629)
24	Other assets	380,666		379,878		788
	NON-CURRENT ASSETS	**6,501,429**	**26,144**	**5,735,514**	**30,847**	**765,915**
25.a	Inventories	57,335		48,789		8,546
25.b	Trade receivables	1,035,462	99,798	927,834	83,982	107,628
25.c	Other current assets	212,956		252,888		(39,931)
25.d	Current tax assets	12,328		9,756		2,573
25.e	Current financial assets	299,212	121,968	113,960	86,644	185,252
25.f	Cash and cash equivalents	835,693		1,068,138		(232,445)
25	**CURRENT ASSETS**	**2,452,987**	**221,766**	**2,421,364**	**170,626**	**31,622**
	Non-current assets held for sale	0		183		(183)
	TOTAL ASSETS	**8,954,416**	**247,910**	**8,157,061**	**201,473**	**797,354**

Amounts in € thousand

Ref. Note	LIABILITIES	31/12/2019	Of which with related parties	31/12/2018	Of which with related parties	Change
	Shareholders' equity					
	Share capital	1,098,899		1,098,899		0
	Legal reserve	119,336		111,948		7,389
	Other reserves	(209,562)		(285,728)		76,166
	Retained earnings/(losses)	562,413		533,522		28,891
	Profit (loss) for the year	283,686		270,999		12,687
	Total Group shareholders' equity	**1,854,772**		**1,729,638**		**125,133**
	Minority interests	251,938		173,853		78,086
26	**Total shareholders' equity**	**2,106,710**		**1,903,491**		**203,219**
27	Employee severance indemnity and other defined-benefit plans	104,613		103,930		684
28	Provision for risks and charges	151,418		136,651		14,767
29	Borrowings and financial liabilities	3,551,889		3,374,134		177,754
30	Other liabilities	391,100		348,148		42,952
	NON-CURRENT LIABILITIES	**4,199,020**		**3,962,864**		**236,156**
31.a	Financial payables	674,364	79,616	408,675	627	265,689
31.b	Payables to suppliers	1,600,263	111,319	1,524,876	124,499	75,387
31.c	Tax payables	11,977		27,750		(15,773)
31.d	Other current liabilities	362,082		329,369		32,713
31	**CURRENT LIABILITIES**	**2,648,685**	**190,935**	**2,290,670**	**125,126**	**358,016**
	Liabilities directly associated with assets held for sale	0		37		(37)
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**8,954,416**	**190,935**	**8,157,061**	**125,126**	**797,354**

Amounts in € thousand

CONSOLIDATED STATEMENT OF CASH FLOWS

Ref. Note		31/12/2019	Related parties	31/12/2018	Related parties	Change
	Cash flow from operating activities					
	Profit before tax from continuing operations	430,390		409,033		21,357
8	Depreciation/amortisation	409,557		366,839		42,718
6-7	Write-ups/write-downs	22,862		18,428		4,434
28	Change in the provision for employee benefits	5,268		(51,861)		57,129
27	Change in employee severance indemnities	(10,708)		(7,105)		(3,603)
	Net financial debt interest	90,302		82,859		7,443
12	Income taxes paid	(132,617)		(79,145)		(53,471)
	Financial flows generated by operating activities before changes	**815,054**	**0**	**739,048**	**0**	**76,006**
25	Increases in receivables included in the working capital	(118,892)	(15,816)	98,720	(69,302)	(217,612)
31	Increase/decrease in payables included in the working capital	41,729	(13,180)	(15,544)	(11,555)	57,273
25	Increase/(decrease) in inventories	(7,447)		(7,623)		176
	Change in working capital	**(84,610)**	**(28,997)**	**75,553**	**(80,858)**	**(160,163)**
	Change in other assets/liabilities during the period	**39,137**		**(89,910)**		**129,047**
	TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**769,581**	**(28,997)**	**724,690**	**(80,858)**	**44,891**
	Cash flow from investment activities					
	Purchase/sale of tangible fixed assets	(431,036)		(241,607)		(189,429)
	Purchase/sale of intangible fixed assets	(361,740)		(375,276)		13,536
20-21	Purchase of equity investments in subsidiaries	(43,703)		(5,570)		(38,133)
	Collections/payments deriving from other financial investments	(177,824)	(30,620)	116,038	(39,283)	(293,862)
	Collected dividends	16,787	16,787	8,612	8,612	8,175
	Interest income collected	20,588		20,643		(55)
	TOTAL CASH FLOW FROM INVESTMENT ACTIVITIES	**(976,928)**	**(13,833)**	**(477,160)**	**(30,671)**	**(499,769)**
	Cash flow from financing activities					
29	Repayment of mortgages and long-term loans	(313,642)		(380,862)		67,220
29	Provision of mortgages/other debts and medium to long term	500,000		1,000,000		(500,000)
29-31	Decrease/Increase in other financial debts	(89,136)	78,989	(233,453)	(2,415)	144,317
	Interest expense paid	(109,302)		(108,340)		(962)
	Dividends paid	(73,795)	(73,795)	(137,379)	(137,379)	63,583
	TOTAL CASH FLOW FROM FINANCING ACTIVITIES	**(85,875)**	**5,194**	**139,966**	**(139,793)**	**(225,842)**
	Cash flow for the period	**(293,223)**	**(8,639)**	**387,497**	**(251,322)**	**(680,720)**
	Net opening balance of cash and cash equivalents	**1,068,138**		**680,641**		**387,497**
	Cash availability from acquisition	60,778		0		60,778
	Net closing balance of cash and cash equivalents	**835,693**		**1,068,138**		**(232,445)**

Amounts in € thousand

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

€ thousand	Share capital	Legal reserve	Other reserves	Profit for the period	Total	Minority interests	Total shareholders' equity
Balances as at 31 December 2017	1,098,899	100,619	337,435	180,673	**1,717,626**	93,580	**1,811,206**
FTA reserve	0	0	(158,569)	0	**(158,569)**	(3,847)	**(162,416)**
Balance as at 1 January 2018	1,098,899	100,619	178,867	180,673	**1,559,057**	89,733	**1,648,790**
Income statement profit	0	0	0	270,999	**270,999**	13,700	**284,699**
Other comprehensive income (loss)	0	0	0	11,896	**11,896**	528	**12,424**
Total comprehensive income (loss)	0	0	0	282,895	**282,895**	14,228	**297,123**
Allocation of result for 2017	0	11,329	169,344	(180,673)	**0**	0	**0**
Distribution of dividends	0	0	(133,905)	0	**(133,905)**	(6,519)	**(140,424)**
Change in scope of consolidation	0	0	0	0	**0**	84,374	**84,374**
Other changes	0	0	21,591	0	**21,591**	(7,962)	**13,629**
Balance as at 31 December 2018	1,098,899	111,948	235,897	282,895	**1,729,638**	173,853	**1,903,491**

€ thousand	Share capital	Legal reserve	Other reserves	Profit for the period	Total	Minority interests	Total shareholders' equity
Balance as at 1 January 2019	1,098,899	111,948	235,897	282,895	**1,729,638**	173,853	**1,903,491**
Income statement profit	0	0	0	283,686	**283,686**	23,491	**307,177**
Other comprehensive income (loss)	0	0	0	(10,754)	**(10,754)**	344	**(10,411)**
Total comprehensive income (loss)	0	0	0	272,932	**272,932**	23,834	**296,766**
Allocation of result for 2018	0	7,389	275,506	(282,895)	**0**	0	**0**
Distribution of dividends	0	0	(150,909)	0	**(150,909)**	(7,990)	**(158,899)**
Change in scope of consolidation	0	0	3,736	0	**3,736**	62,736	**66,472**
Other changes	0	0	(625)	0	**(625)**	(495)	**(1,120)**
Balance as at 31 December 2019	1,098,899	119,336	363,605	272,932	**1,854,772**	251,938	**2,106,710**

NOTES TO THE CONSOLIDATED INCOME STATEMENT

CONSOLIDATED NET REVENUES

At 31 December 2019 this item amounted to € 3,186,136 thousand (€ 3,028,487 thousand at 31 December 2018), recording an increase of € 157,649 thousand (+ 5.2%) from the previous year; they are broken down as follows:

€ thousand	2019	2018	Change	% Change
Revenue from sales and services	3,022,193	2,836,890	185,303	6.5%
Other revenue and proceeds	163,943	191,597	(27,654)	(14.4)%
Consolidated net revenues	**3,186,136**	**3,028,487**	**157,649**	**5.2%**

1. Revenue from sales and services – € 3,022,193 thousand

This item registered a total increase of € 185,303 thousand (6.5%) compared to the previous financial year which closed with € 2,836,890 thousand. The composition of the item is shown below.

€ thousand	2019	2018	Change	% Change
Revenue from electricity sales and services	1,732,347	1,805,912	(73,565)	(4.1)%
Revenue from gas sales	93,399	73,600	19,800	26.9%
Revenue from electricity incentives	20,837	24,238	(3,401)	(14.0)%
Revenues from the integrated water system	932,867	712,392	220,475	30.9%
Revenue from overseas water services	46,514	36,148	10,366	28.7%
Revenue from biomass transfer and landfill operations	77,925	62,674	15,250	24.3%
Revenue from customer services	92,431	88,009	4,422	5.0%
Connection fees	25,873	33,916	(8,043)	(23.7)%
Revenue from sales and services	**3,022,193**	**2,836,890**	**185,303**	**6.5%**

REVENUE FROM ELECTRICITY SALES AND SERVICES

These are equal to € 1,732,347 thousand and are represented as follows:

€ thousand	2019	2018*	Change	% Change
Electricity and heat generation	9,077	8,775	302	3.4%
Electricity sales	1,352,615	1,443,201	(90,586)	(6.3%)
Transport and metering of energy	335,936	303,273	32,663	10.8%
Energy sales from WTE	24,265	45,265	(21,000)	(46.4%)
Energy from photovoltaic plants	5,728	1,018	4,710	n.s.
Co-generation	4,725	4,381	345	7.9%
Revenue from electricity sales and services	**1,732,347**	**1,805,912**	**(73,565)**	**(4.1%)**

* It should be noted that the 2018 comparison of the table includes reclassifications that are not significant for the purposes of a better presentation of the data.

The main changes concern:

- the decrease of € 90,586 thousand in revenues from the sale of electricity due to the effect of: the RCV review and the value recognised for the compensation mechanism for arrears envisaged in ARERA Resolution no. 706/2018 and partly due to the reduction in the number of customers served (- 7.0%) in the protected market, partially offset by an increase in energy sold on the free market (+ 20.5%) mainly linked to the B2B segment, also due to the greater number of customers;
- the increase in revenues from transport activities and the measurement of energy destined for the protected and free markets derives from the combined effect of the increase in the number of users and tariff parameters, as well as the contribution of the effects linked to the equalisation of previous years which generate higher revenues for *areti* of € 1,015 thousand; while the general equalisation amount shows a higher revenue of € 26,545 thousand for the Company;
- the increase in revenues for energy from photovoltaic plants is € 4,710 thousand due to the change in the scope of consolidation for the acquisition of photovoltaic companies during the second half of 2019;
- the decrease in revenues from the sale of electricity from WTE plants is mainly due to the expiry of the CIP6 regime in July 2019, and to a lesser extent to the combined effect of the change in market prices set by the electricity services operator for the “Cnord”, “Csud” and “CIP6” tariffs, compared to the same tariffs in 2018, and the change in the volume of energy placed on the market.

REVENUE FROM GAS SALES

Revenues equal € 93,399 thousand and show an increase of € 19,800 thousand compared to 31 December 2018 due to both the price effect and the quantity-sold effect, to final customers and wholesalers (+ 11,457 million m3 of gas compared to 2018).

REVENUE FROM ELECTRICITY INCENTIVES

These revenues amount to € 20,837 thousand and show a decrease of € 3,401 thousand compared to the previous year. These revenues refer to green certificates: 1) those of Acea Produzione (€ 10,958 thousand) in relation to the energy produced by the Salisano and Orte Station, 2) those of Acea Ambiente (€ 3,151 thousand) from revenue for green certificates deriving from an incentive system from renewable sources of the WTE plants in Terni and San Vittore del Lazio.

REVENUES FROM THE INTEGRATED WATER SYSTEM

As mentioned in the paragraph to which reference is made for more detailed explanations, revenue from the Integrated Water Service is almost exclusively generated by the companies managing the service in Lazio and Campania. These revenues amounted to a total of € 932,867 thousand, up € 220,475 thousand (30.9%) compared with the previous year (€ 712,392 thousand). The table below provides detailed information on the breakdown by company:

€ thousand	2019	2018	Change	% Change
Acea Ato 2	624,061	602,591	21,470	3.6%
Acea Ato 5	72,365	67,193	5,173	7.7%
Crea Gestioni	4,389	3,669	721	19.6%
Gesesa	12,809	10,753	2,056	19.1%
Gori	185,868	21,957	163,912	n.s.
Umbria2	7,698	6,229	1,469	23.6%
AdF	25,676	0	25,676	n.s.
Revenues from the Integrated Water System	**932,867**	**712,392**	**220,475**	**30.9%**

The increase is mainly due to the change in the scope of consolidation for a total of € 164,164 thousand with reference to Gori (whose line-by-line consolidation is from 8 November 2018) and AdF (whose line-by-line consolidation is from 8 October 2019).

The increase recorded by Acea Ato 2 (+ € 21,470 thousand) is mainly due to the tariff increase determined in accordance with ARERA Resolution 918/2017 following the two-year update of the 2018-2019 tariff arrangements (€ 22,327 thousand), and the increase of € 2,213 thousand deriving from the bonus for contractual quality awarded to Acea Ato 2 pursuant to art. 32, letter a) of Resolution 664/2015, gross of the compensation due to users.

REVENUE FROM INTERNATIONAL WATER SERVICES

These amount to € 46,514 thousand and show an increase of € 10,366 thousand compared to the previous year (€ 36,148 thousand as at 31 December 2018) resulting from the consolidation of the company Consorcio Servicio Sur for € 5,579 thousand, and € 4,379 thousand from increases relating to Aguas de San Pedro for operations.

REVENUE FROM BIOMASS TRANSFER AND LANDFILL OPERATIONS

These revenues amounted to € 77,925 thousand, up € 15,250 thousand compared to the previous year (€ 62,674 thousand). The breakdown by company is provided below:

€ thousand	2019	2018	Change	% Change
Acea Ambiente	54,725	47,661	7,064	14.8%
Aquaser	14,741	7,592	7,149	94.2%
ISECO	234	205	30	14.5%
Acque Industriali	4,618	7,217	(2,599)	(36.0)%
Bioecologia	3,607		3,607	n.s.
Revenue from biomass transfer and landfill operations	**77,925**	**62,674**	**15,250**	**24.3%**

In addition to the consolidation of Bioecologia (+ € 3,607 thousand), the performance in 2019 was mainly influenced by the following events:

- Acea Ambiente + € 7,064 thousand due to the combined effect of the reduction in the volumes of waste treated at the UL1, UL3, UL 4 lines and the increase in the tariff. On the other hand, the increase in volumes handled at the Sabaudia and Aprilia plants led to higher revenues;
- Aquaser + € 7,149 thousand, connected with the increase in the quantities treated;
- Acque Industriali - € 2,599 thousand due to lower revenues from liquid treatment because of lower volumes treated.

REVENUE FROM CUSTOMER SERVICES

These amounted to € 92,431 thousand (€ 88,009 thousand at 31 December 2018) and increased by € 4,422 thousand. The changes can be represented as follows:

€ thousand	2019	2018	Change	% Change
Public Lighting – Rome	40,631	42,444	(1,813)	(4.3)%
Work for third parties	38,134	34,260	3,875	11.3%

(follows)

€ thousand	2019	2018	Change	% Change
Inter-company services	4,769	7,089	(2,320)	(32.7)%
Photovoltaic	197	197	0	0.1%
GIP revenue	6,235	6,354	(119)	(1.9)%
RIB services to the Municipality of Rome	513	0	513	n.s.
Change in inventories	1,952	(2,334)	4,286	(183.6)%
Revenue from customer services	**92,431**	**88,009**	**4,422**	**5.0%**

The change is due to negative values, specifically:

- higher revenues relating to the change in the scope of consolidation for € 9,877 thousand;
- lower revenues recorded by the company Umbriadue for € 7,551 thousand, mainly in relation to the completion of work on the project to build the new Scheggino-Pentima aqueduct (- € 7,735 thousand);
- an increase in the change in TWS inventories of € 3,547 thousand.

With reference to the breakdown of this item, the table for the Industrial Segment compared with the figures as at 31 December 2018 is shown below.

€ thousand	2019	2018	Change	% Change
Environment	13,589	7,355	6,234	84.8%
Commercial and Trading	802	237	565	n.s.
Overseas	793	1,300	(507)	(39.0)%
Water	18,192	18,816	(624)	(3.3)%
Energy Infrastructure	49,341	51,239	(1,898)	(3.7)%
Engineering and Services	5,277	3,256	2,021	62.1%
Parent Company	4,437	5,807	(1,370)	(23.6)%
Revenue from customer services	**92,431**	**88,009**	**4,422**	**5.0%**

CONNECTION FEES

These amounted to € 25,873 thousand, recording a decrease of € 8,043 thousand compared to 31 December 2018. This change is mainly attributable to Acea Energia (- € 4,509 thousand) and *areti* (- € 3,493 thousand).

2. Other proceeds – € 163,943 thousand

This item decreased by € 27,654 thousand (-14.4%) compared to 31 December 2018, which closed with a total of € 191,597 thousand. The following table supplies the breakdown of said entry:

€ thousand	2019	2018	Change	% Change
Contributions from Entities for Energy Efficiency Certificates	22,947	41,009	(18,063)	(44.0)%
Non-recurring gains	80,334	98,171	(17,838)	(18.2)%
Other revenues	21,308	16,283	5,025	30.9%
Refunds for damages, penalties, collateral	5,089	6,157	(1,068)	(17.3)%
Feed-in tariff	4,925	4,443	482	10.9%
Government grant (Prime Ministerial Decree of 23/04/04)	4,445	4,373	72	1.6%
Regional grants	6,776	3,034	3,742	123.4%
Income from end users	2	(239)	241	(101.0)%
Seconded personnel	480	1,115	(636)	(57.0)%
Real estate income	2,099	1,907	192	10.1%
IFRIC 12 margin	14,795	14,558	237	1.6%
Gains on asset disposals	28	21	7	32.3%
Recharged cost for company officers	653	764	(111)	(14.6)%
Premiums for continuity of service	62		62	n.s.
Other revenue and proceeds	**163,943**	**191,597**	**(27,654)**	**(14.4)%**

The variation was primarily determined by the following offsetting effects:

- decrease in revenues for grants accrued on white certificates (TEE) in the portfolio, down by € 18,063 thousand compared to the same period of 2018, mainly related to *areti*. The same decrease can be seen in the costs for energy, gas and fuels. This reduction is a consequence of the lower purchases made compared to the previous year and due to the fact that these securities are no longer purchased on the market but virtually from the GME and therefore only the margin has been accounted for;
- lower out-of-period income for € 17,838 thousand, which refers to Acea Energia for € 14,983 thousand and mainly concerns ex-

traordinary items as well as the assessment of energy items from previous years; to Acea Ato 2 for € 10.925 thousand with reference mainly to the higher revenues recorded in 2018 for the reversal of payables for costs allocated in previous years; to Acea Produzione for € 4,217 thousand mainly due to the recognition in 2018 of compensation for damages following the settlement of a dispute arising from the illegal capture of the waters of the River Verde with the company SASI (€ 5,029 thousand). These effects were offset by the recognition in the Parent Company of the 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.

CONSOLIDATED OPERATING COSTS

As at 31 December 2019 these amounted to € 2,185,306 thousand (€ 2,138,560 thousand at 31 December 2018), recording an increase of € 46,746 thousand (+ 2.2%) compared to the previous year. The breakdown is as follows:

€ thousand	2019	2018	Change	% Change
Personnel costs	248,871	219,624	29,248	13.3%
Costs of materials and overheads	1,936,434	1,918,936	17,498	0.9%
Consolidated operating costs	**2,185,306**	**2,138,560**	**46,746**	**2.2%**

3. Personnel costs – € 248,871 thousand

€ thousand	2019	2018	Change	% Change
Staff costs including capitalised costs	398,605	342,566	56,039	16.4%
Costs capitalised	(149,734)	(122,942)	(26,792)	21.8%
Personnel costs	**248,871**	**219,624**	**29,248**	**13.3%**

The increase in labour costs, gross of capitalised costs, amounted to € 56,039 thousand and was mainly influenced by higher personnel costs recorded in the Water Segment (+ € 47,020 thousand, of which € 42,836 thousand related to the recent change in scope related to the companies Gore and AdF). There were also increases in the Environment Segment (+ € 2,192 thousand) and in the Commercial and Trading Segment (+ € 1,504 thousand).

With regard to capitalised costs, there was an increase of € 26,792 thousand primarily driven by the Water Segment (+ € 20,153 thousand). The increase stems from the efficiency of company processes to meet the greater commitment required by the management of the service and the need to renew corporate assets.
The following tables show the average and actual number of staff by operating segment compared to same period of the previous year.

	Average number of employees			
	2019	2018	Change	% Change
Environment	389	360	29	8.1%
Commercial and Trading	470	464	5	1.1%
Overseas	814	781	33	4.3%
Water	3,094	2,551	543	21.3%
Lazio-Campania	*2,642*	*2,506*	*136*	*5.4%*
Tuscany-Umbria	*394*		*394*	*n.s.*
Other	*59*	*45*	*14*	*30.0%*
Energy Infrastructure	1,354	1,387	-33	(2.4)%
Distribution	*1,277*	*1,309*	*-32*	*(2.5)%*
Electricity generation	*78*	*78*	*-1*	*(1.0)%*
Public Lighting			*0*	*n.s.*
Engineering and Services	281	265	15	5.8%
Parent Company	668	663	5	0.8%
Total	**7,070**	**6,471**	**599**	**9.3%**

	End-of-period composition			
	31/12/2019	31/12/2018	Change	% Change
Environment	422	359	63	17.5%
Commercial and Trading	467	472	-5	(1.1)%
Overseas	1,202	797	405	50.8%
Water, Gas	3,174	2,599	575	22.1%
Lazio-Campania	*2,720*	*2,554*	*166*	*6.5%*

(follows)

	End-of-period composition			
	31/12/2019	31/12/2018	Change	% Change
Tuscany-Umbria	*394*		*394*	*n.s.*
Other	*60*	*45*	*15*	*33.3%*
Energy Infrastructure	1,353	1,379	-26	(1.9)%
Distribution	*1,272*	*1,301*	*-29*	*(2.2)%*
Electricity generation	*81*	*78*	*3*	*3.8%*
Public Lighting			*0*	*n.s.*
Engineering and Services	293	272	21	7.7%
Parent Company	665	656	9	1.4%
Total	**7,576**	**6,534**	**1,042**	**0**

4. Costs of materials and overheads – € 1,936,434 thousand. This item reported an overall increase of € 17,498 thousand (+ 0.9% compared to 31 December 2018, which closed with a total of € 1,918,936 thousand).

€ thousand	2019	2018	Change	% Change
Electricity, gas and fuel	1,370,566	1,399,780	(29,214)	(2.1)%
Materials	58,674	46,626	12,048	25.8%
Services	343,566	264,085	79,481	30.1%
Concession fees	59,214	52,321	6,893	13.2%
Cost of leased assets	22,981	26,351	(3,369)	(12.8)%
Other operating costs	81,433	129,773	(48,340)	(37.2)%
Costs of materials and overheads	**1,936,434**	**1,918,936**	**17,498**	**0.9%**

ELECTRICITY, GAS AND FUEL COSTS

This item includes:

€ thousand	2019	2018	Change	% Change
Purchase of electricity	937,554	1,028,288	(90,734)	(8.8)%
Purchase of gas	86,657	69,001	17,656	25.6%
Transportation of electric energy and gas	319,837	258,744	61,093	23.6%
White certificates	20,881	40,123	(19,243)	(48.0)%
Green certificates and Co_2 rights	5,638	3,624	2,014	55.6%
Electricity, gas and fuel costs	**1,370,566**	**1,399,780**	**(29,214)**	**(2.1)%**

The change is mainly due to: 1) lower costs linked to the supply of electricity, in line with the trend recorded in revenues, only partially offset by the higher costs of transport and energy measurement 2) higher costs incurred for the supply of gas deriving both from the price effect and from a quantity effect; 3) lower costs for energy certificates for € 19,243, in line with the trend recorded in revenues, under the item "Other income" to which reference should be made for more details.

MATERIALS

The cost of materials amounted to € 58,674 thousand and represents the cost of materials used net of capital expenditure, as shown in the table below.

€ thousand	2019	2018	Change	% Change
Purchase of materials	116,351	90,845	25,506	28.1%
Change in inventories	(6,169)	(10,624)	4,456	(41.9)%
Change in inventories	**110,182**	**80,221**	**29,961**	**37.3%**
Costs capitalised	(51,508)	(33,595)	(17,914)	53.3%
Materials	**58,674**	**46,626**	**12,048**	**25.8%**

Purchases of materials gross of inventories recorded an increase of € 25,056 thousand, mainly due to the Water Segment as a result of the change in the scope of consolidation, which contributed € 9,480 thousand. The remaining part refers mainly to Acea Ato 2 (+ € 11,308 thousand). The costs for materials incurred by the operating segments are detailed below.

SERVICES AND CONTRACT WORK

This item amounted to € 343,566 thousand, an overall increase of € 79,481 thousand compared to € 264,085 thousand at 31 December 2018. For an analysis of the breakdown, please see the following table:

€ thousand	2019	2018	Change	% Change
Technical and Administrative Services (including consulting and collaborations)	58,729	48,984	9,745	19.9%
Contract work	57,056	49,809	7,247	14.5%
Disposal and transport of sludge, slag, ash and waste	52,261	39,738	12,523	31.5%
Other services	61,602	34,325	27,277	79.5%
Personnel services	17,750	14,298	3,452	24.1%
Insurance costs	10,080	8,253	1,828	22.1%
Electricity, water and gas consumption	29,439	17,023	12,415	72.9%
Internal use of electricity	6,159	6,808	(649)	(9.5)%
Intragroup services and otherwise	2,012	744	1,268	170.4%
Telephone and data transmission costs	5,802	5,165	637	12.3%
Postal expenses	3,641	4,010	(368)	(9.2)%
Maintenance fees	11,643	13,771	(2,128)	(15.5)%
Cleaning, transport and porterage costs	4,308	3,592	716	19.9%
Advertising and sponsorship costs	10,826	7,094	3,732	52.6%
Corporate bodies	2,785	2,265	520	23.0%
Meter readings	4,024	4,308	(284)	(6.6)%
Bank charges	2,984	2,406	578	24.0%
Travel and accommodation expenses	2,123	1,611	512	31.8%
Seconded personnel	(6)	(310)	304	(98.0)%
Printing expenses	347	190	156	82.3%
Costs for services	**343,566**	**264,085**	**79,481**	**30.1%**

The change in the scope of consolidation increased by € 50,141 thousand, mainly in other services (+ € 20,703 thousand) and consumption (+ € 15,910 thousand). The remaining increase is mainly due to the costs incurred for disposal and transport of sludge in Aquaser (+ € 12,523 thousand); costs for contract works carried out in Acea Ato 2 and Acea Ato 5 (total + € 7,247 thousand) and the higher marketing and advertising costs of Acea Energia (+ € 1,548 thousand) linked to the new commercial campaign launched in June to support new commercial offers on the free electricity and gas market.

CONCESSION FEES

Concession fees totalled € 59,214 thousand (+ € 6,893 thousand compared to 31 December 2018) and referred to companies that manage Area Authorities under concession in Lazio and Campania.

The following table shows a breakdown of the fees by Company, compared to 2018.

€ thousand	2019	2018	Change	% Change
Acea Ato 2	49,005	47,530	1,475	3.1%
Acea Ato 5	3,685	3,705	(20)	(0.5)%
Gori	2,413	435	1,978	n.s.
Pescara Distribuzione Gas	2,275		2,275	n.s.
Gesesa	384	356	28	7.8%
AdF	1,133		1,133	n.s.
Other group companies	321	296	25	8.5%
Concession fees	**59,214**	**52,321**	**6,893**	**13.2%**

The increase mainly refers to the change in the scope of consolidation for a total of € 5,386 thousand. For other information regarding the concessions, reference should be made to the information in the specific section entitled "*Service concession arrangements*".

COST OF LEASED ASSETS

This item amounted to € 22,981 thousand, a decrease of € 3,369 thousand compared to last year (€ 26,351 thousand at 31 December 2018). The decrease is related to the application of the new IFRS 16 international standard from 1 January 2019, which generated lower costs of € 11,429 thousand. This effect is partially offset by the hire rent related to the change in scope (+ € 4,719 thousand). The following table shows changes by Industrial Segment:

€ thousand	2019	2018	Change	% Change
Environment	933	1,297	(364)	(28.1)%
Commercial and Trading	509	473	36	7.5%
Overseas	3,019	2,423	596	24.6%
Water	8,232	5,893	2,339	39.7%
Energy Infrastructure	5,969	8,377	(2,407)	(28.7)%
Engineering and Services	388	671	(283)	(42.2)%
Parent Company	3,931	7,217	(3,286)	(45.5)%
Cost of leased assets	**22,981**	**26,351**	**(3,369)**	**(12.8)%**

In line with IFRS 16, this item contains costs relating to short-term leases and leases of modest value.

OTHER OPERATING COSTS

These amounted to € 81,433 thousand as at 31 December 2019 and decreased by € 48,340 thousand. The table below provides details of this item by type:

€ thousand	2019	2018	Change	% Change
Taxes and duties	14,761	28,137	(13,376)	(47.5)%
Damages and outlays for legal disputes	8,871	11,818	(2,947)	(24.9)%
Contributions paid and membership fees	4,593	3,491	1,103	31.6%
General expenses	15,230	13,596	1,634	12.0%
Contingent liabilities	37,978	72,731	(34,754)	(47.8)%
Other operating costs	**81,433**	**129,773**	**(48,340)**	**(37.2)%**

This decrease is mainly due to lower out-of-period expenses arising from the recognition of energy items from previous years relating to Acea Energia for € 26,439 thousand, which are offset by the recognition of out-of-period expenses of the same nature recorded under "Other income". The decrease is also due to the registration as at 31 December 2018 of the administrative fine of € 16,200 thousand imposed on the Acea Group by the Antitrust Authority.

5. Net Revenue/(Costs) from management of risk commodities – € 99 thousand

At 31 December 2019 these amount to € 99 thousand and represent the net balance of the valuations of derivatives taken out to hedge Acea Energia's trading operations. It should be noted that as from 1 July 2018 the Company has been trading with the main energy carriers.

6. Income/(Costs) from equity investments of a non-financial nature – € 41,367 thousand

This item represents the consolidated result according to the equity method that is included among the EBITDA components of companies previously consolidated using the proportionate method. Jointly controlled investments are also included under this item, therefore from this year the result of the company S.I.I. S.c.p.a., which manages the water service in the province of Terni and is 25% owned by Umbriadue, was reclassified under this item.
The breakdown of this item is detailed below:

€ thousand	2019	2018	Change	% Change
EBITDA	144,057	161,364	(17,307)	(10.7%)
Amortisation, depreciation, impairment charges and provisions	(79,586)	(94,545)	14,959	(15.8%)
Financial items	(7,997)	(39)	(7,958)	n.s.
Total profit/(loss) on equity investments	(5)	(5,928)	5,923	(99.9%)
Taxes	(15,102)	(17,534)	2,432	(13.9%)
Income from equity investments of a non-financial nature	**41,367**	**43,320**	**(1,953)**	**(4.5%)**

The EBITDA of these companies decreased by € 1,953 thousand, mainly due to the change in the scope of consolidation. In fact last year Gori was consolidated using the equity method until November 8. This effect is partially offset by the reclassification of S.I.I., while on a like-for-like basis overall the EBITDA is in line with the previous year.

The companies' assessments are detailed below:

€ thousand	2019	2018	Change	% Change
Publiacqua	16,267	15,784	483	3.1%
Acque Group	12,301	13,863	(1,562)	(11.3%)
AdF	3,650	4,619	(968)	(21.0%)
Umbra Acque	2,142	1,147	994	86.7%
Gori	0	3,032	(3,032)	(100.0%)
Nuove Acque and Intesa Aretina	679	459	220	47.9%
Geal	1,182	982	200	20.4%
Ingegnerie Toscane	3,033	2,318	715	30.9%
Ecomed in liquidation	(2)	(6)	4	(65.0%)
Integrated Water Services	984	0	984	100.0%
AZUL	1,130	1,120	10	0.9%
Total	**41,367**	**43,320**	**(1,953)**	**(4.5%)**

7. Net write-downs (write-backs) of trade receivables – € 66,814 thousand

This item shows a decrease net of changes in the scope of consolidation (+ € 9,025 thousand) of € 17,291 thousand. The change is mainly attributable to *areti* (- € 12,501 thousand) as a result of the positive recognition of the effects deriving from the issue on 27/12/2019 of Resolution 568/2019/R/EEL, which provides for the recovery of the portion relating to network tariffs similar to the model for the recognition of uncollected general system charges and lower provisions for bad debts of Acea Energia (- € 9,712 thousand) following the improvement in collection performance.
The breakdown by operating segment is provided below:

€ thousand	2019	2018	Change	% Change
Environment	45	87	(42)	(48.3)%
Commercial and Trading	29,089	35,820	(6,731)	(18.8)%
Overseas	4,143	2,302	1,841	80.0%
Water	39,888	29,643	10,246	34.6%
Energy Infrastructure	(9,245)	10,677	(19,922)	(186.6)%
Engineering and Services	145	104	41	39.7%
Parent Company	2,749	(3,553)	6,301	(177.4)%
Impairment charges and losses on receivables	**66,814**	**75,080**	**(8,266)**	**(11.0)%**

8. Depreciation, amortisation and provisions – €457,376 thousand

The item amortisation, depreciation and provisions increased by € 77,769 thousand compared to the previous year. The details are as follows:

AMORTISATION / DEPRECIATION OF INTANGIBLE AND TANGIBLE ASSETS AND WRITE-DOWNS

€ thousand	2019	2018	Change	% Change
Depreciation	147,276	135,103	12,173	9.0%
Amortisation	259,649	222,118	37,530	16.9%
Impairment charges	2,633	9,618	(6,985)	(72.6)%
Depreciation/amortisation	**409,557**	**366,839**	**42,718**	**11.6%**

The increase of € 42,718 thousand is mainly due to the increase in amortisation and depreciation. The change in the scope of consolidation resulted in increases in amortisation and depreciation for an amount of € 34,011 thousand, mainly attributable to Gori (+ € 20,702 thousand) and AdF (+ € 9,264 thousand).
Also of note is the increase in amortisation and depreciation recorded by *areti* for € 12,782 thousand, in part due to the acceleration of depreciation of first generation electronic meters that will be replaced in the coming years according to the swap plan for the installation of second generation meters. Finally, of particular note is the reduction in amortisation and depreciation recorded by Acea Ato 2 for € 4,860 thousand.
Finally, it should be noted that the item relating to intangible amortisation includes the effect of the application of IFRS 16 amounting to € 10,747 thousand (for further details on this, see the section "Effects deriving from the introduction of new accounting standards").
Impairment losses as at 31 December 2019 mainly refer to *areti* and mainly concern the write-down of assets not suitable for use and the residual write-down of meters; while impairment losses as at 31 December 2018 referred to the write-down of assets under construction by Acea Ato 2 for € 3.903 thousand, of a further share of the Acea Ambiente plant for € 1,337 thousand (specifically referred to Monterotondo) and € 1,400 thousand of the Cinecittà Parchi di Ecogena plant following the Transaction Agreement signed with the counterparty on 27 December 2018.

PROVISIONS

Provisions as at 31 December 2019 net of releases amount to € 47,819 thousand and can be represented by nature as follows:

€ thousand	2019	2018	Change	% Change
Legal	4,376	2,618	1,757	67.1%
Taxes	721	5,381	(4,660)	(86.6)%
Regulatory risks	7,329	11,440	(4,111)	(35.9)%
Investees		1,000	(1,000)	(100.0)%
Contributory risks	417	284	133	46.8%
Insurance deductibles	2,993	2,488	505	20.3%
Concession fees			0	n.s.
Other risks and charges	4,203	12,644	(8,441)	(66.8)%
Total Provision for Risks	**20,039**	**35,856**	**(15,817)**	**(44.1)%**
Early retirements and redundancies	27,235	28,210	(975)	(3.5)%
Post mortem	17		17	n.s.
Liquidation charges		174	(174)	(100.0)%
Charges towards Others	6,937	1,671	5,265	n.s.
IFRIC 12 restoration charges		0	0	n.s.
Commitments from the Convention			0	n.s.
Total Provisions	**54,227**	**65,910**	**(11,683)**	**(17.7)%**
Release of Provisions	(6,408)	(53,142)	46,734	(87.9)%
Total	**47,819**	**12,768**	**35,051**	**n.s.**

The breakdown of provisions by Operating Segment are shown in the following table:

€ thousand	2019	2018	Change	% Change
Environment	1,273	(908)	2,181	n.s.
Commercial and Trading	(559)	11,763	(12,322)	(104.8)%
Overseas	50	97	(46)	(47.7)%
Water	17,082	14,535	2,547	17.5%
Energy Infrastructure	21,903	23,339	(1,436)	(6.2)%
Engineering and Services	757	816	(59)	(7.3)%
Parent Company	7,313	(36,873)	44,187	(119.8)%
Provisions	**47,819**	**12,768**	**35,051**	**n.s.**

The most significant allocations made in the financial year are appropriations for:

- retirement and redundancy fund (€ 27,235 thousand) and represent the sum necessary to handle the personnel reduction plan through the adoption of a voluntary redundancy and facilitated retirement programs for Group personnel;
- regulatory risks (€ 7,329 thousand) of which € 5,500 thousand and relating to penalties for continuity of service and € 1,787 thousand relating to Acea Produzione;
- other risks of € 4,203 thousand mainly related to the provision made by Acea Energia for various legal disputes (€ 2,634 thousand);
- charges to others (€ 6,937 thousand) mainly attributable to Acea Ato 5 and relating to the provision of € 4,500 thousand for the reconciliation between Optimal Territorial Area Authority no. 5 Southern Lazio – Frosinone) and Acea Ato 5 SpA as investments to be made without any tariff recognition, to be borne entirely by the Operator.

9. Financial income – € 15,787 thousand

€ thousand	2019	2018	Change	% Change
Interest on financial receivables	5,559	4,699	861	18.3%
Bank interest income	162	214	(51)	(24.1)%
Interest on trade receivables	8,165	12,260	(4,094)	(33.4)%
Interest on other receivables	1,373	949	425	44.8%
Financial income from discounting to present value	546	754	(209)	(27.6)%
Financial income from measurement of fair value hedges	(308)	(1,348)	1,039	(77.1)%
Other income	289	311	(22)	(6.9)%
Financial income	**15,787**	**17,838**	**(2,051)**	**(11.5)%**

Financial income amounted to € 15,787 thousand, a decrease of € 2,051 thousand compared to the previous year. The change is mainly due to lower interest income issued to traders by *areti* (- €4,698 thousand) and lower interest on arrears on receivables from customers registered by Acea Ato 2 (- € 2,632 thousand), offset by higher income from Gori (+ € 4,864 thousand).

10. Financial costs – € 106,089 thousand

€ thousand	2019	2018	Change	% Change
Costs (Income) on Interest Rate Swaps	5,213	2,090	3,123	149.4%
Interest on bonds	64,453	66,320	(1,867)	n.s.
Interest on medium/long-term borrowings	15,777	15,506	271	1.7%
Interest on short-term borrowings	1,605	595	1,010	169.7%
Default interest and interest on deferred payments	1,241	4,166	(2,925)	n.s.
Interest cost net of actuarial gains and losses	1,592	1,446	146	10.1%
Factoring fees	5,583	6,900	(1,316)	n.s.
Interest on payments by instalment	447	32	415	n.s.
Discounting charges	4,299	1,119	3,180	n.s.
IFRS 16 financial charges	2,018		2,018	n.s.
Other financial charges	2,754	1,145	1,609	140.6%
Interest payable to end users	1,031	1,223	(193)	n.s.
Foreign exchange gains (losses)	76	156	(80)	n.s.
Financial costs	**106,089**	**100,697**	**5,392**	**5.4%**

Financial costs amounted to € 106,089 thousand, up € 5,392 thousand compared to 31 December 2018. The average overall “All in” cost of the Acea Group’s debt at 31 December 2019 stood at 2.15% against 2.21% at the end of 2018.
With regard to financial costs related to borrowings, the following changes should be noted compared to 31 December 2018:

- compared to 31 December 2018, interest on bonds decreased by € 1,867 thousand due to the repayment in September 2018 of a € 600 million bond partially offset by the costs of new issues in May 2019;
- interest on arrears and deferrals decreased by € 2,925 thousand. The reduction is mainly attributable to the company *areti* (- € 2,616 thousand);
- commissions on receivables transferred decreased by € 1,316 thousand; The reduction is mainly attributable to Acea Ato 2 (- € 1,010 thousand) and Acea Energia (- € 506 thousand), partly offset by the increase in *areti* (+ € 191 thousand);
- discounting charges increased mainly due to the consolidation of Gori (+ € 3,180 thousand);
- the recording of financial charges from discounting relating to the first-time application of IFRS 16 for € 2,018 thousand (for further details on this, see the section “Effects deriving from the introduction of new accounting standards”).

11. Income and costs from Equity Investments – € 2,585 thousand

€ thousand	2019	2018	Change	% Change
Income from equity investments in associates	2,592	13,639	(11,047)	(81.0)%
(Costs) of shares in related companies	(7)	(306)	299	(97.6)%
(Costs) and revenue from shares	**2,585**	**13,332**	**(10,748)**	**(80.6)%**

Revenue from shares refers to consolidation according to the net worth method of some Group companies. The 2019 income refers to the company AguaAzul Bogotà, while the change is mainly due to income recorded in 2018 relating for € 8,902 thousand to the closure of the Business Combination related to the acquisition of the TWS Group, and for € 3,609 thousand to the effects resulting from the discounting of the rescheduling of the payable that the company Gori has towards the Campania Region.

12. Income Tax – € 123,213 thousand

Estimated tax expenses for the period were € 123,213 thousand compared to € 124,334 thousand in the previous year.
The breakdown is essentially as follows:

- Current taxes: € 123,694 thousand (€ 123,716 thousand as at 31 December 2018);
- Net deferred/(prepaid) taxes: - € 481 thousand (€ 618 thousand as at 31 December 2018).

The table below shows the breakdown of taxes and the correlated percentage weight calculated on consolidated profit before tax:

€ thousand	2019	%	2018	%
Profit before tax from continuing and discontinued operations	430,390		409,033	
Expected tax charge at 27.5% on profit before tax	103,294	24.0%	98,168	24.0%
Permanent differences	(14,050)	(3.3%)	(4,708)	(1.2%)
IRES for the period	89,243	20.7%	93,460	22.8%
IRAP (regional income tax)	33,970	7.9%	30,874	7.5%
Total taxes	**123,213**	**28.6%**	**124,334**	**30.4%**

The tax rate from the financial year is reported as 28.6% (it was 30.4% at 31 December 2018).

13. Earnings per share

Earnings per share are calculated by dividing profit for the year attributable to Acea by the weighted average number of Acea shares outstanding during the year, excluding treasury shares. The weighted average number of shares outstanding was € 212,548 as at 31 December 2019. Diluted profit per share is calculated dividing profit for the financial year attributable to Acea by the weighted average number of Acea shares in circulation during the year, excluding treasury shares, increased by the number of shares which could potentially be put in circulation. At 31 December 2019 there were no shares that could potentially be put into circulation and, accordingly, the weighted average number of shares for the calculation of basic earnings per share coincides with the weighted average number of shares for the calculation of diluted earnings per share.

Earnings per share, determined in accordance with IAS 33, are shown below:

€ thousand	2019	2018	Change
Net profit attributable to the Group (€/000)	283,686	270,999	12,687
Net profit attributable to ordinary equity holders of the Group (€/000) (A)	283,686	270,999	12,687
Weighted average number of ordinary shares for the purpose of determining earnings per share			
basic (B)	212,964,900	212,964,900	0
basic (C)	212,964,900	212,964,900	0
Earnings per share (€)			
basic (A/B)	**1.33208**	**1.27250**	**0.05957**
diluted (A/C)	**1.33208**	**1.27250**	**0.05957**

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

At 31 December 2019 these amounted to € 8,954,416 thousand (€ 8,157,061 thousand at 31 December 2018), recording an increase of € 797,354 thousand or 9.8% from the previous year; they are broken down as follows:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Non-current fixed assets	6,501,429	5,735,514	765,915	13.4%
Current assets	2,452,987	2,421,364	31,622	1.3%
Non-current assets held for sale	0	183	(183)	(100.0%)
Total Assets	**8,954,416**	**8,157,061**	**797,354**	**9.8%**

14. Tangible fixed assets – € 2,609,485 thousand

81% of the tangible fixed assets comprise the net booking value of the infrastructures used for the distribution and generation of electricity (€ 2,123,928 thousand). The remaining 19% refer to:

- facilities belonging to the Environment Segment companies for € 251,808 thousand;
- infrastructures related to the Parent Company for € 95,005 thousand;
- infrastructures related to the Energy Segment for € 96,814 thousand;
- infrastructure related to the Overseas Segment for € 36,989 thousand.

The following table reports the details and transfers of material assets during the year.

€ thousand	Land and buildings	Plant and machinery	Industrial equipment	Other assets	Fixed assets under construction	Assets to be relinquished	Total tangible fixed assets
Historical cost 31/12/2018	**508,373**	**2,968,339**	**851,033**	**141,305**	**60,897**	**9,301**	**4,539,249**
Assets Destined for Sale	-	-	-	-	-	-	-
Investments/ Acquisitions	18,239	148,496	68,394	6,797	76,506	826	319,258
Disinvestments	(229)	(4,449)	(13,954)	(1,360)	(7,642)	-	(27,634)
Change in scope of consolidation	7,113	175,122	7,199	13,743	17,598	-	220,775
Other changes	15,010	22,190	5,573	1,750	(81,262)	(1,980)	(38,719)
Historical cost 31/12/2019	**548,506**	**3,309,698**	**918,246**	**162,235**	**66,097**	**8,147**	**5,012,929**
Accumulated depreciation at 31/12/2018	**(151,125)**	**(1,631,643)**	**(272,809)**	**(110,166)**	**(2,300)**	**(6,186)**	**(2,174,229)**
Assets Destined for Sale	-	-	-	-	-	-	-
Depreciation/ amortisation and impairment charges	(12,397)	(82,190)	(43,102)	(9,893)	176	(546)	(147,951)
Disinvestments	0	(247)	6,851	788	-	-	7,393
Change in scope of consolidation	(2,531)	(102,523)	(2,736)	(11,128)	-	-	(118,917)
Other changes	13,509	14,858	(3,266)	1,227	2,124	1,810	30,262
Accumulated depreciation at 31/12/2019	**(152,544)**	**(1,801,744)**	**(315,062)**	**(129,172)**	**-**	**(4,921)**	**(2,403,444)**
Net value 31/12/2019	**395,961**	**1,507,954**	**603,184**	**33,063**	**66,097**	**3,225**	**2,609,485**

Investments increased compared to last year (€ 248,912 thousand at 31 December 2018) and amounted to € 319,258 thousand. They refer mainly to those made by:

- ***areti*** for € 220,667 thousand for the renewal and upgrading of the MV/LV network, the development of TSIE projects, as well as work on primary and secondary cabins and meters. During the year the so-called "Resilience Plan" was implemented, which consists of interventions on substations and on the MV and LV networks. Investments for the year also include the acquisition of the operating headquarters in Via Flaminia for € 8,635 thousand;

- **Acea Ambiente** for € 47,930 thousand for investments concerning: 1) revamping works at the Monterotondo Marittimo and Aprilia composting plants, 2) work carried out at the Terni and San Vittore WTE plants, 3) work on the compost maturation and storage building in Orvieto;
- **Acea Produzione** for € 11,242 thousand, mainly for the plant revamping works at the Mandela hydroelectric power plant and the Tor di Valle and Montemartini thermoelectric plants, for the extension and refurbishment of the district heating network in the Mezzocammino district in the southern area of Rome and for the static functional upgrading of the tunnels deriving from the San Cosimato dam reservoir;
- **Aguas de San Pedro** for € 6,372 thousand for the expansion and extraordinary maintenance of the water and sewerage networks of the areas managed;
- **Acea** for € 4,813 thousand for extraordinary maintenance works on the premises used for company activities and for hardware-related investments within the Acea2.0 project.

The contribution to the higher investments deriving from the change in the scope of consolidation amounts to € 16,684, in particular with reference to the photovoltaic companies (€ 5,999 thousand), Pescara Distribuzione Gas (€ 1,319 thousand) and the consolidation of AdF (€ 3,922 thousand) and Gori (€ 6,546).
Depreciation, amortisation and impairment includes write-downs of € 734 thousand made in Acea Ato 2 and *areti*.
The change in property, plant and equipment deriving from the companies included in the scope of consolidation during 2019 amounts to € 101,858 thousand and mainly concerns: 1) photovoltaic companies with a contribution of € 50,503 thousand, 2) AdF for € 29,563 thousand and 3) Pescara Distribuzione Gas for € 14,141 thousand.
Other changes refer to reclassifications due to the commissioning of assets under construction and disposals and disinvestments of assets.

15. Investment property – € 2,431 thousand

Investment property primarily includes land and buildings not used in operations and held for rental. The decrease of € 58 thousand compared to last year derives from the amortisations and depreciations.

16. Goodwill – € 182,902 thousand

At 31 December 2019 goodwill amounted to € 182,902 thousand (€ 149,886 thousand at 31 December 2018). The change compared to the previous year refers to the recognition of goodwill arising from the consolidation of the companies acquired during 2019 (for more information, please refer to the section on the Business Combination). Goodwill recognised as a result of business combinations is attributed to CGUs that benefit from the synergies deriving from the acquisition. The table below shows the goodwill per CGU aggregated according to the main activity of the companies.

€ thousand	31/12/2018	Acquisitions	Impairments/ Revaluations	Other changes	2019
Integrated water service management	0	0	-	-	0
Network Management	-	792	-	-	792
Sale of Electricity and Gas	46,982	-	-	-	46,982
Intercompany Services	125	-	-	(33)	93
Renewable energy plants	91,618	10,156	-	-	101,774
Waste-to-energy and Composting plants	11,138	-	-	-	11,138
Liquid Waste Treatment and Sludge Disposal	24	6,014	-	(4)	6,033
Water Services and Whey Powder Production	-	-	-	-	-
Overseas	-	-	-	-	-
Plastic recycling services	-	16,091	-	-	16,091
Goodwill	149,886	33,053	-	(37)	182,902

In order to verify the book value of the CGUs, as part of the impairment procedure the Group provides an estimate of an interval relating to the recoverable value of the assets in terms of value in use ("VIU"), in continuity with the previous year, i.e. using the Discounted Cash Flow (DCF) method, which identifies the ability to generate cash flows as the fundamental element for the purposes of assessing the entity of reference. For the purpose of discounting operating cash flows, the weighted average cost of post-tax capital is calculated.
The parameters used to estimate the discount rates are determined on the basis of baskets of comparable European companies and, for regulated activities, also referring to the parameters defined by ARERA to estimate WACC. Therefore, the application of the financial method for the determination of the recoverable value and the subsequent comparison with the respective carrying amounts provides an estimate of the following elements for each CGU: the value of the discount rates (WACC post-tax); the value of the operating flows; the value of the Terminal Value (TV) and, in particular, the growth rate (g) used for the projection of the flows beyond the Plan horizon.
The recoverable amount of the CGU is calculated as the sum of current value of Plan's cash flows and current Terminal Value. As regards the determination of the WACC, it is specified that for regulated businesses (Water and Electricity Distribution) the WACC used is determined by the regulator while for the Environment, Commercial and Trading segment business and for Production plants the WACC is calculated using the CAPM method.
For the purposes of determining the value of operating flows, the forecasts contained in the latest Business Plan approved by the Acea BoD are taken into account, if necessary updated by management to take account of regulatory and/or management changes that have occurred in the meantime. 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.
Following is a summary of the assumptions used in the tests:

	Recoverable value	WACC	Terminal value	Cash flow period
Integrated water service management	Value in use	5.24%	Estimated to be equal to the residual value as defined by the Regulator at the end of the concession.	The time horizon coincides with the end of the related Concessions.
Network Management	Value in use	5.87%	Estimated to be equal to the residual value as defined by the Regulator at the end of the concession.	Budget 2020 prepared by Acea Management.
Sale of Electricity and Gas	Value in use	6.17%	Estimated on the basis of a perpetuity in the absence of growth, a flow (determined as an average of the flows of the last 3 years of the plan).	Plans drawn up by the Commercial and Trading Segment that extend until 2022.
Intercompany Services	Value in use	5.2%	Estimated to be equal to the NIC of the plan's last year.	Based on company budgets and projections that represent the best available and achievable estimates of the main assumptions about the company's operations with respect to the equity investments examined and the expected results attributable to them.
Renewable energy plants	Value in use	4.81%	The terminal value is estimated to be equal to the NIC at the end of the plants' useful life. With regard to Acea Produzione, on the other hand, the terminal value of the plants is estimated to be equal to the NIC with the exception of perennial concessions for which the TV is estimated to be equal to the perpetuity of the normalised flow.	Based on company budgets and projections that represent the best available and achievable estimates of the main assumptions about the company's operations with respect to the equity investments examined and the expected results attributable to them.
Waste-to-energy and Composting plants	Value in use	5.30%	Estimated to be equal to the NIC at the end of the plants' useful life.	Budget 2020 prepared by Acea Management.
Liquid Waste Treatment and Sludge Disposal	Value in use	5.30%	Estimated to be equal to the NIC at the end of the plants' useful life.	Budget 2020 prepared by Acea Management.
Water Services and Whey Powder Production	Value in use	5.30%	Estimated to be equal to the NIC at the end of the plants' useful life.	Budget 2020 prepared by Acea Management.
Overseas	Value in use	11.95%	Estimated to be equal to the NIC of the plan's last year.	Based on company budgets and projections that represent the best available and achievable estimates of the main assumptions about the company's operations with respect to the equity investments examined and the expected results attributable to them.
Plastic recycling services	Value in use	5.30%	Estimated to be equal to the NIC at the end of the plants' useful life.	Budget 2020 prepared by Acea Management.

17. Concessions and Rights on Infrastructure – € 2,484,483 thousand

This item mainly refers to assets related to Water Management, in particular including:

- the values of concessions received from the Municipalities (€ 173,906 thousand);
- the overall amount of all tangible infrastructures for the management of water services (€ 2,315,184 thousand), in accordance with IFRIC 12.

Concessions refer for € 112,217 thousand to the thirty-year concession from Roma Capitale on the assets consisting of water and sewage treatment facilities, and to the right arising from taking over the management of the integrated water service in the Municipality of Formello. Rights are amortised on the basis, respectively, of the remaining term of the concession signed between Acea and Roma Capitale and the term of the Management Agreement signed by the Mayors in Ato 2. Included is the balance of the 30-year comprehensive water management concession for San Pedro Sula in Honduras for a total amount of € 8,217 thousand.
Capital expenditures for the period relating to **Infrastructure rights** amounted to € 357,932 thousand and refer to:

- Acea Ato 2 for € 277,727 thousand for the modernisation,

expansion and reclamation of the water and sewerage pipes of the various Municipalities; to the extraordinary maintenance of the water centres of the treatment plants and to the actions aimed at reducing water leaks;
- Acea Ato 5 for € 33,051 thousand for the replacement, maintenance and expansion of water supplies and sewerage pipes and investments in state property under concession;
- Gori for € 46,930 thousand for the extraordinary maintenance of the water, sewerage and purification network and for the expansion of the water pipelines.

The consolidation of AdF contributed € 7,194 thousand to the increase in investments.

The item **Other changes** mainly comprises reclassifications for the commissioning of the assets.

18. Intangible assets – € 222,358 thousand

The item has a net book value as at 31 December 2019 of € 222,358 and can be represented as follows:

€ thousand	Patent rights	Other intangible fixed assets	Fixed assets under construction	Total intangible fixed assets
31/12/2018	**115,884**	**25,405**	**5,940**	**147,229**
Depreciation/amortisation and impairment charges	(52,484)	(11,714)	(0)	(64,198)
Investments/acquisitions	36,633	25,898	53,055	115,586
Disinvestments	(797)	(2)	(474)	(1,273)
Change in scope of consolidation	2,113	21,801	3,141	27,055
Other changes	49,494	(19,632)	(31,902)	(2,040)
31/12/2019	**150,843**	**41,756**	**29,759**	**222,358**

The increase over the previous year, amounting to € 75,129 thousand, arises from capital expenditure incurred during the period (€ 115,586 thousand), net of amortisation and reductions in value (€ 64,198 thousand) and reclassifications.
Capital expenditures during the year totalled € 115,586 thousand and are mainly attributable to:
- areti for € 44,995 thousand for charges incurred for the re-engineering of the information and commercial distribution systems and for the harmonisation of systems to support measurement activities, with particular reference to technological innovations;
- Acea Energia for € 42,353 thousand, mainly for software related to the Acea 2.0 program, with particular reference to the development and evolution costs of software dedicated to user accounts;
- the Parent Company for € 16,362 thousand for the purchase and implementation of software to support the development of IT platform management systems, corporate security and administrative management.

19. Right of use – € 63,397 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").
As at 31 December 2019 the net book value of these assets is € 63,397 thousand and the nature of these assets can be represented as follows:

€ thousand	31/12/2019
Land and buildings	48,655
Cars and motor vehicles	5,004
Machinery and equipment	7,345
Distribution cabins	2,175
Other	217
Total	**63,397**

The book value of the assets consisting of the right of use at the end of the financial year for each class of underlying asset and the related changes in the period are shown below:

	Land and buildings	Cars and Vehicles	Machinery and equipment	Distribution cabins	Other	Total
Balance at first application	45,520	5,591	0	2,330	237	**53,679**
New contracts	1,851	1,955	0	42	39	**3,887**
Increases for purchases	8,818	141	7,629	0	0	**16,588**
Depreciation/amortisation	(7,536)	(2,672)	(284)	(196)	(60)	**(10,748)**
Remeasurement	2	0	0	0	0	**2**
Derecognition	0	(11)	0	0	0	**(11)**
Total	**48,655**	**5,005**	**7,345**	**2,176**	**217**	**63,397**

With regard to extension or termination options, it should be noted that for regulated businesses, with regard to contracts relating to concession activities, the estimated term for contract renewals is the year of the end of the concession itself. There are also no guarantees on residual value, variable payments and leases not yet signed to which the Group 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.

20. Equity investments in associates – € 268,039 thousand

Company name	31/12/2018	Gains/ losses from valuation of shareholders' equity	Decrease for dividends	Currency translation differences	Changes with direct effect on shareholders' equity	Change in scope of consolidation	OCI	Other changes/ reclassifications	31/12/2019
Acque SpA	68,418	11,712	(2,687)	0	(1)	0	2,561	0	80,002
Acque servizi	4,425	589	(585)	0	0	0	(67)	0	4,362
AdF SpA	37,212	3,650	(2,400)	0	0	(38,462)	0	0	(0)
Consorcio Agua Azul SA	7,443	1,130	(1,249)	657	0	0	0	0	7,981
Ecomed Srl	0	(2)	0	0	0	0	0	2	0
Geal SpA	7,450	1,182	(672)	0	0	0	8	0	7,968
Intesa Aretina Scarl	1,586	(441)	(638)	0	0	0	0	0	507
Nuove acque	10,916	1,120	0	0	0	0	(49)	0	11,988
Publiacqua SpA	107,273	16,268	(7,200)	0	(625)	0	41	0	115,756
Integrated Water Services	7,062	984	0	0	0	0	0	0	8,046
Umbra Acque SpA	14,855	2,142	0	0	0	0	78	0	17,075
Ingegnerie Toscane	10,126	3,033	(1,935)	0	0	345	17	0	11,586
Other equity investments	2,319	2,585	(2,579)	67	0	446	0	(69)	2,769
Total equity investments	**279,085**	**43,952**	**(19,945)**	**723**	**(626)**	**(37,671)**	**2,588**	**(67)**	**268,039**

The main changes that occurred during the period refer primarily to the valuations of companies consolidated using the equity method, which have a positive impact on the Income Statement for a total of € 43,952 thousand. These valuations are reflected in the item "Income/(Costs) from equity investments of a non-financial nature" for € 41,367 thousand and in the item "Income/Costs from equity investments" for € 2,585 thousand; and to the decrease for the distribution of dividends for a total of € 19,945 thousand. The change in the scope of consolidation (- € 38,462 thousand) refers to the full consolidation of the company AdF, previously consolidated using the equity method.

The income statement and balance sheet data of the main investees consolidated using the equity method are provided below:

2019 € thousand	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenues	Valuation of companies using the equity method	NFP
AZUL	4,423	3,010	(78)	(174)	(3,409)	1,130	2,665
INTESA ARETINA	11,192	381		(518)	(266)	(441)	208
NUOVE ACQUE	18,432	6,003	(9,647)	(3,179)	(9,181)	1,120	(4,314)
ECOMED	3	374	(20)	(405)		(2)	163
GEAL	16,887	5,220	(9,535)	(4,139)	(9,647)	1,182	(3,957)
INGEGNERIE TOSCANE	4,924	13,321	(3,018)	(7,108)	(14,284)	3,033	(3,302)
ACQUE SER	1,438	6,912	(1,453)	(3,210)	(11,176)	589	(334)
ACQUE	209,790	44,095	(141,898)	(30,062)	(81,583)	11,712	(86,982)
PUBLIACQUA	208,127	56,114	(69,425)	(76,885)	(109,364)	16,268	(53,377)
INTEGRATED WATER SERVICE	22,260	11,638	(8,956)	(16,783)	(12,078)	984	(9,440)
UMBRA	63,065	13,372	(25,323)	(36,464)	(36,249)	2,142	(18,252)
Total	**560,541**	**160,440**	**(269,347)**	**(178,928)**	**(287,237)**	**37,717**	**(176,922)**

This table does not contain the Equity Valuation of AdF until 7 October 2019 (€ 3,650 thousand).

2018 € thousand	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenues	Valuation of companies using the equity method	NFP
AZUL	4,743	2,537	(112)	(211)	(3,124)	1,120	2,198
INTESA ARETINA	10,232	396		(506)	(266)	(456)	223
NUOVE ACQUE	18,301	4,574	(9,232)	(2,726)	(9,002)	916	(4,546)
AZGA NORD			6				
ECOMED	3	375	(4)	(421)		(6)	165
FIORA	98,880	30,007	(72,854)	(22,316)	(46,341)	4,619	(38,805)
GEAL	15,672	5,057	(7,365)	(5,494)	(8,536)	982	(2,049)
INGEGNERIE TOSCANE	3,273	13,436	(543)	(9,263)	(11,734)	2,318	(3,782)
ACQUE SER	998	10,326	(1,580)	(5,993)	(12,273)	571	(399)
ACQUE	197,115	39,689	(53,320)	(114,640)	(77,191)	13,292	(78,043)
PUBLIACQUA	196,468	48,706	(79,615)	(57,132)	(102,814)	15,784	(39,828)
UMBRA	62,734	11,090	(31,142)	(30,503)	(33,468)	1,147	(14,969)
Total	**608,419**	**166,194**	**(255,760)**	**(249,205)**	**(304,750)**	**40,287**	**(179,835)**

This table does not contain Gori's Equity Valuation until 7 November 2018 (€ 3,032 thousand).

21. Other equity investments – € 2,772 thousand

These total € 2,772 thousand (they were € 2,614 thousand at the end of 2018) and are comprised of investments in shareholder securities which do not represent control, association or joint control.

22. Deferred tax assets – € 237,693 thousand

Deferred tax assets net of the deferred tax provision amounted to € 237,693 thousand as at 31 December 2019 (€ 227,362 thousand as at 31 December 2018) and are due to temporary differences between the book value and the fiscal value of assets and liabilities recorded in the financial statements. Specifically, this item is mainly made up of deferred taxes linked to the difference between the economic-technical depreciation rates applied to depreciable assets and the tax rates and deferred taxes linked to the non-deducted portion of the write-down of receivables and provisions for risks.
The table below details the changes in deferred tax assets and liabilities by type of time difference, determined on the basis of the tax rates provided by the measures in force:

	2018	Changes in 2019					2019
€ thousand	Balance	Changes in scope of consolidation	Adjustments/ Reclassifications	Changes in shareholders' equity	Uses	IRES/IRAP provisions	Balance
Prepaid taxes							
Tax losses	132	0	0	0	(225)	772	680
Remuneration of BoD members	16	0	0	0	(9)	13	20
Provisions for risks and charges	26,064	0	0	0	(13,932)	15,308	27,440
Impairments of receivables and equity investments	63,085	0	23,604	0	(12,791)	7,688	81,586
Depreciation/amortisation	122,899	(0)	3,884	(118)	(13,463)	12,724	125,925
Defined benefit and defined contribution plans	13,592	67	823	(111)	(1,365)	407	13,413
Tax assets on consolidation adjustments	5,955	0	(5,955)	0	0	0	0
Fair value commodities and other financial instruments	19,853	0	(11,752)	983	(518)	32	8,599
Others	61,456	9,482	(13,272)	(83)	(8,398)	6,996	56,182
Total	**313,053**	**9,549**	**(2,667)**	**671**	**(50,700)**	**43,940**	**313,845**
Deferred taxes							
Depreciation/amortisation	49,322	1	9,578	(51)	(12,827)	4,350	50,373
Defined benefit and defined contribution plans	(186)	0	895	(538)	(78)	623	717
Fair value commodities and other financial instruments	16,016	0	(11,143)	(1,709)	(196)	0	2,967
Others	20,539	456	249	(35)	(2,076)	2,962	22,095
Total	**85,691**	**458**	**(421)**	**(2,333)**	**(15,177)**	**7,935**	**76,152**
Net	**227,362**	**9,091**	**(2,246)**	**3,004**	**(35,523)**	**36,005**	**237,693**

The Group recognised deferred tax assets based on earnings forecasts in the Group's business plans, which confirm the probability that sufficient future taxable profit will be available against which all of the deferred tax assets recognised in the financial statements can be recovered.

23. Non-current financial assets – € 47,202 thousand

These amount to € 47,202 thousand (€ 55,831 thousand at 31 December 2018) and show a decrease of € 8,629 thousand due mainly to the change in receivables due from Roma Capitale for € 3,471 thousand, relating to new investments for the Public Lighting service, such as plant upgrading, energy savings, legislative adjustments and technological innovation, which will be paid to Acea, for an amount equal to tax depreciation, after 2019, in compliance with the terms of the Supplementary Agreement to the service contract signed on 15 March 2011.

This item also includes the share of receivables arising from the application of the financial asset model envisaged by IFRIC 12 for the Parent Company regarding services under concession. This receivable represents the total investments made up to 31 December 2010 related to the service itself and at 31 December 2019 amounted to € 18,673 thousand, down by € 4,461 thousand.

24. Other non-current assets – € 380,666 thousand

At 31 December 2019, the breakdown was as follows:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Receivables due from the State	92	92	0	n.s.
Advances and deposits	1,157	1,006	151	15.0%
Other receivables	394	366	28	7.5%
Long-term receivables for tariff adjustments	277,522	286,103	(8,581)	(3.0)%
Long-term receivables for Regulatory Lag	91,111	80,020	11,091	13.9%
Accrued income and prepayments	10,391	12,292	(1,901)	(15.5)%
Other non-current assets	**380,666**	**379,878**	**788**	**0.2%**

This item includes long-term receivables for tariff adjustments of € 277,522 thousand (€ 286,103 thousand as at 31 December 2018) from water companies, while € 91,111 thousand (€ 80,020 thousand as at 31 December 2018) are receivables recorded in areti for regulatory lag, the increase being due to the effect of the increase in investments compared to the previous year.

25. Current assets – € 2,452,987 thousand

€ thousand	31/12/2019	31/12/2018	Change	% Change
Inventories	**57,335**	**48,789**	**8,546**	**17.5%**
Trade receivables:				
Receivables from customers	935,082	863,200	71,881	8.3%
Receivables from Parent Company	86,745	52,513	34,232	65.2%
Receivables from subsidiaries and associates	13,636	12,122	1,515	12.5%
TOTAL TRADE RECEIVABLES	**1,035,462**	**927,834**	**107,628**	**11.6%**
Other current receivables and assets	212,956	252,888	(39,931)	(15.8%)
Current financial assets	299,212	113,960	185,252	162.6%
Current tax assets	12,328	9,756	2,573	26.4%
Cash and cash equivalents	835,693	1,068,138	(232,445)	(21.8%)
Current assets	**2,452,987**	**2,421,364**	**31,622**	**1.3%**

25.a – Inventories

These amounted to € 57,335 thousand (€ 48,789 thousand at 31 December 2018); the breakdown by operating segment is as follows:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Environment	5,935	5,608	328	5.8%
Commercial and Trading	300	401	(101)	(25.3)%
Overseas	1,336	945	391	41.4%
Water	16,615	9,217	7,398	80.3%
Energy Infrastructure	29,694	30,293	(600)	(2.0)%
Engineering and Services	3,454	2,325	1,130	48.6%
Parent Company	0	0	0	n.s.
Total	**57,335**	**48,789**	**8,546**	**17.5%**

The increase is essentially due to the increase in Acea Ato 2 (+ € 5,831 thousand), while the change in the scope of consolidation affected the increase of € 1,401 thousand, particularly with regard to AdF.

25.b – Trade receivables

These amounted to € 1,035,462 thousand, recording an increase of € 107,628 thousand compared to the previous year, when the figure was € 927,834 thousand.

€ thousand	31/12/2019	31/12/2018	Change	% Change
Trade receivables	935,082	863,200	71,881	8.3%
Amounts due from Roma Capitale	86,745	52,513	34,232	65.2%
Receivables from associates and joint ventures	13,636	12,122	1,515	12.5%
Current receivables	**1,035,462**	**927,834**	**107,628**	**11.6%**

Trade receivables

These total € 935,082 thousand, € 71,881 higher than 31 December 2018:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Receivables due from end users for bills issued	347,984	307,075	40,909	13.3%
Receivables due from end users for bills to be issued	445,000	411,299	33,702	8.2%
Total receivables due from end users	**792,985**	**718,374**	**74,610**	**10.4%**
Receivables from other customers	142,037	144,766	(2,729)	(1.9%)
Other current receivables and assets	60	60	0	0.0%
Total receivables	**935,082**	**863,200**	**71,881**	**8.3%**

Receivables are shown net of the Allowance for doubtful accounts which amounted to € 651,527 thousand as at 31 December 2019 and decreased by € 42,694 thousand due to the effect of uses for the period and lower provisions (see the note to the income statement relating to "Net write-downs (write-backs) of trade receivables" for further details).

The performance of receivables, both gross and net of the provision for the impairment of receivables, is shown below.

€ million	31/12/2019			31/12/2018			Change		
	Gross receivables (a)	Provision for write-downs (b)	Net receivables	Gross receivables (c)	Provision for write-downs (d)	Net receivables	Gross receivables (a)-(c)	Provision for write-downs (b)-(d)	Net receivables
Environment	63,378	(4,531)	58,847	56,240	(4,400)	51,840	7,139	(131)	7,008
Commercial and Trading	466,857	(279,803)	187,054	540,076	(323,686)	216,389	(73,218)	43,883	(29,335)
Overseas	19,905	(13,639)	6,266	16,458	(8,218)	8,240	3,447	(5,421)	(1,974)
Water	799,570	(268,259)	531,311	726,119	(267,947)	458,172	73,452	(312)	73,139
Energy Infrastructure	232,715	(83,332)	149,383	213,786	(87,891)	125,895	18,928	4,559	23,488
Engineering and Services	2,322	(909)	1,413	2,753	(918)	1,835	(431)	9	(422)
Parent Company	1,860	(1,053)	808	1,989	(1,160)	829	(129)	107	(21)
Total	**1,586,608**	**(651,527)**	**935,082**	**1,557,421**	**(694,220)**	**863,200**	**29,188**	**42,694**	**71,881**

Environment segment receivables

These totalled € 58,847 thousand, an increase of € 7,008 thousand compared to 31 December 2018. The increase is due for € 5,791 thousand to the consolidation of Berg and Demap and for the remaining part to the increase recorded in Bioecologia (+ € 1,185 thousand). During 2019, Acea Ambiente receivables were transferred without recourse for a total amount of € 6,271 thousand, all due from the Public Administration.

Commercial and Trading segment receivables

These amount to € 187,054 thousand and are mainly generated by the sale of electricity to customers in the protected and free market and by the sale of gas, with a decrease of € 29,335 thousand compared to 2018 due to improved collection performance. The provision for impairment of receivables at 31 December 2019 amounted to € 279,803 thousand, with a decrease net of uses of € 43,883 thousand compared to 31 December 2018. The reductions are the result of uses for the period and lower provisions due to improved collection performance.

During 2019, Acea Energia's receivables were assigned without recourse for a total amount of € 374,474 thousand.

Overseas segment receivables

These totalled € 6,266 thousand and decreased compared to 31 December 2018 mainly due to Aguas De San Pedro (- € 2,912 thousand).

Water segment receivables

These totalled € 531,311 thousand, recording an increase of € 73,139 thousand compared to 31 December 2018. The increase in receivables is due to the consolidation of AdF for € 39,882 thousand and Pescara Distribuzione Gas for € 2,970 thousand.

The write-down provision as at 31 December 2019 totalled € 268,259 thousand, substantially in line (+ € 312 thousand) with 31 December 2018. During 2019, the following receivables were assigned without recourse: 1) Acea Ato 2 for an amount of € 328,700 thousand, of which € 28,794 thousand from the Public Administration; 2) Acea Ato 5 for an amount of € 1,352 thousand entirely due from the Public Administration; 3) Gori for an amount of € 11,721 thousand due from the Public Administration; 4) AdF for an amount of € 451 thousand entirely due from the Public Administration.

Energy Infrastructure segment receivables

These amounted to € 149,383 thousand, an increase of € 23,488 thousand compared to 31 December 2018, of which € 16,379 thousand refers to *areti* due to the change in prices imposed by the Authority, in particular with reference to the Arim rate (remaining general system charges for LV, MV and HV users), which was set at zero in the third and fourth quarters of 2018, while it was revalued again in 2019. The change in the scope of consolidation resulting from the acquisition of the photovoltaic companies led to an increase in receivables of € 8,401 thousand.

The allowance for doubtful accounts as at 31 December 2019 totalled € 83,332 thousand and increased by € 4,559 thousand.

In 2019, *areti* receivables totalling € 647,584 thousand were transferred pro-soluto, € 149,454 thousand to the Public Administration.

Engineering and Services segment receivables
These totalled € 1,413 thousand, and the reduction of € 422 thousand compared to 31 December 2018 referred mainly to TWS.

Parent Company receivables
These amounted to a total of € 808 thousand and are in line with the balance as at 31 December 2018. The Provision for impairment of receivables also amounted to € 1,053 thousand, unchanged compared to the previous year.

Receivables from the Parent Company Roma Capitale

Trade receivables due from Roma Capitale totalled € 86,745 thousand at 31 December 2019 net of allowances for write-downs (€ 52,513 thousand at 31 December 2018).
The total amount of receivables net of allowances for write-downs (including short-term and medium/long term financial receivables resulting from the Public Lighting contract) was € 234,898 thousand compared to € 155,993 thousand at the end of 2018.

The following table presents an analysis of receivables and payables, including those of a financial nature, between Acea Group and Roma Capitale, as regards both net credit exposure and debt exposure, including financial items.

€ thousand	31/12/2019	31/12/2018	Change	% Change
RECEIVABLES	234,898	155,992	78,906	50.6%
PAYABLES (including dividends)	(201,239)	(108,063)	(93,176)	86.2%
Balance (Receivables – Payables)	**33,660**	**47,929**	**(14,270)**	**(29.8)%**

The following tables also provide a breakdown of Group receivables/payables due from/to Roma Capitale.

Amounts due from Roma Capitale

€ thousand	31/12/2019	31/12/2018	Change
Utility receivables	90,567	55,639	34,929
Provisions for write-downs	(9,343)	(9,315)	(28)
Total receivables from users	**81,224**	**46,324**	**34,900**
Receivables for water works and services	2,484	3,274	(790)
Receivables for water works and services to be invoiced	1,461	1,542	(82)
Contributions	0	0	0
Provisions for write-downs	(1,897)	(1,897)	0
Receivables for electrical works and services	3,799	3,596	203
Provisions for write-downs	(326)	(326)	(0)
Total receivables for works	**5,520**	**6,189**	**(668)**
Total trade receivables	**86,745**	**52,513**	**34,232**
Financial receivables for Public Lighting services billed	138,838	99,110	39,729
Provisions for write-downs	(30,152)	(30,152)	(0)
Financial receivables for Public Lighting services to be billed	39,201	25,669	13,532
Provisions for write-downs	(14,960)	(9,843)	(5,117)
M/L term financial receivables for Public Lighting services	15,227	18,697	(3,471)
Total Public Lighting receivables	**148,154**	**103,481**	**44,673**
Total Receivables	**234,898**	**155,993**	**78,905**

Payables due to Roma Capitale

€ thousand	31/12/2019	31/12/2018	Change
Electricity surtax payable	(15,251)	(15,252)	2
Concession fees payable	(96,412)	(79,839)	(16,573)
Other payables	(10,109)	(12,972)	2,863
Dividend payables	(79,468)	0	(79,468)
Total payables	**(201,239)**	**(108,063)**	**(93,176)**
Net balance receivables payables	**33,660**	**47,930**	**(14,270)**

The change in receivables and payables is due to the accrual of the period and the effects of compensations.
During the year the stock of trade receivables recorded growth of € 34,232 thousand compared to the previous year, mainly due to the increase in receivables for water accounts.
Financial receivables also grew € 44,673 thousand compared to the previous year due 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.

Payables increased overall by a total of € 93,176 thousand.
The main changes are listed below:

- recognition of the payable for Acea's share dividends accrued in 2018 of € 77,114 thousand, as resolved by the Shareholders in April 2019;
- registration of the portion accrued in the year for the concession fee of Acea Ato 2 for € 25,054 thousand;
- inclusion of the debt for Acea Ato 2 shareholding dividends accrued in 2018 equal to € 2,354 thousand;
- reduction in payables relating to authorisations for excavations

defined as new road cables regulations for € 2,568 thousand;
- decrease in the Acea Ato 2 concession fee for 2016 for a total of € 8,480 thousand following payment through compensation.

Note that in April 2019 the subsidiary *areti* paid the Cosap for the current year worth € 1,426 thousand.
As described in the Consolidated 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, between December 2019 and February 2020 the following offsets were made for a total of € 39,306 thousand; the types of receivables concerned are listed below:

- December 2019: receivables for € 7,177 thousand of water use for the years 2009-2014 in exchange for the Acea Ato 2 2016 concession fee;
- December 2019: receivables for € 1,304 thousand mainly for works for the completion of the water and sanitary network for 2009 and water service contract for 2018 in exchange for the Acea Ato 2 2016 concession fee;
- February 2020: receivables for Public Lighting for € 10,463 thousand referring to 2018 and 2016-2018 pro-rata amounts in exchange for Acea's share dividends for the year 2018;
- March 2020: receivables for € 20,362 thousand relating to water services for the years 2017-2018 in exchange for the Acea Ato 2 concession fee.

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.

Trade receivables from associates and joint ventures

Trade receivables from associated and jointly controlled companies mainly refer to receivables from companies consolidated using the equity method. These receivables amount to a total of € 13,636 (+ € 1,515 thousand), and the increase is due to Umbriadue's higher receivables from S.I.I. for operational management work. The receivables from subsidiaries recorded in Acea were affected by the recognition of others arising from the allocation of costs incurred for the Acea2.0 programme and reflect the allocation of the investment in the joint venture.

25.c – Other current assets

€ thousand	31/12/2019	31/12/2018	Change	% Change
Receivables from others	192,957	225,142	(32,184)	(14.3)%
Accrued income and prepayments	19,999	19,196	803	4.2%
Payables arising from commodity derivatives	0	8,550	(8,550)	(100.0)%
Total	**212,956**	**252,888**	**(39,931)**	**(15.8)%**

Receivables from others

These totalled € 192,957 thousand, with a breakdown of the main contributing items as follows:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Receivables due from the Equalisation Fund	31,681	54,147	(22,467)	(41.5)%
Receivables from Equalisation Fund for Tariff Contribution from cancellation	4,882	2,823	2,059	72.9%
Other receivables from Equalisation Fund	5,558	11,718	(6,160)	(52.6)%
Financial receivables from Trifoglio immobiliare	-	-	-	n.s.
Regional grants receivable	815	10,252	(9,437)	(92.0)%
Credits for Social Security contributions as per article 41, 2nd paragraph, letter A of Law 488/1999	-	-	-	n.s.
Receivables from Equitalia	110	96	14	14.0%
Security deposits	3,354	2,988	366	12.3%
Receivables from social security institutions	3,130	2,780	350	12.6%
Receivables from individual transfers	2,354	2,192	161	7.4%
Suppliers' advances	4,316	775	3,541	n.s.
Receivables due from Municipalities	11,553	11,589	(36)	(0.3)%
Receivables from Factor from the sale	(150)	62	(212)	n.s.
Receivables for accrued Green Certificates	4,301	9,438	(5,137)	(54.4)%
Receivables from AATO	-	-	-	n.s.
Receivables from staff	33	3	30	n.s.
Other receivables for Naples Public Lighting services	-	-	-	n.s.
Receivables for restitution of tariff restrictions	-	-	-	n.s.

(follows)

€ thousand	31/12/2019	31/12/2018	Change	% Change
Receivables for advances to employees	215	60	154	n.s.
Other Tax Receivables	33,024	31,640	1,383	4.4%
Other receivables	87,783	84,577	3,206	3.8%
Total	**192,957**	**225,142**	**(32,184)**	**(14.3)%**

The decrease of € 32,184 thousand is mainly due to the reduction in Acea Energia's receivables from the Compensation Fund for Energy and Environmental Services (- € 27,426 thousand) and lower receivables from Acea Ato 2 for regional contributions.

Accrued income and prepaid expenses

These amounted to € 19,999 thousand (€ 19,196 thousand at 31 December 2018) and refer mainly to connection contributions, state fees and insurance.

22.d – Current tax assets

These amounted to € 12,328 thousand (€ 9,756 thousand at 31 December 2018) and include IRAP and IRES receivables.

25.e – Current financial assets

€ thousand	31/12/2019	31/12/2018	Change	% Change
Financial receivables from the Parent Company	132,927	84,783	48,145	56.8%
Financial receivables from associates and joint ventures	2,518	2,306	212	9.2%
Financial receivables from third parties	163,766	26,871	136,895	n.s.
Total	**299,212**	**113,960**	**185,252**	**162.6%**

Financial receivables from the Parent Company Roma Capitale

These totalled € 132,927 thousand, recording a decrease of € 48,145 thousand compared to 31 December 2018. They represent the unconditional right to receive cash flows in line with the methods and timing envisaged in the service agreement for Public Lighting management. Further details are provided in the note "*Receivables due from the Parent Company Roma Capitale*".

Financial receivables from associates and joint ventures

These amount to € 2,518 thousand (€ 2,306 thousand as at 31 December 2018) and refer for € 1,895 thousand to the short-term portion of the loan for financing members registered in Umbriadue Servizi provided to the associated company S.I.I.

Financial receivables from third parties

These amounted to € 163,766 thousand (€ 26,871 thousand as at 31 December 2018) and are mainly broken down as follows:

- € 125,000 thousand recorded in Acea for the opening of a short-term deposit line with the Parent Company;
- € 10,700 thousand recorded in Acea Ato 5. This amount refers to the receivable from the Ato and accrued over three years; one-third of the above amount was due December 31 of each year, with the first instalment due on 31 December 2007. The Settlement Agreement entered into by the Company and the Ato concerns the issue of higher operating costs incurred in the 2003-2005 period and provides for the recognition of higher costs net of sums relating to 1) the tariff portion – corresponding to amortisation/depreciation and return on inflated invested capital – relating to the investments set out in the Area Plan and not carried out in the first three-year period, 2) the portion of inflation accrued on concession fees and 3) fines for the non-fulfilment of contractual obligations in the three-year period. For further details on this subject, see the paragraph "Conciliation Board with AATO 5" in the section "Significant events for the 2019 financial year";
- € 5,040 thousand accrued for the management of the Public Lighting service;
- € 3,372 thousand recorded in Ecogena for finance leases issued for the cogeneration plants built.

25.f – Cash and cash equivalents

The balance at 31 December 2019 of bank current accounts and postal accounts, opened with the various banks and Post Offices by the consolidated companies amounted to € 835,693 thousand. The composition of the item is shown below:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Bank and postal deposits	823,742	1,064,117	(240,374)	(22.6)%
Cheques	1,280	1,375	(95)	(6.9)%
Cash and similar items of value on hand	10,671	2,646	8,025	n.s.
Total	**835,693**	**1,068,138**	**(232,445)**	**(21.8)%**

LIABILITIES

At 31 December 2019 these amounted to € 8,954,416 thousand (€ 8,157,061 thousand at 31 December 2018), recording an increase of € 797,354 thousand (9.8%) over the previous year, and are broken down as follows:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Shareholders' equity	2,106,710	1,903,491	203,219	10.7%
Non-current liabilities	4,199,020	3,962,864	236,156	6.0%
Current liabilities	2,648,685	2,290,670	358,016	15.6%
Liabilities directly associated with assets held for sale	0	37	(37)	(100.0%)
Total Liabilities	**8,954,416**	**8,157,061**	**797,354**	**9.8%**

26. Shareholders' equity – € 2,106,710 thousand

At 31 December 2019, shareholders' equity amounted to € 2,106,710 thousand (€ 1,903,491 thousand at 31 December 2018). Changes in shareholders' equity during the period are shown in the appropriate statement.

Share capital

This amounts to € 1,098,899 thousand, 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** ordinary shares with an overall par 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 for a total par value of € 2,151 thousand.

Legal reserve

The legal reserve includes 5% of the profits from previous years, in accordance with article 2430 of the Italian Civil Code, and it refers to the legal reserve of the parent company amounting to € 119,336 thousand.

Other reserves and retained earnings

At 31 December 2019 this item amounted to € 352,851 thousand against € 247,793 thousand at 31 December 2018. The change of € 105,057 thousand is mainly due, in addition to the allocation of the profit from the previous year, to the: 1) distribution of dividends of the parent company for € 150,909 thousand equal to € 0.71 per share, 2) decrease in cash flow hedges of financial instruments and commodities for € 2,019 thousand, 3) decrease of € 6,424 thousand in actuarial gains and losses reserves, 4) decrease in the exchange rate reserve for € 5,299 thousand.

At 31 December 2019 Acea held 416,993 treasury shares to be used for future medium/long-term incentive schemes. At this time there are no medium/long-term share-based payment schemes planned.

Minority interests

These amounted to € 251,938 thousand, an increase of € 78,086 thousand. The difference between the two periods under comparison mainly reflects the change in the scope of consolidation, particularly AdF, and the combined effect of the portion of net profit attributable to minority interests and the decrease in shareholders' equity as a result of the distribution of dividends from net profit for 2018.

27. Employee severance indemnity and other defined benefit plans – € 104,613 thousand

At 31 December 2019, this item amounted to € 104,613 thousand (€ 103,930 thousand as at 31 December 2018) and represents termination and other benefits payable to employees on retirement or termination of employment.

The following table shows the change in actuarial liabilities during the year:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Benefits due at the time of termination of employment				
Employee severance indemnity	65,719	65,902	(182)	(0.3)%
Extra months	10,498	10,461	37	0.4%
Long-Term Incentive Plans (LTIP)	1,945	2,009	(64)	(3.2)%
Post-employment benefits				
Tariff subsidies	26,451	25,558	893	3.5%
Total	**104,613**	**103,930**	**684**	**0.7%**

In addition to the provision which, pursuant to the revised legislation on Termination Benefits, consists of the employee termination benefits accrued until 31 December 2006, the change reflects the revised discount rate used for the valuation according to IAS 19.

As required by paragraph 78 of IAS 19, the interest rate used to calculate the present value of the obligation was based on returns, at the end of the reporting period, on securities of major companies listed on the same financial market as Acea, and on returns on government bonds in circulation at the same date that have terms to maturity similar to the residual term of the liability for the workforce in question.

As regards the economic and financial scenario, the following table shows the main parameters used for the evaluation.

	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%

With regard to the measurement of the Group Employee Benefits (Employee severance indemnity (TFR), Monthly bonuses, tariff subsidies for current and retired staff) a sensitivity analysis was performed to assess the changes in the liability resulting from both positive and negative shifts of the rate curve (+0.5% shift /- 0.5% shift). The results of this analysis are summarised below.

Type of plan € million	+0,5%	-0,5%
Employee severance indemnities (TFR)	-3.5	+2.9
Tariff subsidies	-1.1	+1.2
Extra months	-0.5	+0.5

Furthermore, a sensitivity analysis was performed related to the age of the group, hypothesizing a group one year younger than the actual one. Sensitivity analyses were not performed for other variables such as, for example, inflation rate.

Type of plan

€ million	-1 year of age
Employee severance indemnities (TFR)	-0.2
Tariff subsidies	-0.7
Extra months	0.4

28. Provisions for liabilities and charges – € 151,418 thousand

At 31 December 2019, the provision for risks and charges amounted to € 151,418 thousand (€ 136,651 thousand at 31 December 2018) and is allocated to hedge among other things probable liabilities that may derive from ongoing legal disputes, on the basis of that stated by internal and external lawyers, without considering those that could be successful and those that could be lost being assessed exclusively as possible.

When calculating the size of the provisions, account is taken both of the estimated costs that may derive from litigation or other disputes arising during the year and an update of estimates of the potential liabilities deriving from the litigation involving the Company in previous years.

The following table shows a breakdown of provisions and movements in the year:

€ million	31/12/2018	Uses	Provisions	Payment of Redundancy Funds	Reclassifications/ Other changes	31/12/2019
Legal	13,198	(1,121)	4,376	(2,113)	1,884	16,224
Taxes	10,728	(2,500)	721	313	64	9,326
Regulatory risks	26,556	(6,344)	7,329	(60)	82	27,563
Investees	7,732			0	(268)	7,464
Contributory risks	1,076	(55)	417		(33)	1,405
Insurance excess	9,580	(1,667)	2,993		(608)	10,297
Other risks and charges	23,461	(2,753)	4,203	(3,751)	4,053	25,212
Total Provision for Risks	**92,332**	**(14,440)**	**20,039**	**(5,612)**	**5,173**	**97,492**
Early retirements and redundancies	25,651	(24,501)	27,235	(789)	1,479	29,076
Post mortem	16,709		17		364	17,090
Provision for Settlement Charges	275	(174)		(8)	54	147
Provision for Charges of others	1,685	(1,343)	6,937		335	7,613
Total Provision for Charges	**44,319**	**(26,018)**	**34,189**	**(796)**	**2,232**	**53,926**
Total Provisions for Risks and Charges	**136,651**	**(40,458)**	**54,227**	**(6,408)**	**7,406**	**151,418**

For more details about the nature of the allocations please refer to note 8. Acea considers that the settlement of ongoing disputes and other potential disputes should not create any additional charges for Group companies, with respect to the amounts set aside, which represent the best estimate possible on the basis of elements available as of today. For further information please refer to the section *"Update on major disputes and litigation"*.

29. Non-current borrowings and financial liabilities – € 3,551,889 thousand

€ thousand	31/12/2019	31/12/2018	Change	% Change
Bonds	2,754,298	2,678,392	75,906	2.8%
Medium/long-term borrowings	745,913	695,743	50,170	7.2%
IFRS 16 financial payables	51,679	0	51,679	n.s.
Total	**3,551,889**	**3,374,134**	**177,754**	**10.0%**

The figures in the table include the fair value, at 31 December 2019, of hedging instruments entered into and certain Group companies which are shown separately from the hedged instrument in the table below.

€ thousand	Hedged instrument	Derivative fair value	31/12/2019	Hedged instrument	Derivative fair value	31/12/2018
Bonds	2,736,444	17,853	2,754,298	2,656,605	21,787	2,678,392
Medium/long-term borrowings	740,361	5,551	745,913	693,682	2,061	695,743
Non-current borrowings and financial liabilities	**3,476,806**	**23,405**	**3,500,210**	**3,350,287**	**23,848**	**3,374,134**

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 with a 10-year fixed-rate duration. The bonds, which have a minimum denomination of € 100,000 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 € 20,576 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 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 2018 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 2018, 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 of the bonds, including the short-term portion:

€ thousand	Gross Payables*	FV hedging instrument	Interest accrued**	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	164,147	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 amortised cost.
** Including rates on hedging instruments.

MEDIUM/LONG–TERM BORROWINGS (INCLUDING SHORT-TERM PORTIONS)

These totalled € 827,947 thousand (€ 1,016,921 thousand at 31 December 2018) and include: 1) debt for the principal portions of the instalments due beyond 12 months for € 745,912 thousand (€ 695,743 thousand as at 31 December 2018) including the portion of fair value, negative for € 5,551 thousand, of derivative instruments taken out to hedge interest rate and exchange rate risk, 2) € 82,035 thousand (€ 321,178 thousand as at 31 December 2018) for the principal portions of the same loans falling due in the following 12 months.
The following table shows medium/long–term borrowings by maturity and type of interest rate:

€ thousand	Total Residual Debt	By 31/12/2020	from 31/12/2020 to 31/12/2024	After 31/12/2024
fixed rate	227,212	25,768	137,181	64,263
floating rate	583,053	47,933	288,545	246,574
floating rate cash flow hedge	17,682	8,333	9,349	0
Total borrowings	**827,947**	**82,035**	**435,075**	**310,837**

The fair value of hedging derivatives mainly derives from the Parent Company for a negative € 1,020 thousand and decreased compared to 31 December 2018 by € 1,041 thousand (it was negative for € 2,061 thousand), while the fair value resulting from the first consolidation of Adf was negative for € 4,141 thousand.
The Group's principal medium/long–term borrowings are subject to covenants to be complied with by the borrowing companies in accordance with normal international practices.
In particular, the loan taken out by *areti* is subject to a financial covenant expressed in the current agreement as a two decimal places ratio of 0.65 between net financial debt and the sum of net financial debt and shareholders' equity, which must not be exceeded at the end of each reporting period. This ratio must be complied with by both the borrowing company and the Acea Group. The ratio, calculated with the same criteria as the aforementioned agreement, has been complied with in 2018.
The loan agreements entered into by the Parent Company envisage:

- standard Negative Pledge and Acceleration Events clauses;
- clauses requiring compulsory credit rating monitoring by at least two major agencies;
- clauses requiring the company to maintain a credit rating above certain levels;
- the obligation to arrange insurance cover and maintain ownership, possession and usage of the works, plant and machinery financed by the loan through to the maturity date;
- periodic reporting requirements;
- clauses giving lenders the right to call in the loans on the occurrence of a certain event (i.e. serious errors in the documentation provided when negotiating the agreement, default on repayments, the suspension of payments), giving the bank the right to call in all or a part of the loan.

During the year there was no evidence that any of the covenants had not been complied with.
Information on the fair value of the above borrowings is provided in the section *"Additional disclosures on financial instruments and risk management policies"*.

The table below shows the fair value of borrowings broken down by type of loan and interest rate as at 31 December 2019. The fair value of medium/long-term debt is calculated on the basis of the risk-free and the risk-adjusted interest rate curves. As regards the type of hedge for which the fair value is calculated and with reference to the hierarchies required by the IASB, given they are composite instruments, they are categorised as level 2 in the fair value hierarchy.

Bank Loans € 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)
fixed rate	227,212	280,938	(53,726)	268,384	(41,171)
floating rate	583,053	628,431	(45,378)	625,153	(42,100)
floating rate to fixed rate	17,682	17,840	(158)	17,687	(5)
Total	**4,035,635**	**4,431,931**	**(396,296)**	**4,212,413**	**(176,778)**

IFRS 16 FINANCIAL PAYABLES

This item includes the long-term portion of the financial debt deriving from the impact of the first-time adoption of IFRS 16 (for further details on this, see the section "Effects deriving from the introduction of new accounting standards") amounting to € 52,240 thousand, of which the short-term portion is € 12,786 thousand.

The cash flows the Group is potentially exposed to are shown below, broken down by maturity date:

	Within 12 months	Within 24 months	Within 5 years	Residual debt
IFRS 16 liabilities	**12,786**	**21,153**	**40,839**	**64,310**

It should be noted that the debt is discounted using a risk-free rate with a maturity equal to the residual duration for each contract, plus the credit spread assigned to Acea by Moody's.

30. Other non-current liabilities – € 391,100 thousand

€ thousand	31/12/2019	31/12/2018	Change	% Change
Advances from end users and customers	159,609	146,229	13,380	9.1%
Water and electrical connection fees	82,271	75,462	6,808	9.0%
Capital grants	146,511	126,353	20,158	16.0%
Accrued liabilities and deferred income	2,709	104	2,605	n.s.
Total other liabilities	**391,100**	**348,148**	**42,952**	**12.3%**

ADVANCES FROM END USERS AND CUSTOMERS

This item includes: 1) the amount of the security deposits and consumption advances of the water companies and 2) the amount of the deposits concerning the liabilities for advances on electricity consumption paid by the customers of the standard market and interest-bearing under the conditions envisaged by the rules of the ARERA (resolution no. 204/99). Details of this item are set out below:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Advances from users	9,242	1,483	7,759	n.s.
User guarantee deposits	149,329	144,094	5,234	3.6%
Advances from other customers	1,038	652	387	59.3%
Total	**159,609**	**146,229**	**13,380**	**9.1%**

The increase recorded mainly refers to the change in the scope of consolidation following the full consolidation of AdF for € 7,429 million and the consolidation of the new photovoltaic companies for € 5,360 thousand.

CAPITAL GRANTS AND WATER CONNECTION FEES

These totalled 228,782 thousand (201,815 thousand at 31 December 2018). The change for the period is mainly due to the consolidation of AdF (+ € 29,435 thousand).
These payments on behalf of plants registered in the liabilities annually are attributed by share to the profit and loss account in relation to the duration of the investment to which the issuance of the contribution is connected. The amount recognised as income is determined on the basis of the useful life of the asset to which it refers.

31. Current liabilities – € 2,648,685 thousand

€ thousand	31/12/2019	31/12/2018	Change	% Change
Financial payables	674,364	408,675	265,689	65.0%
Trade payables	1,600,263	1,524,876	75,387	4.9%
Tax Payables	11,977	27,750	(15,773)	(56.8%)
Other current liabilities	362,082	329,369	32,713	9.9%
Current liabilities	**2,648,685**	**2,290,670**	**358,016**	**15.6%**

31.a Financial payables

€ thousand	31/12/2019	31/12/2018	Change	% Change
Payables to banks for short-term credit lines	6,526	4,549	1,977	43.5%
Payables due to banks for financing	82,035	321,178	(239,144)	(74.5)%
Short-term bonds	453,390	26,088	427,301	n.s.
Payables to the parent company Municipality of Rome	79,578	420	79,159	n.s.
Payables to subsidiaries and associates	596	596	0	n.s.
Payables to third parties	39,454	55,844	(16,391)	(29.4)%
IFRS 16 financial payables within one year	12,786		12,786	n.s.
Total	**674,364**	**408,675**	**265,689**	**65.0%**

Payables for short-term bank credit lines
These amount to € 6,526 thousand (€ 4,549 thousand at 31 December 2018) and show an increase of € 1,977 thousand, mainly attributable to the consolidation of Pescara distribuzione Gas.

Payables due to banks for financing
These amounted to € 82,035 thousand (€ 321,178 thousand at 31 December 2018), and refer to the current portion of bank loans falling due within twelve months. The decrease is attributable mainly to the repayment of the two financing lines of Intesa Sanpaolo and UBI

Banca maturing on 21 June and 2 January 2019 for a total of € 250,000. Further details are provided in note 28 of these notes.

Short-term bonds
These amounted to € 453,390 thousand (€ 26,088 thousand at 31 December 2018). The increase in short-term bonds is due to the reclassification of the Parent Company's bond issue maturing on 16 March 2020.

IFRS 16 financial payables within one year
These payables represent the short-term portion of the financial debt as at 31 December 2019 recorded following the first application of the new IFRS 16 international standard. For additional information refer to note 29.

Payables to the Parent Company Roma Capitale
These amount to € 79,578 thousand (€ 420 thousand at 31 December 2018) and increased as a result of the dividends approved by the Parent Company and Acea Ato 2.

Payables to subsidiaries and associates
These amount to € 596 thousand and have not changed since the end of the previous year.

Payables to third parties
These amounted to € 39,454 thousand (€ 55,844 thousand at 31 December 2018). The item can be represented as follows:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Dividends payable to shareholders	539	130	409	n.s.
Financial liabilities due to factor	38,914	55,714	(16,800)	(30.2)%
Total	**39,454**	**55,844**	**(16,391)**	**n.s.**

Payables to third parties recorded a drop of € 16,800 thousand, mainly due to the reduction in payables to factors for the sale of receivables.

31.b Trade payables

€ thousand	31/12/2019	31/12/2018	Change	% Change
Payables to suppliers	1,472,802	1,413,928	58,875	4.2%
Payables to the parent company	121,661	107,644	14,017	13.0%
Payables to subsidiaries and associates	5,800	3,305	2,495	75.5%
Trade payables	**1,600,263**	**1,524,876**	**75,387**	**4.9%**

PAYABLES TO THIRD-PARTY SUPPLIERS

Payables to suppliers amounted to € 1,472,802 thousand.
The increase of € 58,875 thousand is mainly due to the change in the scope of consolidation for € 45,312 thousand, as follows:

- the consolidation of AdF contributed € 34,561 thousand to the increase;
- the new photovoltaic companies acquired in 2019 contributed € 5,064 thousand to the increase in this item;
- the consolidation of the companies of the environment segment Demap and Berg contributed respectively € 1,803 thousand and € 1,692 thousand;
- the consolidation of Pescara Distribuzione Gas contributed € 2,122 thousand.

Finally, other contributions included the increase recorded by Acea Ambiente (+ € 18,673 thousand), the Parent Company (+ € 11,949 thousand) and Gori (+ € 9,765 thousand), offset by the decreases recorded by areti (- € 17,191 thousand) and Acea Energia (- € 9,923 thousand).
The Group has entered into factoring agreements, typically in the reverse factoring technical form. On the basis of the contractual structures in place the supplier has an option sell, at its discretion, the receivables from the company to a lending bank. In some cases, the payment deadline set in the invoice is further deferred by agreement between the supplier and the Group; these delays are granted against payment of a fee.
If the payment has been deferred, a quantitative analysis is performed aimed at verifying whether the change of contractual terms is material; this is made through a quantitative test in accordance with the provisions of IAS 39 AG62. In this context, the relationships for which the primary obligation with the supplier is maintained and the deferral of the payment deadline, if granted, does not involve a substantial change in payment terms, retain their nature and are therefore classified as trade payables.

TRADE PAYABLES DUE TO THE PARENT COMPANY ROMA CAPITALE

These amounted to € 121,661 thousand and are commented on with the trade receivables in paragraph 25 of these notes.

TRADE PAYABLES TO SUBSIDIARIES AND ASSOCIATES

Payables to subsidiaries and associated companies include payables to companies consolidated using the equity method. The overall increase of € 2,495 thousand is due to the higher payables deriving from the consolidation of AdF for € 4,517 thousand. This change is partially offset by the decrease in the Parent Company's payables to Ingegnerie Toscane for - € 2,155 thousand.

31. c Tax payables
These amount to € 11,977 thousand (€ 27,750 thousand at 31 December 2018) and include the IRAP and IRES tax burden for the period.

31. d Other current liabilities
These are equal to € 362,082 thousand and are represented as follows:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Payables to social security institutions	24,904	22,232	2,672	12.0%
Accrued liabilities and deferred income	28,688	31,407	(2,720)	(8.7%)
Other current liabilities	308,490	275,729	32,761	11.9%
Total	**362,082**	**329,369**	**32,713**	**9.9%**

Payables to social security institutions
These amounted to € 24,904 (€ 22,232 thousand at 31 December 2018); their breakdown by Segment is as follows:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Environment	1,379	1,202	177	14.8%
Commercial and Trading	2,315	1,968	347	17.6%
Overseas	125	84	41	48.8%
Water	9,972	7,966	2,006	25.2%
Energy Infrastructure	6,629	6,572	58	0.9%
Engineering and Services	880	883	(3)	(0.4)%
Parent Company	3,605	3,559	46	1.3%
Total	**24,904**	**22,232**	**2,672**	**12.0%**

Accrued liabilities and deferred income
This item amounted to € 28,688 thousand (€ 31,407 thousand at 31 December 2018). The change is due to the decrease recorded by *areti* (- € 5,271 thousand), partly offset by the change in scope for € 1,867 thousand mainly for Pescara Distribuzione Gas.

Other current liabilities
These amounted to € 308,490 thousand, an increase of € 32,761 thousand compared to 31 December 2018.

The entry is made up as follows:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Payables to Equalisation Fund	54,758	53,552	1,206	2.3%
Payables to Municipalities for concession fees	54,916	44,502	10,414	23.4%
Payables for collections subject to verification	15,022	7,430	7,592	102.2%
Payables due to personnel	51,147	47,474	3,674	7.7%
Other payables to Municipalities	30,236	31,024	(788)	(2.5)%
Payables to Equitalia	2,098	2,275	(177)	(7.8)%
Welfare contribution payables	(296)	(126)	(171)	135.8%
Payables for environmental premium art. 10 of ATI4 agreement of 13/08/2007	560	487	73	15.1%
Payables for purchase of surface rights	133	383	(250)	(65.2)%
Payables to end users for refund of Tariff Component as per referendum outcome	13	9	5	51.0%
Payables for the purchase of a business unit	0	1,156	(1,156)	(100.0)%
Other payables	99,902	87,564	12,338	14.1%
Other current liabilities	**308,490**	**275,729**	**32,761**	**11.9%**

The increase of € 32,761 thousand refers for € 27,621 thousand to the change in the scope of consolidation, in particular € 17,412 thousand relates to payables recorded in Acea Sun Capital attributable to some acquisitions of photovoltaic investments during the year.
The remaining change is explained by the following items with an opposite sign:

- + € 10,414 thousand for higher payables to Municipalities for concession fees due to Acea Ato 2 (+ € 8,974 thousand) and Acea Ato 5 (+ € 2,600 thousand);
- + € 7,592 thousand for higher payables for collections subject to verification mainly attributable to Acea Energia (+ € 5,949 thousand);
- - € 16,200 thousand resulting from the registration last year of the fine imposed by the Antitrust Authority.

COMMITMENTS AND CONTINGENCIES

ENDORSEMENTS, SURETIES AND GUARANTEES

At 31 December 2019 they totalled € 385,590 thousand (€ 330,901 thousand at 31 December 2018) and showed an increase of € 54,689 thousand. The balance is made up of:

- € 90,749 thousand for guarantees in the interest of Acea Energia mainly for Terna, Eni Trading & Shipping, ERG Power Generation, ENGIE (EX EDF) and ASM Terni relating to the contract for the electricity transport and dispatching service;
- € 68,277 thousand for the Sole Purchaser and in the interests of Acea Energia as a back-to-back guarantee relating to the electricity sale agreement signed between the parties;
- € 53,666 thousand in the form of a guarantee issued by Acea to Cassa Depositi e Prestiti (the Deposit and Loans Account) in relation to refinancing of the loan issued to *areti*. This is a sole guarantee giving the lender first claim and covering all obligations linked to the original loan (€ 493 million). The sum of € 53,666 thousand refers to the guaranteed portion exceeding the loan originally disbursed (€ 439 million);
- € 30,756 thousand issued by insurance companies on behalf of Acea Ambiente in relation to waste collection plants (€ 7,138 thousand), waste collection plants with electricity production (€ 3,933 thousand) and to the Umbria region for the management of operational and post-operative activities of the landfill (€ 16,715 thousand);
- the guarantee of € 40,000 thousand in favour of Enel Trading in the interests of Acea Energia as a back-to-back guarantee on electrical energy trading transactions;
- the guarantee of € 25,000 thousand for Enel Trade in the interest of Acea Energia as a back-to-back guarantee on electricity and gas trading transactions;
- € 15,220 thousand for the guarantees issued for *areti* in favour of Terna relative to the electricity transmission service contract;
- € 2,701 thousand for the bank guarantee issued in favour of Roma Capitale in relation to the “Progetto Tecnologico” contract for the construction of the new multi-service pipe network of Via Tiburtina and adjacent streets, in the interest of *areti*;
- € 4,000 thousand relating to the bank guarantee issued for Rome Natura in connection with works to upgrade the network in the Marcigliana Reserve;
- € 3,712 thousand for the guarantee issued in favour of Italgas SpA in the interest of Acea Energia, renewed in October 2014;
- € 1,295 thousand relating to the bank guarantee issued by Banco Bilbao Vizcaya Argentaria in favour of the GSE for the correct fulfilment of the obligation for Acea Ambiente to make the reimbursement to the GSE;
- € 6,887 thousand relating to Acea Ato 5 and in particular to the surety envisaged by art. 31 of the Technical Specifications, issued by UNICREDIT to AATO, calculated on 10% of the three-year average of the Financial-Tariff Plan of the AATO Area Plan, which during 2019 was extended until 28 February 2023 and adjusted in the amount with a new issue for the difference;
- € 17,412 thousand for the issue of three guarantees to Belenergia and Casamassima on behalf of Acea Sun Capital for the purchase of the Special Purpose Vehicle;
- € 2,565 thousand for a surety to the Area Authority to guarantee the obligations deriving from the management of the Integrated Water Service of the subsidiary Gori SpA.

BUSINESS COMBINATION

ACQUISITION OF BIOECOLOGIA

On 29 November 2018 through Acea Ambiente the Group completed the acquisition of 100% of the share capital of Bioecologia Srl from Siena Ambiente SpA. The company is engaged in the chemical-physical and biological treatment of non-hazardous liquid waste and purification of public sewerage. The value for the acquisition of the shareholding is equal to € 1,757.4 thousand.

Net Assets Acquired

€ thousand	Fair value
Tangible Fixed Assets	553.7
Intangible Fixed Assets	3,105.1
Equity investments	1.6
Warehouse stock	46.6
Deferred taxes	0.0
Trade Receivables	638.9
Other credits	600.8
Financial credits	0.0
Cash and cash equivalents	300.6
Employee severance indemnity and other defined benefit plans	(194.5)
Costs and obligations fund	0.0
Current tax assets/liabilities	(38.6)
Trade payables	(955.7)
Other payables	(372.7)
Other financial liabilities	(1,917.6)
Payables to banks	(141.4)
Allocated goodwill	0.0
Net balance	**1,626.7**
attributable to third parties	0.0
Goodwill	130.6
Net value acquired	**1,757.4**

It should be noted that the values shown at the date of acquisition have been corrected in accordance with the Group's IAS/IFRS criteria and have not been subject to adjustment as they represent a good approximation of the book values. It should also be noted that at the valuation date the effects of the first-time adoption of the new international IFRS 16 standard applied from 1 January 2019 have already been included in the financial statements shown. When first applying this principle, the transition criterion chosen is retrospective b, therefore this application has no impact in terms of changes in Shareholders' Equity.
The value delta resulting from the difference between the transaction price and the net purchase balance was identified as the value to be allocated entirely to goodwill.
This transaction was accounted for using the acquisition method and the related results are definitive.

ACQUISITION OF PHOTOVOLTAIC COMPANIES

In the second half of 2019, through the newly formed Acea Sun Capital the Group completed the purchase of 13 companies operating in the renewable energy photovoltaic sector. In particular, 100% of the company KT4 was acquired on 27 June. During the months of July and August 65% of the following companies were acquired by Belenergia: Acquaviva, Compagnia Solare 2, Compagnia Solare 3, SPES, Solaria Real Estate, Brindisi Solar; on 26 September the acquisitions of Sisine Energia and Luna Energia were completed; on 10 October the purchase of Marche Solar was completed, on 12 November the companies Urbe Solar and Urbe Cerig were acquired and finally in December the purchase of Trinovolt was completed. The overall value for the acquisition of the shareholdings is equal to € 20,314 thousand.

€ thousand	
Net Assets Acquired	**14,086.7**
attributable to third parties	*(3,755.2)*
Goodwill	9,982.7
Net value acquired	**20,314.2**

€ thousand	
Net cash outflow for the acquisition	**(20,314.2)**
Cash and cash equivalents acquired	6,860.0
Repayment of financial payables	(6,376.2)
Payables to banks	(31,625.4)
Net cash flow	**(51,455.9)**

It should be noted that the values shown at the date of acquisition have been adjusted in accordance with the Group's IAS/IFRS criteria and the difference generated has been allocated to Goodwill pending final allocation. Initial analyses have shown that most of the difference can be attributed to the asset related to the right to receive the contribution granted by the GSE.

ACQUISITION OF DEMAP, BERG AND PESCARA DISTRIBUZIONE GAS

On 4 July 2019, through Acea Ambiente the Group acquired 90% of Demap, a company operating in Piedmont in the field of plastics recycling, and on 18 October acquired 60% of Berg, a waste management company in the Municipality of Frosinone.

In addition, on 18 March 2019 the parent company Acea acquired 51% of Pescara Distribuzione Gas, a company that distributes and measures methane gas in the Municipality of Pescara.

The overall value for the acquisition of the shareholdings in the three companies is equal to € 50,226.4 thousand.

€ thousand	Pescara Distribuzione Gas	Demap	Berg
Net balance	**6,860.3**	**4,158.1**	**1,856.1**
attributable to third parties	*(3,361.6)*	*(415.8)*	*(742.5)*
Goodwill	791.6	16,090.7	24,989.3
Net value acquired	**4,290.4**	**19,833.0**	**26,103.0**
Net cash outflow for the acquisition	**4,290.4**	**19,833.0**	**26,103.0**
Cash and cash equivalents acquired	178.0	1,585.2	1,150.6
Repayment of financial payables	0.0	0.0	0.0
Payables to banks	(7,543.3)	(120.9)	(821.9)
Net cash flow	**11,655.7**	**18,368.7**	**25,774.2**

It should be noted that the values shown at the date of acquisition have been adjusted in accordance with the Group's IAS/IFRS criteria and the difference generated has been allocated to Goodwill pending final allocation.

ACQUISITION OF CONTROL OVER GORI

The Parent Company holds a 99.3% stake in the company Sarnese Vesuviano, which in turn holds a 37.05% stake in Gori SpA, the Integrated Water Service operator of the Sarnese Vesuvius District of Campania Ato 3. In this context, following the amendment made to the shareholders' agreements on 8 November 2018, which resulted in a change of control according to IFRS 10, the company was consolidated on a line-by-line basis as from that date. Therefore, in application of international accounting standards, the acquisition of the equity investment held in Gori was simulated assuming the value of the transaction in order to comply with the Purchase Price Allocation required by IFRS 3.

While theoretically based on the various methods that can be used the transaction could have generated a higher value attributable to the concession, since this transaction did not involve any exchange of value between the parties and considering that the primary objective was to resolve the company's past litigation and foster a path that would guarantee continuity of service in the area managed, management considered it appropriate not to recognise any positive difference in value transferred between the parties (badwill).

Net Assets Acquired

€ thousand	Fair value
Tangible Fixed Assets	10,568.0
Intangible Fixed Assets	217,707.0
Equity investments	83.7
Warehouse stock	837.0
Deferred taxes	2,790.7
Trade Receivables	343,014.9

(follows)

Net Assets Acquired

€ thousand	Fair value
Other credits	70,797.2
Financial credits	2,020.8
Cash and cash equivalents	52,015.5
Employee severance indemnity and other defined benefit plans	(4,640.9)
Costs and obligations fund	(13,775.4)
Current tax assets/liabilities	296.1
Trade payables	(360,761.0)
Other payables	(170,237.6)
Other financial liabilities	0.0
Payables to banks	(21,286.9)
Allocated goodwill	0.0
Net balance	**129,429.2**
attributable to third parties	*(81,475.7)*
Goodwill	0.0
Net value acquired	**47,953.5**
Net cash outflow for the acquisition	**0.0**
Cash and cash equivalents acquired	52,015.5
Repayment of financial payables	0.0
Payables to banks	(21,286.9)
Net cash flow	**30,728.5**

Therefore this transaction did not generate differences to be allocated. These results are to be considered definitive.

ACQUISITION OF CONTROL OVER ADF

The Parent Company holds a 99.51% stake in Ombrone, which in turn holds a 40% stake in AdF, the operator of the Fiora Aqueduct and of the Integrated Water Service of Ato 6 with effect from 01/01/2002. In this context, following the amendment made to the shareholders' agreements on 1 October 2019, which resulted in a change of control according to IFRS 10, the Company was consolidated on a line-by-line basis as from 7 October 2019. The transaction is currently being analysed in order to comply with the Purchase Price Allocation required by the IFRS 3 international accounting standard.

SERVICE CONCESSION ARRANGEMENTS

The Acea Group operates water, environmental and Public Lighting services under concession. It also manages the selection, treatment and disposal of urban waste produced in Municipalities in Ato 4 Ternano–Orvietano through Acea Ambiente.

As for the water segment, the Acea Group provides the **Integrated Water Service** (IWS) under a concession arrangement in the following regions:

- Lazio, where Acea Ato 2 SpA and Acea Ato 5 SpA provide services in the provinces of Rome and Frosinone, respectively;
- Campania where Gori SpA provides services in the area of the Sorrento Peninsula and Capri island, the Vesuvio area, the Monti Lattari Area, as well as in the hydrographic basin of the Sarno river;
- Tuscany, where the Acea Group operates in the province of Pisa, through Acque SpA, in the province of Florence, through Publiacqua SpA, in the provinces of Siena and Grosseto, through AdF SpA in the province of Arezzo through Nuove Acque SpA and in the province of Lucca and periphery through Geal SpA;
- Umbria where the Group operates in the province of Perugia through Umbra Acque SpA, and Terni through S.I.I. ScpA.

The Group is also in charge of several former CIPE services in the province of Benevento with Gesesa SpA and in the Municipalities of Termoli and Campagnano with Crea Gestioni SpA.
For additional information on the legislative and regulatory framework, please refer to the Report on Operations.

PUBLIC LIGHTING – ROME

The service is carried out by the Parent Company based on a deed of concession issued by Roma Capitale for a period of thirty years (from 1 January 1998). No fee was paid for this concession, which is implemented through a special service agreement, which given its concessionary nature, expires on the same date of the concession (2027).
The service agreement envisages, among other clauses, an annual update of the fee concerning consumption of electricity and maintenance and the annual increase of the lump-sum fee in relation to the new lighting 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.
Upon natural or early expiry – also due to cases envisaged under Decree Law no. 138/2011 – Acea will be awarded an allowance corresponding to the residual carrying amount, that will be paid by the Municipality or the incoming operator if this obligation is expressly set out in the call for tenders for the selection of the new operator.
Lastly, the contract sets out a list of events that represent a reason for advance revocation of the concession and/or termination of the contract by the will of the parties. Among these events, reference is made to newly arising needs linked with public interests, according to which Acea has the right to receive an allowance according to the product, that is discounted based on the percentage of the annual contractual amount and the number of years until expiry of the concession.
On the basis of the number of Public Lighting plants as at 31 December 2009, the supplemental agreement establishes the ordinary annual fee as € 39.6 million, including all costs relative to the provision of electricity to supply the plants, ordinary operations and ongoing and extraordinary maintenance.
In June 2016, Acea and Roma Capitale signed a private agreement aimed at regulating commitments and obligations arising from the implementation of the LED Plan and, consequently, amending article 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 € 48.0 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 amended article 2.1 of the 2011 Supplementary Agreement with reference to the price list and the composition of the service management fee.

INTEGRATED WATER SERVICE

Lazio – Acea Ato 2 SpA (Ato 2 – Central Lazio – Rome)

Acea Ato 2 provides integrated water services on the basis of a thirty-year agreement signed on 6 August 2002 by the company and Rome Provincial Authority (representing the Authority for the Ato comprising 112 Municipalities, including Roma Capitale). In return for award of the concession, Acea Ato 2 pays a fee to all the Municipalities based on the date the related services are effectively acquired, which is expected to occur gradually: to date, the survey work (including that for Municipalities already taken over) has been completed for 96 Municipalities out of 112, equivalent to around 3,869,179 residents (source ISTAT 2011).
On 31 December 2019 the territory managed has not undergone changes compared to 31 December 2018.

With regard to the **tariffs**, it is known that the ARERA – in resolution 572 dated 13 November 2018 – approved the tariff update for 2018-2019 as proposed by the Conference of Mayors and the Presidents of the Provinces of Ato 2 Central Lazio; the essential contents are summarised below:

- the recognition of costs for the improvement of technical quality introduced by ARERA resolution 917/2017;
- the definitive recognition of the adjustment components of the charges connected to systemic changes relating to the management/maintenance of water kiosks and to the acquisition of new contracts after the postponement of the approval of the 2016-2017 tariff;
- the recognition of the OPsocial component introduced by ARERA Resolution 918/2017 to cover the charges deriving from the possible payment of the water bonus to disadvantaged users.

On 9 January 2019 Acea Ato 2 requested ARERA to warn the Conference of Mayors of Ato 2 against adopting the new tariff structure not approved by the Conference of Mayors (of 15 October and 13 December 2018). The Authority determined the maximum values of the tariff multipliers, confirming the values of 2018 and 2019, substantially confirming those established before the update when approving the 2016-2017 tariff proposal, in particular:

- 1.000 for the year 2016;
- 1.048 for the year 2017;
- 1.107 for the year 2018;
- **1.171 for the year 2019**.

Pending the adoption of the new tariff structure, with effect from 1 January 2019 Acea Ato 2 applies the tariff increase of 5.96%, as approved by ARERA with resolution 674/2016, confirmed by resolution 572/2018.

Moreover, note the approval of the Implementation Regulations for the **2019 supplementary water bonus** of Ato 2 Central Lazio – Rome by resolution no. 2-19 of the Conference of Mayors of 15 April 2019". Those entitled are direct users (holders of a resident household account) and indirect users (household users in an apartment complex).

With reference to the other significant elements that emerged, it should also be noted that at the Conference of Mayors held on 24 July 2019 the new Ato 2 Central Lazio - Rome user regulations were approved. In this document, ARERA provisions considered particularly relevant to the regulation of the IWS were incorporated, including those concerning technical quality, contractual quality, social water bonus and measure. At the same Conference of Mayors, in agreement with the operator Acea Ato 2 the OTS was asked to update both the User Regulations and the Integrated Water Service Charter in order to bring the texts into line with the provisions contained in the very recent ARERA resolution no. 311/2019 on arrears.

Finally, with resolution no. 4/2019 approved by the Conference of Mayors at its meeting of 11 November 2019, the new tariff structure defined in application of ARERA resolution no. 665/2017/R/idr (TICSI) was approved. The application will start in March 2020.

On the basis of ARERA Resolution 572/2018, the revenue for the period amounting to € 593.3 million was valorised. This includes the estimate of the adjustments of passing items, the FoNI component (€ 28.9 million) and the bonus due to the Operator for achieving the improvement standards compared to that envisaged by the ARERA in Resolution 655/2015 (€ 35.9 million including customer indemnities). The bonus accrued during the period represents the best estimate made on the basis of the effective measurement of the performance level and the expected level.

Lazio – Acea Ato 5 SpA (Ato 5 – Southern Lazio – Frosinone)

Acea Ato 5 provides integrated water services on the basis of a 30-year agreement signed on 27 June 2003 by the Company and Frosinone Provincial Authority (representing the Authority for the Ato comprising 86 Municipalities). In return for being awarded the concession, Acea Ato 5 pays a fee to all the Municipalities based on the date the related services are effectively acquired.

The management of the integrated water service in the territory of Ato 5 – Southern Lazio-Frosinone involves a total of 86 Municipalities for a total population of around 490,000 inhabitants, about 469,836 inhabitants supplied and a number of end users equal to around 199,823.

To date the completion of said process has not occurred for the Municipalities of Paliano. Below is a description of the main events during the period:

Municipality of Paliano: in November 2018 the Council of State finally decided on the appeal filed by the Municipality of Paliano against the decision of the Regional Administrative Court no. 6/2018 – which upheld the appeal filed by the Company against the Municipality of Paliano, in order to obtain the annulment of the measure by which the Municipality opposed its refusal to transfer the service – with decision no. 6635/2018 rejected the appeal filed by the Municipality of Paliano and consequently upheld the decision handed down by the Regional Administrative Court of Latina, reaffirming that the safeguard regime granted to AMEA was "limited to a period of three years from the date of signing of the Management Agreement between AATO 5 and Acea Ato 5; this deadline therefore expired in 2006, so that, after that date, AMEA's management was to be considered without title".

Since Acea Ato 5 has so far failed to initiate compliance proceedings with a view to verifying the voluntary compliance of the Municipality, which is suitable for preventing the possible appointment of an acting commissioner as has already happened in similar cases, a series of meetings have taken place at the Operational Technical Secretariat of AATO 5 Lazio Meridionale – Frosinone aimed at seeking an amicable settlement of the dispute and at initiating the preparatory activities for the transfer to Acea Ato 5 of the management of the IWS in the Municipality of Paliano. In this perspective, the Parties – with minutes of 26 November 2018 and 29 November 2018 – performed the update of the previous survey of networks and existing plants in the Municipality of Paliano, necessary for the management of the IWS.

To date, the parties are sharing the IWS handover report, which should also result in the waiver of pending litigation between them.

With reference to the **tariffs**, as is known, in the session of 1 August 2018 the Mayors' Conference approved among other things the 2018-2019 tariff update and the following multipliers.

2016	2017	2018	2019
1.080	1.166	1.260	1.360

The basic contents are summarised below:

- confirmation of the valorisation of the FNI component on the basis of the parameter ψ of 0.4;
- recognition of a default rate of 6.93% in partial acceptance (instead of 7.1%) of the grounded request presented by the Company;
- recognition of the $Opex_{qc}$ component for the improvement of contractual quality levels;
- recalculation of the values of the VRG (restriction on the admissible revenues) relating to the period from 2012 to 2017 following the ARERA prescriptions defined with Determination DSAI/42/2018/IDR.

On the basis of the tariff update approved by the Conference of Mayors on 1 August 2018, the revenues for the period have been quantified and amount to € 76.9 million including the estimate of the adjustment of passing items and the FoNI component € of 10.4 million. Tariff adjustments amount to € 97.3 million based on the recalculation carried out as a result of the credit adjustment for bills to be issued to users after the audit carried out by ARERA for the years 2012-2017 and the subsequent tariff update of 1 August 2018 by the AGB.

With regard to **relations with AATO 5**, the Company has tried to reach a settlement of the various disputes pending against the Area Authority, convinced of the need to put an end to a very long season of clear conflict between the Granting Body and the Licensee Company, culminating with the resolution passed by the Conference of Mayors of Ato 5 aimed at the termination of the Management

Agreement that forced the Company to appeal to the Latina Regional Administrative Court that annulled the above resolution.
In this context, in recent years and especially during 2018 an enormous effort has been made – including organisational efforts – to reconstruct the relations between the Company, the Area Authority and the individual Municipal Administrations of Ato 5.
Similarly, the possibility of establishing a Conciliation Board with the Area Authority has therefore become concrete, with the aim of settling the main issues still in dispute by the parties.
In this regard, on 11 September 2018 AATO 5 and the Company signed report no. 1 in which the parties expressed their mutual willingness to open a Conciliation Board on:

- case pending before the Court of Frosinone, docket no. 1598/2012 on concession fees 2006-2011. This question consists in ascertaining that the concession fees for the period 2006-2011 have been paid in full: while Acea Ato 5 claims to have paid the entire amount due, the Area Authority claims that it is still owed more (€ 1,751,437.89). The dispute is the subject of a case pending before the Court of Frosinone;
- verification of the actual use of the sums paid by Acea Ato 5 to the Area Authority as a fee pursuant to art. 13 of the Integrated Water Service Management Agreement. In the meantime this matter has been substantially settled by the parties, given the recalculation of the concession fee;
- settlement of the dispute related to the 2007 transaction, which is the subject of judgement no. 304/2017 of the Court of Frosinone, appealed by Acea Ato 5 to the Rome Court of Appeal (docket no. 6227/2017). The first hearing of the appeal proceedings is scheduled for 20 November 2020, and Acea Ato 5 – even though it considered the above sentence to be incorrect and therefore appealed it – nevertheless pointed out that Acea Ato 5 did not in any way deny the existence of the receivable claimed by the Manager and therefore claims the right to recover the receivable itself, also fearing further initiatives to protect the interests of the Company. The Operational Technical Secretariat has expressed its willingness to ask the Conciliation Board to study the Manager's claim, even from a legal point of view;
- damage suffered by Acea Ato 5 as a result of delays in the delivery of services by the Municipalities of Cassino, Atina and Paliano;
- handover of the ASI and Cosilam plants;
- penalties applied by AATO 5 against the Manager and annulled by the Latina Administrative Court by judgement no. 638/2017;
- interest for late payment of concession fees by Acea Ato 5;
- reconstruction of the 2012/2018 concession fees and request for the Operator's repayment plan to the Area Authority for the debt positions relating to the concession fee.

Two other issues were then referred for the assessment of the Board concerning the discounting of the 2006/2011 adjustments and the non-invoicing of the 2006/2011 adjustments due to the correction of the 2012 volumes.
Also in minutes no. 1 of 11 September 2018, the Parties shared the rules for appointing the Conciliation Board, specifying that:

- it shall be called upon to verify the possibility of an attempt at an amicable settlement between the Parties with respect to all and/or even some of the above matters;
- after an extensive investigation that must concern all the individual points under examination, the Conciliation Board must present the Parties with a proposal for conciliation;
- the Parties will be free to accept or reject the conciliation proposal presented by the Conciliation Board, i.e. to accept it in full or even only in part, without any obligation to give their reasons;
- therefore, the appointed Board will have the task of carrying out a preliminary activity on behalf of both Parties with respect to the matters entrusted to it, without prejudice to subsequent decisions that will be left to the individual Parties;
- the conciliation proposal presented by the Board and, more generally, the report and/or deeds drawn up by the Board may not be used in judicial proceedings by one Party against the other as a possible recognition of its own reasons and/or those of others;
- the appointed Board does not act as an Arbitration Board.

The Parties also shared the criteria for the appointment of the Board and, in particular, each Party appointed its own member. The Chairman of the Conciliation Board was selected by the Prefect of Frosinone, at the joint request of the Parties, and was jointly appointed on 16 May 2019. The Board officially took office on 27 May 2019, thus starting the 120-day period within which it had to arrive at a proposal for an amicable settlement of the issues submitted for its assessment.
On 17 September 2019, the Conciliation Board announced that it had completed the preliminary work on all the items assigned to the roundtable. However, it noted that due to the number and complexity of the issues under examination, a considerable amount of work was required to prepare a document presenting a comprehensive and reasoned conciliation proposal.
It therefore requested and obtained from the parties an extension of 30 days from 24 September 2019.
Following a detailed and in-depth investigation, the Conciliation Board prepared a draft of the Conciliation Proposal, presented to the Parties' legal counsel at the meeting held on 11 November 2019.
At that meeting, the Parties invited the Board to draw up a draft of the Conciliation that would take into account the report illustrated in that meeting, as well as the proposals made by the Operator, to be submitted for examination and approval to the relevant Bodies.
On 27 November 2019, the Conciliation Board submitted the final Conciliation Proposal to the Parties together with the draft of the Conciliation Deed.
The "Conciliation Proposal" and the draft "Conciliation Deed" were approved by the Acea Ato 5 BoD at a meeting held on 19 December 2019. For further details, please refer to the paragraph "Conciliation Board with AATO 5" in the section "Significant events for the 2019 financial year".

See also the section entitled "Significant events in 2019" for the Water industrial segment.
In reference to additional cases related to legal disputes, filed or being filed, see the "Update on major disputes and litigation" section of this document.

Campania – Gori SpA (Sarnese Vesuviano)

Gori provides integrated water services in 76 Municipalities in the provinces of Naples and Salerno, on the basis of a thirty-year agreement signed on 30 September 2002 by the company and the Sarnese Vesuviano Area Authority. Gori pays a fee to the grantor of the concession (the Sarnese Vesuviano Area Authority), based on the date the right to manage the related services is effectively acquired. The area of operations has remained unchanged compared to the previous year, since the process of acquiring management is now complete. In fact, 76 Municipalities are managed, i.e. all those falling under Ato 3 in the Campania Region.

Tariffs

First of all, it should be remembered that the ARERA has established: a first transitional tariff method for the years 2012 and 2013, issued with resolution 585/2012/R/idr ("Transitional Tariff Method" or "MTT"); a second water tariff method for the years 2014 and 2015 issued with resolution 643/2013/R/idr ("Water Tariff Method" or "MTI"); a third and currently applicable water tariff method for the second regulatory period 2016-2019 implemented with resolution 664/2015/R/idr, as amended by subsequent resolution 918/2017/R/idr ("Water Tariff Method - 2" or "MTI-2"). Based on the tariff method implemented by the Authority, the Area Governing Body is re-

quired to prepare the Regulatory Scheme for the period of reference, which is then approved by the Authority.
In fact, the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority, in execution of the ARERA 664/2015/R/idr resolution, prepared the 2016-2019 Regulatory Scheme with resolution no. 19 of 8 August 2016 and then updated it, in execution of the ARERA 918/2017/R/idr resolution, with resolution no. 39 of 17 July 2018. With this last resolution: 1) the RCappr adjustment component was valued at € 216.9 million; 2) the Operator's Revenue Constraint ("VRG") was recognised for the years 2016 (VRG: € 167.9 million); 2017 (VRG: € 183.1 million), 2018 (VRG: € 197.0 million) and 2019 (VRG: € 206.3 million) as well as the corresponding "tariff multipliers" for the 2018 financial years (ϑ 1.247505) and 2019 (ϑ 1.309880); 3) it was decided to allocate the FoNI quota already envisaged for the year 2017 and not yet used to finance tariff reductions of a social nature; 4) the additional Water Bonus was established with the valuation of the OPsocial cost component for the years 2018-2019; 5) table no. 2 was updated relating to accruals, amortisation and separate loans for Municipalities of Ato 3.
In addition, the 2016-2019 Regulatory Scheme updated with Resolution 39/2018 was prepared on the basis of a plan aimed at the full implementation of the IWS of the Sarnese-Vesuvian District that guarantees, concurrently with economic-financial equilibrium: (a) the social sustainability of the IWS tariff applied to users, (b) the investments necessary for the improvement of the service, and (c) the recovery of accumulated tariff adjustments. For these purposes, the current Ato 3 Regulatory Scheme has established the following objectives to be achieved to ensure the full implementation of the IWS: 1) the transfer and increased efficiency of the "Regional Works", and, that is the water infrastructure falling within Ato 3 still under the management of the Campania Region and listed in the resolution of the Regional Council 243/2016; 2) re-employment and relocation – always with a view to making the IWS more efficient – the personnel assigned to the Regional Works in accordance with the procedures set forth in the agreements with the Trade Unions on the basis of aforementioned resolution 243/2016 and the relevant Framework Agreement of 3 August 2018 specified above; 2) the provision of instalment plans for the debts accrued by the Company – essentially due to the inadequacy of the tariff system effectively applied until 2016 – for wholesale supplies disbursed from 2013 onwards to the Campania Region and the concurrent resolution of the complex legal dispute arising from the payment of regional supplies of "wholesale water" and services of "collection and treatment of wastewater".

Tariffs: Biennial update of the tariff arrangements of the integrated water service

Pursuant to resolution ARERA no. 918/2017/R/ldr, with resolution no. 39 of 17 July 2018 the Extraordinary Commissioner of the Sarnese Vesuviano District approved: 1) update of the "Regulatory Scheme" of the integrated water service of the Campania Region Ato 3 already approved by Commissioner resolution no. 19/2016, 2) established the Works Programme, the Tariff Plan and the Financial Statement and the accompanying Methodological report pursuant to art. 13.2, letter c) resolution ARERA no. 918/2017/R/ldr; furthermore, for the purposes of the obligations of the Body pursuant to art. 13.2, letter c), ARERA resolution no. 918/2017/R/ldr, the Commissioner updated the "operator revenue restriction" of the Ato 3 IWS and the corresponding "tariff multipliers" for the years 2018 and 2019.

With Resolution 39/2018, the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority approved the update of the restriction on revenues recognised to the Ato 3 IWS manager and the corresponding "tariff multipliers" for the years 2018 and 2019, respectively to: 2016 = 1.090000, 2017 = 1.188100, 2018 = 1.247505, 2019 = 1.309880, thus maintaining the tariff multipliers already determined with commission resolution no. 19/2016 for the years 2016-2019.
Taking into account what is represented by the President of the Campania Water Authority, with note no. 144 of 10 April 2018 regarding the continuing competence of the Commissarial Management of the Sarnese Vesuviano Area Authority in order to implement the obligations deriving from the ARERA resolutions on tariff matters, pending the completion of the full establishment and operation of the Campania Water Authority, the Commissioner of the Ato 3 Sarnese Vesuviano has prudentially "updated the current 'regulatory framework' within the limits of what is strictly necessary, without prejudice to the choices that the Campania Water Authority will make when it will determine the conditions for its takeover of the functions that Italian Legislative Decree no. 152/2006 and Regional Law no. 15/2015 assign to it". In this prudential perspective, the main determinations adopted were as follows:

- the tariff multipliers already determined with commission resolution no. 19/2016 for the years 2016-2019 to the extent of the maximum admissible limit, equal to 9% for the two-year period 2016-2017 and equal to 5% for the two-year period 2018-2019;
- the projects already approved in the previous works programme for the 2016-2019 four-year period by the commissioner management with resolution no. 19/2016 was updated solely to take into account the investments necessary to ensure the timely implementation of regulatory obligations that occurred in the meantime as a result of ARERA resolutions on technical quality, tariff structure and social water bonus. Therefore, with respect to the proposed projects detailed by the Company with note no. 22159/2018, the approved "Works Programme" – due to the need to guarantee the technical quality objectives recently imposed by ARERA – has been changed from € 122.1 million to € 141.8 million for the four-year period 2016-2019. For the period 2020-2032, in line with what was previously specified the commissioner's management of the Body has deemed it appropriate to maintain the level of investments to be implemented starting from 2020, according to what is already envisaged in the Works Programme approved by commission resolution. no. 19/2016;
- as regards the hypothesis of transfer of the regional works, the update of the deliberated regulatory scheme took into account the impossibility of a complete and timely implementation of the time schedule annexed to the Framework Agreement signed on 3 August 2016 in execution of resolution GR no. 243/2016, due to the failure to define, at present, the request for access to the financial equalisation measures, which was an indispensable prerequisite for covering the greater charges deriving from the planned change in the scope. Therefore, the proposed update process took into account the works and infrastructure already transferred to Gori and has substantially maintained the methods of transferring the plants that are still in the management of the Campania Region, with a delay of twenty-four months. Subsequently, as part of the Operational Agreement signed between Gori, the Campania Region and the EIC, the time schedule for the transfer of the Regional Works was further defined;
- with regard to the rebalancing measures, the update of the approved regulatory scheme took into account the proposal for an industrial agreement formalised in early 2018 by Gori to the Campania Region (currently under examination by the competent regional offices) called "Plan for the complete implementation of the IWS of the Ato 3" also valid as an update of the rebalancing measures included in the "Regulatory Scheme" approved by commission resolution no. 19/2016. In addition,

the Operating Agreement enabled the company to obtain a long-term loan with a pool of banks for a total of € 80 million and a share financed by the Private Partner Sarnese Vesuviano Srl for € 20 million;

- the recognition of the additional costs related to the activities carried out for the purpose of adapting to the commercial quality standards referred to in ARERA resolution 655/2015/R/IDR and to the technical quality standards as per resolution 917/2018/R/IDR, i.e. the OpexQCa and OpexQTa components of the opex have been quantified to the extent required by the Manager in the respective requests for recognition of the additional costs for adaptation to the quality standards set by the authority in the aforementioned resolutions; specifically, the higher charges recognised in the context of the update of the approved regulatory scheme amounted to OpexQC € 3.2 million for both 2018 and 2019 and OpexQT 2018 equal to € 2.0 million and OpexQT 2019 equal to € 2.2 million;
- pursuant to the provisions of art. 23-ter of Annex A of Resolution 918/2017/R/idr, the Opsocial component was quantified at € 2.0 million per year for both 2018 and 2019 to cover charges related to the maintenance of improved benefits over the minimum required by the national regulation (so-called additional water bonus) and at the same time the FoNI tariff component was set to zero;
- as regards the recognition of the additional costs of arrears in the context of the update of the approved regulatory framework, implemented prudentially on the basis of the foregoing concerning the nature and limits of the updates formulated by Commission Management, the value of the already recognised arrears cost has been kept unchanged pursuant to art. 30.3 of Annex A to the ARERA resolution no. 664/2015/R/Idr, with the aforementioned commissioner resolution no. 19/2016, within the following limits and subject to adjustment: year 2016 = 10%; year 2017 = 9%; year 2018 = 8%; year 2019 = 7.1%. The Application for the recognition of the actual cost of arrears for the years 2016 and 2017 and the statement relating to the request for the recognition of the actual cost of arrears for the years 2014 and 2015 prepared by the Manager pursuant to art. 30.3 of Annex A to the resolution of ARERA 643/2013/R/idr and submitted thereby with note no. 22169 of 18 May 2018 instead provided for the confirmation of the "recognition of a tariff component to cover arrears for the years 2014 and 2015 commensurate at least to a value of UR24 of 10%, unless proceeding directly with the final adjustment assigning the value of the unpaid amounts for 48 months and the recognition of a tariff component to cover default costs for the years 2016 and 2017 commensurate at least to a value of UR24 of 10%, unless proceeding with a final adjustment assigning the value of the unpaid amounts for 48 months;
- the RCappr adjustment component was valued at € 216.9 million;
- the updating of the regulatory framework in question does not include the approval of the new tariff structure drawn up in accordance with the provisions of Resolution 665/2017/R/idr containing the Integrated Text for Water Services Charges (TICSI). The adoption of the new fee structure, in compliance with the TICSI provisions, took place with resolution no. 40/2018 of 17 July 2018 or with a specific provision separate from the approval of the 2016-2019 Regulatory Scheme update.

With regard to the revenues for 2019, they have been quantified on the basis of resolution 39/2018 of the Extraordinary Commissioner and amounted to € 189.1 million. The same resolution approved, among other things, a theta for 2019 equal to 1.310, showing that in order to achieve equilibrium financial management of the Ato 3 in compliance with the restriction on the tariff increase within the maximum limit to the annual variation established by art. 3.2 of annex A to the resolution of ARERA 664/2015/R/idr and subsequent amendments, a remodulation of the VRG has been proposed through the regulatory postponement of the portion of the costs exceeding the maximum limit.

It should be noted that the Commission's resolution recognises, among other things, the following additional costs:

- OpexQC concerning the activities undertaken for the fulfilment of the service quality standards defined by the ARERA in Resolution 655/2015/R/idr, with the recognition of that requested by the Operator in the request submitted to the Authority on 23 May 2015, drafted pursuant to art. 23.3 of Annex A to the resolution of ARERA 664/2015/R/idr for the recognition of the same costs;
- OpexQT relating to the costs for the activities carried out for the purpose of adapting to the technical quality standards of the service, defined by ARERA with resolution 917/17/R/idr, with the acknowledgement of what was requested by the Operator in the application submitted to the Body on 18 May 2018, drafted pursuant to art. 23-bis of Annex A to ARERA Resolution 664/2015/R/idr and subsequent amendments;
- OpSocial are intended to finance tariff reductions that are better than the minimum envisaged by the national regulation (so-called supplemental water bonus);
- Opnew relating to the systematic change in the scope of the activities of the Manager mainly following the start-up of the management of the infrastructure of the IWS still managed by the Campania Region (so-called "Regional Works") according to a transfer schedule.

The verification of the parameters for the identification of the regulatory quadrant and the presence of Opnew relating to systematic changes in the manager's activities in the "presence of the supply of a new service (e.g. treatment or sewerage for an operator whose management was previously limited to an aqueduct service, or, in other cases, in the presence of an expansion with a supply chain upstream)" pursuant to art. 23.5, letter d) of Annex A, ARERA Resolution 664/2015/R/idr and subsequent amendments and additions, determined the placement in the sixth regulatory quadrant.

The OPnew taken into account in Commissioner resolution no. 39 of 17 July 2018 relate to the transfer of the Regional Works according to a transfer schedule starting from October 2016, and to the operating costs for the management of the water pumping plants called "Monaco Aiello" and "Vigna Caracciolo", already recognised and carried out within the scope of the previous tariff preparation pursuant to Commissioner resolution no. 15 of 30 June 2015 and the subsequent elaborations prepared also by the Manager, and, finally, subject to approval with resolution ARERA 104/2016/R/idr.

It should be noted that the aforementioned transfer schedule, the effects of which were included in full in the tariff proposal pursuant to Commissioner Resolution no. 39/18 was in fact overcome by the signing of the Operational Agreement of 8 November 2018 between Gori, Campania Region and EIC. This Agreement redefined, among other things, the timing of the transfer to the Infrastructure Manager of the IWS still managed by the Region.

At 31 December 2019 the Works transferred to the Manager were: Waterworks at Mercato Palazzo with transfer in October 2016, waterworks at Boscotrecase and Cercola with transfer in March 2018, waterworks in the Nolana area with transfer in September 2018, waterworks at Campitelli and Boccia a Mauro to complete the Vesuvius area with transfer in December 2018, the Angri Wells Field with transfer in February 2019, the Nolana Area purification plant with transfer in March 2019, the completion of the Sarnese Area with transfer in April 2019, the Medio Sarno 2 purification plant with transfer in July 2019 and finally the transfers in December 2019 relating to the Medio Sarno 3 purification plant and the Sorrentine Peninsula water area.

Therefore, the OPnews taken into account for the calculation of revenues as at 31 December 2019 and which are therefore fully covered by the full cost recovery principle relate to the operating costs of the plants transferred.
The VRG was also updated pursuant to art. 29.1 of Annex A of ARERA resolution no. 664/2015/R/idr and subsequent amendment. In fact, the aforementioned art. 29.1 envisages that, for the purposes of determining the VRG for the 2016-2019 regulatory period, some cost items (electricity cost, balance of payments and penalties, Authority contribution, cost of wholesale supplies, activity costs connected to the IWS due to systemic changes in the conditions of the service or to the occurrence of exceptional events) are subject to a final assessment, as adjustment components (Rc), relative to the year (a-2).
With regard to the calculation of the Constraint for the costs for wholesale water services by the Campania Region for the year 2019, the tariff approved by the EIC by resolution no. 32 of 20 June 2019 determined the 2016-2019 regulatory scheme for the proposed wholesale water tariff for the "*Campania Region*" operator and equal to 0.192941 €/cm, with the application for the year 2019 of a theta equal to 1.177.
The pertinent cost at 31 December 2019 on the COws relating to regional water supplies, according to the principle of full cost recovery, was approximately € 14.9 million, entered for the same amount in VRG and in the related costs.
As regards the COws of the collection and purification service, here again they were calculated starting from the quantification of the recognised costs.
To determine the relevant costs at 31 December 2019, according to the principle of full cost recovery, amounting to approximately € 12 million, reference was made to the tariff for wastewater collection and purification services, equal to € 0.310422/m3, as a result of the application of the ARERA 338/2015/R/idr resolution to the regional tariffs for wholesale services, recognised by the Parties within the minutes of the meeting of 4 March 2016 between the Campania Region, the Area Authority and Gori, applying it to volumes treated by regional plants.

With regard to tariff adjustments, it should be noted that the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority, with Resolution no. 39 of 17 July 2018, approved the regulatory framework for the years 2018-2019, including, among other things, the general recovery of the regulatory adjustments accrued, including those before 2012, within the limits of the applicable tariff increases, starting from the 2018 financial year.
In 2019 there was a net recovery of adjustments equal to € 24.1 million. Therefore, as at 31 December 2019 the tariff adjustments totalled € 139.8 million, of which € 119.8 million based on the recovery forecasts envisaged by the aforementioned, expiring beyond the following year.

Campania – Gesesa SpA (Ato 1 – Calore Irpino)

The Company operates in Ato 1 Calore Irpino which promotes and develops the initiative for the management of the Integrated Water Service in Municipalities in the Province of Avellino and Benevento. The Company manages the Integrated Water Service of 22 Municipalities in the Province of Benevento with a resident population served of approximately 123,000 inhabitants over an area of approximately 710 km2 and 57,000 users. The sewerage service is provided to approximately 80% of users while the purification service to about 40%.
In 2018 the IWS of the Municipality of Morcone was acquired and several contacts are under way with new Municipalities for the management of their relative IWSs.
From 17 July 2018 the company redefined the Management Agreement with the Municipality of Benevento by extending its management to the entire IWS, adding Sewerage and Water Treatment to the services provided. As far as the Municipality of Benevento is concerned, an important agreement was reached for the construction of sewerage treatment plants for the city, with agreements with the extraordinary national commissioner being stipulated that should entrust the design phase to the company.
Currently, the Authority – governed by the Extraordinary Commissioner referred to in DGR no. 813/2012 and merged into the regional EIC at the end of 2018 – has not yet assigned the management of the Integrated Water Service.

During 2019, the Company began to establish the foundations consistent with the resolutions of the Board for a new path of growth and development aimed at achieving strategic objectives that provide for company growth. In this regard, a capital increase operation was already approved to aggregate new operations with the direct assignment of the Integrated Water Service by new Municipalities, using an instrument that is given by the regulatory provisions contained in Italian Legislative Decree 175/2016 containing the "Consolidated Law on companies in which the public administration participates". Art. 4 of the aforementioned regulation allows Municipalities to acquire company shareholdings in activities producing a service of general interest, subject to the body's verification of the economic convenience of the direct or externalised management of the service entrusted to private operators.
This gives the Company the opportunity to proceed with new acquisitions of IWS and therefore to continue its development in the territory falling under Ato 1, pending the identification of the single operator, implementing a management development that, upon reaching at least 25% of the population served, would establish the Company as an interlocutor able to request the direct awarding of the entire territory as Sole Manager.

With regard to the bi-annual updating of the 2018-2019 tariffs, the activity was conditioned by the taking over of the Ente Idrico Campano in the legal relations established by the Calore Irpino Area Governing Body as from 1 October 2018.
The Company prepared the 2016 and 2017 financial statements as well as the Works Programme for the preparation of the proposed tariff revision with the definition of the VRGs and Thetas for the years 2018-2019, reviewing the investment planning for the years 2018-2019, also taking into account the results of the audit of 16-20 October 2017 contained in ARERA determination no. DSAI/26/2018/IDR of 10 April 2018 concerning the initiation of proceedings for the adoption of sanctions and prescriptive measures concerning the tariff regulation of the Integrated Water Service.
At present, the 2018-2019 tariff proposal submitted on 22 May 2019 is in the process of being approved by the EIC and will subsequently be sent to ARERA for ratification.
As a result of the above, revenues were recognised on the basis of the VRG currently being approved by the EIC. The Tariff Proposal for 2016-2019, approved by AATO 1 in Extraordinary Commissioner's Resolution no. 8 dated 29 March 2017, envisages the following tariff multipliers:

- 6.10% for 2016;
- 6.30% for 2017;
- 6.0% for 2018;
- **4.00% for 2019**.

Approval by the ARERA is awaited.
It should be noted that ARERA, with Resolution dated 29 January 2019 34/2019/R/idr, initiated a procedure aimed at defining the water tariff method for the third regulatory period (MTI-3), with

unification with the procedure set out in Resolution 518/2018/R/idr of the Authority relating to the control of the implementation of the planned investments in the Integrated Water Service.
In short we are waiting for the approval of the Authority and for the submission of the consequent proposed update tariff for the period 2018-2019 to ARERA which, on the basis of the revised data, guarantees the economic balance of the management with the recognition of higher revenues linked to the new management of the years 2015-2018.

Tuscany – Acque SpA (Ato 2 – Basso Valdarno)

The management agreement, which came into force on 1 January 2002 with an initial twenty-year duration was signed on 28 December 2001, then in November 2018 it was extended to 2031. In accordance with said agreement, the Operator took over the exclusive integrated water service of Ato 2, comprising all public water collection, abstraction and distribution services for civil use, sewage systems and the treatment of wastewater. The Area includes 57 Municipalities. In return for award of the concession, Acque pays a fee to all the Municipalities, including accumulated liabilities incurred under previous concessions awarded.

With regard to **tariffs**, with Resolution no. 6/2018 of 22 June 2018 concerning the "Update of the tariff structure 2018-2019", the Board of Directors of the Tuscany Water Authority modified, with the same tariff multipliers, the composition of the 2016 and 2017 tariffs approved by resolution AIT no. 32/2017 of 5 October 2017 providing for a remodulation of the recovery of tariff adjustments for approximately € 9.7 million in the period 2022-2023.
With the same resolution the Board of Directors of the Tuscany Water Authority approved the 2018-2019 tariff proposal, the update of the works programme, the updating of the economic and financial plan and the extension of the duration of the concession of service from the previous deadline of 31 December 2026 to the new deadline of 31 December 2031.
The new Tariff plan with the end of the concession on 31 December 2031, compared to the previous plan with the end of the concession on 31 December 2026, contains the forecast of greater investments in service infrastructure and more contained tariff increases.
Therefore, as a result of the new tariff proposal, the 2019 tariff multiplier was equal to 1.50%, whereas in 2018 it was equal to 5.39%.
The new 2018-2019 tariff proposal, as well as the updating of the 2016-2017 annual tariff and all the related documents (works programme, updating of the economic-financial plan, extension of the concession duration by a further 5 years) approved by the AIT with resolution 6/2018, were approved by the ARERA with resolution 502/2018/R/idr of 9 October 2018 with modification with respect to the AIT proposal of the OPEXqc recognised in the tariff but without changes to the tariff multiplier to be applied to the tariffs of the year.
The revenues for the period amount to a total, including the adjustment of passing items, of € 162.9 million (Group share € 73.3 million) and represent the best estimate made on the basis of the tariff proposal approved by the AIT in June 2018 and ARERA in October 2018.

Finally, it is noted that on 24 January 2019, with the submission of the required documentation, with the termination of the previous loan and the related hedging contracts and with the stipulation of the new interest rate hedging contracts, the suspensive conditions were met and, therefore, the new loan agreement became effective. The new loan was stipulated with a pool of banks and envisages two lines of credit: 1) Term Line of € 200.0 million disbursed in a single use and with final single maturity of 29 December 2023 and, 2) RCF Line equal to € 25.0 million payable in one or more uses within the period of use and final maturity on 29 December 2023. This line must be used exclusively to meet the financial needs of the Company for its ordinary business.
At the same time the new loan agreements were entered into, 6 new interest rate hedging contracts were entered into. The new contracts envisage the Company's semi-annual payment of a fixed rate to the counterparties starting from 24 January 2019 and in correspondence with a payment by the counterparties to Acque of a variable rate.

With reference to the main **disputes** of the Company, it should be noted that:

- the case before the Court of Florence (specialised section for companies) was concluded favourably for Acque, it being ordered to pay as a fee/compensation € 1,989,834.00 for the use of water networks built by the plaintiff company in a Municipality of the area served, before the assignment of the concession of the service. With sentence no. 1447/18 the Judicial Authority did not accept the request of the plaintiff and ordered it to reimburse each of the defendants – including Acque – for the costs of litigation. Subsequently, Consiag filed an appeal in whose proceedings Acque had appeared. The case ended favourably for the Company as the Court of Appeal of Florence rejected the appeal filed by Consiag against the ruling of the Business Court;
- with regard to the judgement pending before the Council of State, the appeal against the sentence of the regional administrative court for the rejection of Acque's appeal against resolution no. 60 of 27 April 2011 of Co.N.Vi.Ri, referring to the review of the correct drafting of the Area Plan of AATO 2 Tuscany - Basso Valdarno, the Company presented a motion to withdraw on 18 December 2018 in order to prevent the appeal from being quashed. At the outcome of the hearing held in the Council Chamber on 30 May 2019, the Council of State upheld the appeal (with sentence no. 4217/2019 published on 20 June 2019) and thus annulled the administrative measures challenged at first instance, overturning the judgement of 22 April 2013 no. 660 of the Regional Administrative Court of Tuscany. The judgement pronounced by the Council of State was served to Acque on 27 June 2019. The time limit (60 days from the date of notification of the judgement) for the appeal against the measure expired on 26 September 2019. As a result, the risk provision set aside for this purpose was released.

Tuscany – Publiacqua SpA (Ato 3 – Medio Valdarno)

The management agreement, which came into force on 1 January 2002 with a twenty-year duration, was signed on 20 December 2001. In accordance with said agreement, the Operator took over the exclusive integrated water service of Ato 3, comprising all public water collection, abstraction and distribution services for civil use, sewage systems and the treatment of wastewater. The Area includes 49 Municipalities, of which 6 managed via agreements inherited from the previous operator, Fiorentinagas. In return for awarding the concession, the Operator pays a fee to all the Municipalities, including accumulated liabilities incurred prior to the awarding of the related contracts. In June 2006, Acea – via the vehicle Acque Blu Fiorentine – completed its acquisition of an interest in the company.

With regard to the **tariffs**, with resolution no. 29/2016 of 5 October 2016 the AIT approved the tariffs for the second 2016-2019 regulatory period (MTI-2) pursuant to the ARERA resolution no. 664/2015.
With resolution 687/2017R/idr ARERA approved the tariffs proposed by the Tuscany Water Authority on 12 October 2017. Following the approval of the new tariff structure envisaged by the ARERA Resolution no. 665/2017/R/idr (TICSI), Publiacqua has billed according to the new structure since August.

Finally, also note that with resolution no. 24 of 7 December 2018 the AIT approved the 2018-2019 tariffs, with extension of the concession for three years. Currently approval by the ARERA is awaited.
Total revenues for the year, including adjustments to pass-through items, amounted to € 253.4 million (€ 101.4 million in the Group). Revenues also include the Fo.NI. component for € 30.0 million (Group share € 12.0 million).

In terms of **sources of financing**, it should be noted that following the extension of the concession to 2024 the Company began a market survey with the main financial institutions, aimed at verifying the availability and economic conditions to proceed with the disbursement of a medium/long-term bank loan aimed in part at extinguishing existing financial exposures and in part at supporting the investments provided for in the new approved Intervention Plan. On 18 June 2019 the banks were invited to submit a binding offer on the basis of a term sheet. Following the offers received, on 31 July 2019 the Company signed the new loan for € 140.0 million divided among five lending banks. The **Base Line** must be used for the full repayment of the existing Loan stipulated on 30 March 2016 with BNL and Banca Intesa for the payment of the ancillary costs of the new Loan and for the requirements related to the realisation of the investments envisaged in the EFP, while the **Investment Line** will be used to fully cover the requirements for further investments envisaged in the EFP. Among the conditions precedent to the disbursement of the loan, the lending banks have requested ARERA's approval of the new Tariff Plan, including the extension of the concession.

Tuscany – AdF SpA (Ato 6 – Ombrone)

Based on the agreement signed on 28 December 2001, the operator (AdF) is to supply integrated water services on an exclusive basis in Ato 6, consisting of public services covering the collection, abstraction and distribution of water for civil use, sewerage and wastewater treatment. The concession term is twenty-five years from 1 January 2002. Via the vehicle Ombrone SpA, in August 2004 Acea completed its acquisition of an interest in the Company's capital.

With reference to **tariffs**, 2019 is the second year of the second two-year period in which the water regulatory cycle 2016-2019 is divided (so-called MTI-2) scope of application of Resolution ARERA 664/2015/R/Idr (so-called MTI-2) of 28 December 2015 "Approval of the Water Tariff Method for the second regulatory period MTI-2", with which ARERA definitively regulates the tariffs for the period 2016-2019 and the recent Resolution 918/2017/R/Idr on the bi-annual updating of the tariffs for the period 2018-2019.

With regard to the aforementioned bi-annual update of the tariffs for the period 2018-2019, on 27 July 2018, based on the actual data collected referring to the years 2016 and 2017 and the Investment Plan, the Tuscan Area Governing Body (AIT) approved the tariff revision proposal, setting the VRG and the Theta of the years 2018-2019 and also redesigning the entire tariff profile until the end of the IWS concession (Deliberation of the Executive Council of the AIT no.17/2018 of 27 July 2018). Following further analysis of the greater needs for AdF investments related to technical quality, with Resolution no. 10/2019 of 1 July 2019 the Board of Directors of the Tuscan Water Authority produced and submitted to ARERA a new tariff proposal with re-modulation of the 2031 deadline, which the Authority finally approved with Resolution no. 465/2019/R/IDR of 12 November 2019, confirming the levels of the original 2018-2019 proposed theta.
Revenues for the period were determined based on the tariff update proposal 2018-2019 in the context of MTI-2, recently approved by the Board of Directors and total, including adjustments for pass-through items, € 111.9 million (Group share € 60.4 million) and a share of FoNI equal to € 9.6 million (Group share € 5.2 million).

On the **financial side**, with regard to the structured bank loan signed on 30 June 2015, during the year AdF initiated discussions with lending institutions in order to revise some conditions of its existing loan agreement. In fact, at the end of the negotiations AdF obtained consent to modify the repayment terms starting from 2020 and to improve the financial conditions (spread on the Euribor equal to 1.9%), the latter supported by the issue of a guarantee by Acea to partially cover the payment obligations deriving from the contract. In this context, in view of the financial commitment required of the Parent Company Acea, the Shareholders agreed to review the existing Shareholders' Agreements, and consequently the provisions of the by-laws with regard to the governance of the Company in order to attribute greater management powers to the Private Shareholder. The direct consequences of these changes led to the transfer of the consolidation of AdF from equity valuation to full consolidation of the equity investment held indirectly by Acea through its subsidiary Ombrone.

Umbria – Umbra Acque SpA (Ato 1 – Umbria 1)

On 26 November 2007 Acea was finally awarded the tender called by the Ato 1 Perugia Area Authority for selecting the private minority industrial partner of Umbra Acque (expiry of the concession on 31 December 2027) The entry into the capital of the company (with 40% of the shares) took place with effect from 1 January 2008. The company performed its activities in all 38 Municipalities constituting Atos 1 and 2.
The tariff applied to users for the year 2019 is the rate applied to users was determined by Resolution no. 489 2018/R/idr of 27 September 2018 with which ARERA approved the updating of tariff arrangements for the two-year period 2018-2019, previously proposed by the Assembly of Mayors of the AURI with Resolution no. 9 of 27 July 2018. Finally, we inform you that on 29 December 2018 the request to extend the duration of the assignment to 31 December 2031 pursuant to art. 5.2 and 5.3 of the Convention and Resolution 656/2015/R/IDR.
It should be noted that with Resolution of the Executive Council no.62 of 28 December 2018, AURI approved the new tariff structure, as defined by the Integrated Water Services Considerations (TICSI) approved by ARERA with Resolution no. 665/2017/R/id on 28 September 2017. On the basis of the determinations of the ARERA, the revenues for the period were valorised, amounting to a total of € 81.0 million (Group share € 32.4 million) inclusive of the adjustment of passing items and include the FoNI component of € 10.4 million (Group share € 4.2 million).

With reference to the debt situation of Umbra Acque towards the Municipalities for the fee due under the Convention for the repayment of the loan instalments contracted by the same Municipalities for the realisation of IWS works, note that the Company has continued the virtuous course already started in the last three years, respecting the commitments included in the tariff proposal for the 2016-2019 four-year period approved by the relevant ATI 1 and ATI 2 on 30 June 2016 and by ARERA with Resolution no.764/2016/R/idr dated 15 December 2016 relating to the repayment plan lasting five years with fixed instalments to cover the residual debt owed to the Municipalities for charges past due, starting in 2017 and ending in 2021.

With regard to the appeal before the Umbria Regional Administrative Court arising from the disputes filed by the Umbrian Public Water Committee and concerning the appeal of the provision with which the Area Governing Body (in this case the ATI Umbria

sub-sector 1) resolved and then validated the recognition of tariff adjustments due to Umbra Acque for the past services of 2003-2011, before the advent of national regulation under ARERA.
Rejection by the Judicial Authority involved continues to represent a step of significant importance for the Company. The desired rejection by the appropriate Judicial Authority continues to be of significant importance for the Company.
It should be noted that the Regional Administrative Court of Umbria, with sentence no. 243/2019 published on 9 May 2019, rejected the appeals presented by the "Comitato Umbro Acqua Pubblica", confirming the legitimacy of the aforesaid resolutions adopted by the AGB on the basis of which the Company charged the recovery of the items prior to 2012 in the bill. As of today, given that the six-month period from the publication of the sentence has elapsed without an appeal having been filed, sentence no. 243/2019 of the Regional Administrative Court of Umbria has become final, and therefore the present dispute must be considered definitively concluded with a positive outcome for the Company.

PROGRESS OF THE PROCEDURE FOR APPROVING THE TARIFFS

The progress of the procedure for approving tariffs and the approval of the two-year update (2018-2019) of the IWS tariff provisions for the Group companies is shown below.

Company	Approval status (up to MTI2 "2016-2019")	Biennial update status (2018-2019)
Acea Ato 2	On 27 July 2016, the AGB approved the tariff inclusive of the bonus as per art. 32.1, subsection a) of Resolution 664/2015/R/idr. The ARERA then approved them in Resolution 674/2016/R/idr, with some changes compared to the AGB's proposal; quality bonus confirmed.	The Conference of Mayors approved the tariff update on 15 October 2018. On 13 November 2018, the ARERA approved the tariff update with Resolution 572/2018/R/idr. The Conference of Mayors adopted the provisions of the ARERA resolution on 10 December 2018.
Acea Ato 5	Tariff proposal submitted by the Operator on 30 May 2016, with request for recognition of the $Opex_{qc}$. ARERA warned the AGB on 16 November 2016 and the EGA approved the tariff proposal on 13 December 2016, rejecting, among others, the request for recognition of the $Opex_{qc}$. Approval by the ARERA is awaited.	The Conference of Mayors approved the 2018-2019 tariff update on 1 August 2018. Currently approval by the ARERA is awaited.
Gori	On 1 September 2016, the Extraordinary Commissioner of the AGB approved the tariff with Opx_{qc} as of 2017. Approval by the ARERA is awaited.	On 17 July 2018 the Extraordinary Commissioner of the AGB approved the 2018-2019 tariff update. Currently approval by the ARERA is awaited.
Acque	On 5 October 2017, the AIT approved the tariff with recognition of the $Opex_{qc}$. Approved by ARERA on 9 October 2018 (as part of the approval of the 2018-2019 update).	On 22 June 2018 the AIT Board of Directors approved the 2018-2019 tariff update and, at the same time, the request to extend the duration of the 5-year contract, that is until 31 December 2031. With resolution 502 of 9 October 2018, the ARERA approved the 2018-2019 tariff update.
Publiacqua	On 5 October 2016, the AIT approved the tariff with recognition of the bonus as per art. 32.1, subsection a) of Resolution 664/2015/R/idr. With resolution 687/2017/R/idr, on 12 October 2017 ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT.	On 7 December 2018 the AIT approved the 2018-2019 tariffs with the extension of the 3-year concession. Currently approval by the ARERA is awaited.
AdF	On 5 October 2016, the AIT approved the tariff with recognition of the $Opex_{qc}$. On 12 October 2017, with resolution 687/2017/R/idr ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT.	The AIT Board of Directors approved the 2018-2019 tariff update in the session of 27 July 2018. Pending approval by ARERA, the AIT Board of Directors also approved the application to extend the concession to 31 December 2031, submitted by the Company in April 2019 and approved at the Territorial Conference in June 2019. The updated tariff proposal was then presented to extend it to 2031, which in any case confirmed the tariff increase (theta) and the Guaranteed Revenue Constraint (GRC) for the years 2018 and 2019, already approved by the AIT with its resolution of July 2018. ARERA approved the two-yearly update (with a small correction of the recognised OpexQC) and the extension of the concession with Resolution no. 465 of 12 November 2019.
Geal	On 22 July 2016, the AIT approved the tariff with recognition of the $Opex_{qc}$. With resolution 726/2017/R/idr, on 26 October 2017 ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT.	On 12 July 2018 ARERA approved the tariff update proposed by AIT.

(follows)

Company	Approval status (up to MTI2 "2016-2019")	Biennial update status (2018-2019)
Crea Gestioni	Following Resolution no. 664/2015/R/idr, both for the Municipality of Campagnano di Roma (RM) and the Municipality of Termoli (CB), Municipalities where Crea Gestioni offers the IWS, neither the Granting Body nor the Area Authority of reference submitted a tariff proposal for the regulatory period 2016-2019, so the Company independently submitted tariff proposals. Currently approval by the ARERA is still pending.	The Company has submitted the data to the competent parties/AGB in order to update the 2018-2019 tariff. For the management of the IWS in the Municipality of Campagnano di Roma (RM), given the inaction of the designated parties the Company filed an application with ARERA in January 2019 for a tariff adjustment in 2018-2019, also revising the 2016-2019 proposal. ARERA has not yet pronounced or issued a warning to the AGB and/or to the competent parties. For the management of the IWS in the Municipality of Termoli (CB), with a resolution dated 17 December 2019 the Municipal Council of Termoli approved the alignment of the existing Agreement to the Agreement template, extending its expiry to 31 December 2021, and confirmed the tariff increase for 2018 and 2019, also revising the 2016-2019 proposal. Currently approval by the ARERA is therefore awaited.
Gesesa	On 29 March 2017 the Extraordinary Commissioner of Ato Alto Calore Irpino approved the tariff arrangement for the years 2016-2019 with resolution no. 8. Approval by the ARERA is awaited.	The Company submitted the documentation relating to the 2018-2019 tariff revision to the Area Authority, and the investigation by the AGB should be completed in early 2020 with the final approval by the Executive Committee of the EIC (Ente Idrico Campano).
Nuove Acque	On 22 July 2016, the AIT Shareholders' Meeting approved the rates.	On 22 June 2018 the Board of Directors of AIT approved the 2018-2019 tariff update. On 16 October 2018 with Resolution 520 ARERA approved the tariff update proposed by AIT.
Umbra Acque	On 30 June 2016, the AGB approved the tariff with recognition of the $Opex_{qc}$. The ARERA then approved them in Resolution 764/2016/R/idr dated 15 December 2016.	In its session of 27 July 2018, the AURI Meeting approved the 2018-2019 tariff update. The ARERA approved the 2018-2019 tariffs with resolution no. 489 of 27 September 2018.

Pending completion of the approval process, which is still in progress, the revenues recorded are determined on the basis of the tariff schemes previously approved by ARERA or by the respective Area Government Agencies, as detailed above.

RELATED PARTY TRANSACTIONS

ACEA GROUP AND ROMA CAPITALE

Trading relations between Acea Group companies and Roma Capitale include the supply of electricity and water and provision of services to the Municipality.
Among the principal services are the management, maintenance and upgrading of Public Lighting facilities and, with regard to environmental–water services, the maintenance of fountains and drinking fountains and the additional water service, as well as contract work.
Such relations are governed by appropriate service contracts and the supply of water and electricity is conducted by applying the tariffs in force on the market adjusted to the supply conditions.

Acea and Acea Ato 2, respectively, provide Public Lighting and integrated water services under the terms of two thirty–year concession agreements. Further details are provided in the section "*Service concession arrangements*".
As discussed in the notes to the consolidated financial statements as at 31 December 2018, in 2019, Roma Capitale and the Acea Group began a technical round table to define some previous positions regarding the services provided under water service and Public Lighting contracts. At present, the parties are continuing to reconcile their respective items.
For further information regarding relations between the Acea Group and Roma Capitale, reference should be made to the disclosures regarding receivables and payables from and to the Parent Company in note 24 of this document.
The following table shows details of the main revenues and costs at 31 December 2019 of the Acea Group (compared to those of the previous year) deriving from the most significant financial relations.

	REVENUES		COSTS	
€ thousand	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Supply of fresh water	40,698	36,250		
Supply of electricity	56	148		
Public Lighting service contract	40,631	42,883		
Public Lighting contract interest	5,117	4,233		
Water maintenance service contract	228	191		
Monumental fountain service contract	228	191		
Concession fee		0	26,115	25,968
Lease fees		0	110	79
Taxes and duties		0	3,595	5,115

Reference should be made to note 24.b for details on the impact of these transactions, while the table below summarises the changes in receivables and payables.

€ thousand	31/12/2018	Collections/payments	Accruals 2019	31/12/2019
RECEIVABLES	155,993	(8,481)	87,386	234,898
PAYABLES	(108,063)	8,481	(101,656)	(201,239)

ACEA GROUP AND ROMA CAPITALE GROUP

The Acea Group also maintains trading relations with other companies, special companies and entities owned by Roma Capitale, mainly concerning the supply of electricity and water.
The supply of services to entities owned by the Roma Capitale Group is also conducted by applying the tariffs in force on the market adjusted to the supply conditions. The prices applied to sales of electricity to free market users are in line with the sales policies of Acea Energia.

The following table shows the most significant amounts of revenues, costs, receivables and payables deriving from relations between the Acea Group and entities owned by the Roma Capitale Group.

Roma Capitale Group	Trade payables	Costs	Trade receivables	Revenues
AMA SPA	2,911	1,250	4,493	4,940
ATAC SPA	467	413	8,117	1,500
ROMA MULTISERVIZI SPA	2	0	0	0
Total	**3,379**	**1,664**	**12,226**	**6,441**

ACEA GROUP AND MAIN CALTAGIRONE GROUP COMPANIES

The Acea Group companies maintain trading relations that mainly concern the supply of electricity and water.
The supply of services to entities owned by this company is conducted by applying the tariffs in force on the market adjusted to the supply conditions. The prices applied to sales of electricity to free market users are in line with the sales policies of Acea Energia.
The following table shows the most significant amounts relating to financial relations between the Acea Group and the main entities owned by the Caltagirone Group at 31 December 2019.

€ thousand	Revenues	Costs	Receivables	Payables
Caltagirone Group	1,508	286	84	1,303

ACEA GROUP AND SUEZ ENVIRONMENT COMPANY SA GROUP

There were no relations with companies in the Suez Group as at 31 December 2019. It must also be noted that the financial balances described above do not include relations with companies in the Group consolidated under the equity method., which are included in the financial statements.

List of significant related party transactions

It should be noted that no non-recurring significant transactions with related parties were carried out during the period.
The table below shows the percentage weight of transactions with related parties on the statement of financial position, the income statement and the cash flow statement.

IMPACT ON THE STATEMENT OF FINANCIAL POSITION

€ thousand	31/12/2019	Of which with related parties	Impact	31/12/2018	Of which with related parties	Impact
Financial assets	47,202	26,144	55.40%	55,831	30,847	55.30%
Trade receivables	1,035,462	99,798	9.60%	927,834	83,982	9.10%
Current financial assets	299,212	121,968	40.80%	113,960	86,644	76.00%
Trade payables	1,600,263	111,319	7.00%	1,524,876	124,499	8.20%
Borrowings	674,364	79,616	11.80%	408,675	627	0.20%

IMPACT ON THE INCOME STATEMENT

€ thousand	31/12/2019	Of which with related parties	Impact	31/12/2018	Of which with related parties	Impact
Consolidated net revenues	3,186,136	87,443	2.7%	3,028,487	127,314	4.2%
Consolidated operating costs	2,185,306	39,349	1.8%	2,138,560	47,225	2.2%
Total Financial (costs)/income	**(90,302)**	**4,787**	**(5.3%)**	**(82,859)**	**13,303**	**(16.1%)**

IMPACT ON THE CASH FLOW STATEMENT

€ thousand	31/12/2019	Of which with related parties	Impact	31/12/2018	Of which with related parties	Impact
Increase in receivables included in the working capital	(118,892)	(15,816)	13.3%	98,720	(69,302)	(70.2%)
Increase/decrease in payables included in the working capital	41,729	(13,180)	(31.6%)	(15,544)	(11,555)	74.3%
Collections/payments deriving from other financial investments	(177,824)	(30,620)	17.2%	116,038	(39,283)	(33.9%)
Collected dividends	16,787	16,787	100.0%	8,612	8,612	100.0%
Decrease/increase in other short-term financial debts	(89,136)	78,989	(88.6%)	(233,453)	(2,415)	1.0%
Dividends paid	(73,795)	(73,795)	100.0%	(137,379)	(137,379)	100.0%

UPDATE ON MAJOR DISPUTES AND LITIGATION

TAX ISSUES

Tax audit of SAO (now incorporated into Acea Ambiente)

In October 2008, the Revenue Agency notified the company with two notices of assessment which reassessed, inter alia, the tax reports for the tax years 2003 and 2004 with regard to the IRES tax. The alleged irregularities arise from the application of article 14, paragraph 4-bis of Law no. 537 of 24 December 1993.

The appeals filed by the Company were merged by the Tax Commission of Terni which, in the month of May 2009, upheld the application for suspension filed by SAO and in November 2009 stayed the proceedings by raising the issue of the constitutionality of article 14, paragraph 4 bis of Law no. 537 of 24 December 1993, upon which the tax assessment was based.

By decision of March 2011 the Constitutional Court dismissed the constitutionality issue and remanded the proceedings to the Tax Commission of Terni. In January 2013, the Commission upheld the appeals filed by SAO and ordered the Agency Revenue to pay 50% of the legal costs incurred by the Company.

By judgement 419/04/14 issued on 24 February 2014, filed in July 2014, the Regional Tax Commission of Umbria rejected the appeal filed by the Revenue Agency, ordering it to pay the legal costs. On 21 September 2015, the company received from the State Attorney General the appeal lodged with the Supreme Court of Cassation by the Revenue Agency against the aforementioned ruling 419/04/14: SAO (now Acea Ambiente) filed its appearance with its defence statement and simultaneous conditional cross-appeal notified on 28 October 2015. Currently no date has been fixed for the hearing before the Supreme Court of Cassation.

In addition to the above, in November 2008, the Revenue Agency notified the company, and the former Parent Company EnerTAD SpA, with a notice of assessment that reassessed the IRES tax due for the 2004 tax period, establishing an additional tax charge of € 2.3 million for taxes, net of penalties, where applicable. The alleged irregularities arise from the application of article 14, paragraph 4-bis of Law no. 537 of 24 December 1993.

The Company's defence arguments were upheld by both the Provincial and the Regional Tax Commission. In February 2013, the Revenue Agency appealed to the Supreme Court of Cassation and the company filed its appearance.

It is believed that the actions of the tax authorities mentioned above are illegitimate, and that the risk of having to pay the full amount is remote, which previous shareholder (Enertad, now Erg Renew) will be obliged to pay on the basis of the guarantees issued as part of the purchase/sale agreement regarding the shares of the direct parent company A.R.I.A. Srl (today Acea Ambiente Srl).

For the sake of completeness, we also mention that in January 2009, the company challenged the decision ref. no. 2008/27753 of 27 November 2008 by which the Revenue Agency suspended the payment of a VAT refund claimed by the Company for the 2003 tax year. This refund amounting to € 1.3 million, was recognized by the tax authorities, but it was suspended as a precautionary measure due to the above mentioned tax assessments. The Tax Commission, with Ruling issued following the hearing held in March 2010, upheld the appeal lodged by the company, thus cancelling the cited measure against the aforementioned ruling. The Revenue Agency submitted an appeal in September 2010. The proceedings are in progress. It should be noted that the receivable concerning the above VAT refund was sold for valuable consideration in July 2010. The buyer lodged an appeal, simultaneously requesting discussion at a public hearing for the cancellation of measure 73747/2011 by which the Terni Provincial Department of the Revenue Agency declared the sale of said VAT credit from SAO to said assignee to be unacceptable. By ruling no. 52/04/12 issued on 3 October 2011 and filed on 26 March 2012, the Perugia Regional Tax Commission rejected the appeal filed by the Tax Authorities, with reimbursement of costs. The Revenue Agency appealed to the Supreme Court of Cassation and the company filed its appearance.

Tax audit of *areti*

In the Report on Findings (PVC) concerning the general inspection for 2010, am assessment was also made of the tax treatment of some items that were previously inspected and had a multi-annual validity.

On the basis of the notification made in the PVC, the Lazio DRE – Major Taxpayers' Office served five notifications of assessment concerning VAT for 2009, 2011, 2012, 2013 and 2014.

With regard to the notices relating to 2009, 2011 and 2012, the Regional Tax Commission considered the company's reasons valid and annulled the notices of assessment, and the deadline for appealing to Cassation expires on 17 February 2020. With regard to the year 2013, the first instance hearing was held on 6 February, for which the judgement has not yet been filed, the date of discussion for the notice of assessment for the year 2014 has not yet been set.

On the basis of another report, the company received notices of assessment for the years 2011 to 2014 concerning the IRAP treatment of tariff benefits granted to employees and former employees. With regard to 2011 and 2012, the Provincial Tax Commission voided the notices of assessment and the Company is still waiting for a second-degree hearing to be scheduled. For the year 2013, the CTR rejected the company's appeal. On 23 January 2020 the company served notice of appeal against the first instance decision. A first instance hearing has not yet been scheduled for the year 2014.

Tax disputes/lawsuits with ARSE

In January 2016, ARSE, a company at the time already closed due to complete spin-off, was informed of a notification of liquidation of the complementary register fee concerning the requalification of the conferment transaction and subsequent transfer of the equity investment in Apollo Srl, a company in the photovoltaic segment. The tax demanded, including interest, amounts to € 672 thousand.

On 7 March 2017, the beneficiaries of the ARSE – Acea SpA, Acea Liquidation and Litigation and Acea Produzione – believe the notification of liquidation is groundless as regards both the obvious technicalities in terms of its form and as regards the dispute involved in the notification.

On 15 January 2018, the hearing for discussion was held before the Provincial Tax Commission of Rome. By judgement no. 1926/15/2018 deposited on 22 January 2018, the judges cancelled the notice of assessment challenged. On 5 June 2018 the Office filed an appeal against the above judgement; the companies joined the proceedings in the second instance, filing counterarguments on 7 August 2018. As of today's date, a hearing to discuss this case has not yet been scheduled.

On 14 June 2012, the Company was delivered a Report on Findings from the Italian Financial Police – Rome Tax Police Department following its inspection to check the correct use of the tax suspension provisions under the VAT tax warehouse system pursuant to article 50-bis of Italian Decree Law no 331 of 30 August 1993 ("VAT Deposits"), relating to certain assets imported by the Company in 2009, 2010 and 2011.

Based on the alleged abusive use of the aforementioned system by

the company, the inspectors charged the company with failure to pay VAT on imports – for 2009, 2010 and 2011 – amounting to a total of € 16,198,714.87.
On 6 August 2012 the company submitted a defence brief pursuant to art. 12, paragraph 7, of Law no. 212 of 27 July 2000 concerning the findings contained in the aforementioned Report on Findings.
The issue relating to the concepts of simulated warehouses and the introduction of goods to the country is particularly well-known and debated, and has been the subject of numerous papers on practices issued by the Customs Authority and several cases of legal intervention.
The company considers that all the factual and legal conditions envisaged in the regulation on the use of VAT Deposits, as interpreted by the relevant administrative bodies, were fully satisfied and therefore the aforementioned Report on Findings is without grounds.

Tax audit of Acea SpA

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 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 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.

Tax audit of Acea Ato 5

On 7 March 2018 the Guardia di Finanza – Economic and Financial Police Unit of Frosinone – Section for the Protection of Public Finance commenced a general tax audit of the Company.
The audit was concluded on 25 October 2018 with the drafting of the PVC (Audit Report) that alleged substantial violations of income taxes and IRAP by the Company in the 2013 tax year.
It is also noted that on 21 December 2018 the Court of Frosinone – section of the judge for preliminary investigations notified the Company of a decree of preventive seizure (no. 3910/2018) of the financial resources present in the Company's current accounts up to the value of € 3.6 million, charging the Company with a crime under art. 4 of Italian Legislative Decree 74/2000.
On 24 December 2018 the Company produced and filed with protocol no. 77899 its own Observations regarding the PVC, drawn up according to article 12, paragraph 7 of Italian Law no. 212 dated 27 July 2000.
On 3 January 2019, the Inland Revenue – Provincial Department of Frosinone – Control office, notified the Company of assessment notice no. TKO0C6M02152/2018, with which the tax return was adjusted for IRAP for the 2013 tax period for an amount payable by the company of € 591 thousand for taxes, net of fines and interest. The findings ascertained derive from the application of art. 5 and 25 of Italian Legislative Decree no. 446/97 and in particular relate to an undue downward variation due to the use of a risk provision, the omitted accounting/declaration of positive income components as well as the undue deduction of negative income elements related to default interest. The Company appealed against this sanction before the Provincial Tax Commission of Frosinone. Based on the assessments of its tax advisors, the Company has not identified any particular risk with regard to this audit. In any case, taxes were paid on a provisional basis pending the trial, the hearing for which was held on 3 July 2019. On 23 October 2019 sentence no. 475/1/2019 was filed by the Provincial Tax Commission of Frosinone rejecting the appeal filed by the Company against the administrative fine imposed by the Revenue Agency for violations ascertained by the Guardia di Finanza for 2013. It is the intention of the Company to challenge the aforementioned judgement and to lodge an appeal before the Regional Tax Commission. The deadline for this action is six months from the date of filing of the judgement, therefore 23 April 2020.
It is noted that the findings for IRES purposes relating to the aforementioned tax assessment report have been the subject of a separate assessment as described below.
Finally, it is noted that on 1 February 2019, having examined the request for review pursuant to art. 324 of the Italian code of criminal procedure proposed by the Company, the Court of Frosinone, having heard the parties in the Council Chamber at the hearing and dissolved the reservation, annulled the decree of preventive seizure issued by the examining judge and ordered the restitution of the seized property to the party entitled.
It should also be noted that the audit continued for the tax years 2014-2018, ending with the drafting of a further tax assessment report on 30 October 2019.
As a result of the tax audit carried out, the tax authorities found that the company had committed a series of substantial violations with regard to IRES and IRAP for the tax periods from 2014 to 2017, except for what had already been found for 2013 with the previous PVC of 25 October 2018 and partly amended.
Also in relation to this last PVC, the Company submitted specific comments and also requested the cancellation in self-protection of what is subject to adjustment for 2013.
Nevertheless, on 31 December 2019, the following were served by the Revenue Agency:

- notice of assessment no. TKQ0E6M01680 regarding IRES for 2013, for an amount of € 3.1 million for taxes, net of penalties and interest;
- notice of assessment no. TKQ0C6M01854 regarding IRAP for 2014, for an amount of € 0.9 million for taxes, net of penalties and interest;
- notice of assessment no. TKQ0E6M01853 regarding IRES for 2014 for an amount of € 5.2 million for taxes, net of penalties and interest.

The notices of assessment were served to the Parent Company Acea as consolidating company. The companies filed an appeal before the Provincial Tax Commission of Frosinone on 28 February 2020. With regard to the findings contested in said notices of assessment, supported by the opinion of their tax advisors the Companies consider the Inland Revenue's requests to be completely unfounded.

Customs verification of Umbria Energy SpA
On 15 January 2016, the Perugia Customs Office notified a payment notice to Umbria Energy in relation to a report on findings which reported the failure to pay excise duties and surcharges on electricity for the period 2010-2013 for a total amount of € 860 thousand.
Against this measure, the Company is preparing an appeal before the relevant Tax Commission to obtain acknowledgement of its correct conduct. On 4 October 2017, the Commission rejected the appeal submitted by the Company arguing the substantive relevance of the conduct upheld in terms of the application of the sanction and declared that in the event of any billing adjustments, the procedure to be applied is that of submitting a formal request for reimbursement to the Office in accordance with art. 14 of the Environment Act. The relevant sentences were promptly appealed by the Company and the corresponding judgements are currently pending before the Perugia Tax Commission, which has postponed the proceedings to be rescheduled.
With regard to the deeds challenged by the Company relating to the electricity injected for consumption in the province of Terni for the year 2010, the decision of appeal, while confirming the decision of the first instance with regard to the tax due, found that the obligation of the Office to recalculate the penalty was justified. The ruling was promptly appealed by both the Company and the Customs Agency and the relevant case is currently pending before the Supreme Court of Cassation.
An attempt at conciliation with the Customs Agency is also under way and has not yet been concluded.
It should also be noted that on 21 June 2019, the Perugia Customs Agency launched a tax audit on the correct payment of excise duties on the supply of natural gas. On 8 January 2020, the Office served a statement of findings relating to the years 2014 to 2018, contesting omitted payments of € 265 thousand. The deadlines for submitting comments are currently pending.

OTHER ISSUES

Acea Ato 5 – Injunction Order requested for credit collection on the settlement agreement of 2007 with AATO 5

With regard to the € 10,700,000 receivables for higher costs incurred in the 2003-2005 period, pursuant to the Settlement agreement of 27 February 2007, on 14 March 2012, Acea Ato 5 lodged an appeal for an injunction order concerning the receivables recognised by the AATO to the company.
Accepting the appeal, the Court of Frosinone issued Injunction Order no. 222/2012, enforceable immediately, notice of which was served to the Area Authority on 12 April 2012.
By notice dated 22 May 2012, the AATO sent notice of its opposition to the injunction order, requesting the cancellation of the order and, as a precautionary measure, the suspension of its provisional enforcement. Moreover, as a counter-claim, it submitted a claim for the payment of concession fees totalling € 28,699,699.48.
Acea Ato 5 appeared before the court in the proceedings against the injunction order, challenging the adversary's demands and in turn formulating a counter-claim for the payment of the entire amount of higher costs incurred by the Operator and originally requested, totalling € 21,481,000.00.
Following the hearing on 17 July 2012, the Judge – in an Order filed on 24 July – suspended the temporary enforcement of the injunction order, and postponed to a later date the discussion of the merits of the issue.
The judge also rejected the request for an order of payment of the concession fees submitted by the AATO.
During the hearing on 21 November 2014, the judge withdrew the reservations on the motions for admission of evidence filed by the parties and fixed the hearing for the final statements on 15 November 2016. During the hearing, the judge granted the terms for the conclusions and replies and deferred the decision on the case.
In sentence 304/2017, published on 28 February 2017, the civil judge revoked the injunction decree issued in 2012, rejected the subordinate re-conventional request by Acea Ato 5 and ordered the deferral of the case in the preliminary proceedings concerning the re-conventional request by the AATO as regards the payment of the concession fees.
At the hearing of 17 November 2017, the Judge, having acknowledged the counterparty request, postponed the hearing to 27 February 2018. At the outcome of the aforementioned hearing, the new Judge who took charge of the case, having noted the discrepancies that emerged in the respective accounts of Acea Ato 5 and AATO, granted a postponement to 4 May 2018, inviting the parties to clarify the reasons for such discrepancies and specifying that if they could not the court would appoint an expert to do so. At this hearing there was a further postponement until 21 September 2018.
At this meeting, in light of the Conciliation Panel established on 11 September 2018 with AATO 5 – pursuant to art. 36 of the Management Agreement to which the question concerning the determination of concession fees was also referred, among others – the Parties asked the judge for a postponement, the hearing being scheduled for 15 February 2019, then postponed to 17 September 2019.
In connection with these proceedings, the appeal must be considered against the judgement of the Court of Frosinone that revoked the Court Order of € 10,700,000, initially issued by said Court.
The first hearing was automatically postponed to 11 May 2018. On this occasion the Court, having heard the respective positions of the parties, postponed the case to 20 November 2020 for the oral discussion and the ruling of the sentence pursuant to art. 281 sexies of the code of civil procedure.

The Company did not consider cancelling the receivable or setting aside any risk provisions for two reasons:
- the issue in question, which relates to the recognition of the amount owed by the Operator (of € 10,700,00.00) in connection with the 2007 settlement, the subject of sentence no. 304/2017 of the Court of Frosinone, appealed by Acea Ato 5 SpA to the Court of Appeal of Rome (RG no. 6227/2017), was referred to the Conciliation Board for further investigation, including legal matters;
- the legal assessments made by the lawyers illustrate, on the one hand, the validity of the appeal and, on the other hand, the fact that the nullity of the transaction does not per se determine the non-existence of the receivable.

The validity of the appeal and the decision not to cancel the receivable were further confirmed by the conclusions of the Conciliation Board, established by the Area Authority and the Operator, in accordance with the provisions of article 36 of the Management Agreement, in order to reach a settlement of the various disputes pending between the parties.
In its Conciliation Proposal sent to the parties on 27 November 2019 and currently being examined by the AATO 5 Conference of Mayors, the Conciliation Board has in fact, among other things:
- ascertained the existence of significant differences between the concession fees approved in the various tariff arrangements and the amounts to be paid to the Municipalities. In the opinion of the Board, the actual existence of such differences leads one to believe that Resolution no. 4/2007 of the Area Authority was based on credible elements, also found afterwards, where it identified the "savings on the concession fees to be paid to the Municipalities" (which could constitute the financial funding to pay a loan stipulated by the Area Authority) as the financial coverage for the payment to the Operator of the sums envisaged in the settlement. This conclusion, highlighting the plausibility of the sources of coverage identi-

fied by the Area Authority to finance the settlement, confirms the validity of the appeal filed by the Company against sentence no. 304/2017, by which the Court of Frosinone declared the nullity of Resolution no. 4/2007 of the Area Authority and of the settlement agreement precisely because of the alleged failure to identify the related financial coverage in violation of the disclosure regulations, since the reference to "unspecified savings on the concession fees to be paid to Municipalities" was not considered adequate and sufficient;
- considered that there are valid and grounded reasons to grant the Operator's request for recognition of higher operating costs incurred in the three-year period 2003-2005 to the reduced extent agreed to by the parties in the settlement, thus confirming the existence of the corresponding receivable in the Company's financial statements.

Acea Ato 5 – ASI Consortium

The ASI Consortium filed two injunction decrees for the reimbursement of the portion of the treatment service carried out on behalf of Acea Ato 5 (case value € 14,181,770.45). The two decrees were opposed by the Company which, in turn, submitted an application for the supply of water for industrial use provided to the Consortium. Specifically:

- With regard to the proceedings instituted following appeal 3895/2013 (value of the judgement € 7,710,946.06), the parties to the proceedings approved the settlement plan and on 15 May 2018 the final settlement agreement was signed between Consorzio ASI, Acea Ato 2 and Acea Ato 5;
- with reference to the judgement following appeal no. 3371/2016 (judgement value € 6,470,824.39), the judge postponed the hearing until 8 February 2019. On that occasion, as negotiations are still in progress between the parties for the settlement of the case, a further postponement was ordered to 25 June 2019, 22 November 2019 and subsequently to 31 March 2020.

At the same time, during the aforementioned settlement discussion, the opportunity emerged to transactively define reciprocal debit/credit positions for the 2016-2017 period, as well as the opportunity to reach the settlement of a framework agreement aimed at regulating – starting from 2018 and for the future – the water supply service provided by Acea Ato 5 to the ASI Consortium, as well as the sewerage and treatment service rendered by ASI for Acea Ato 5. With regard to this last aspect, on 9 January 2019 an agreement was signed by the Parties.

Conversely, no final agreement has yet been reached for the period 2012-2017. The objective, of course, is to seek an amicable solution for the settlement of mutual credit relations. As of today, a solution is being studied that foresees the possibility for the Company to acquire the assets of the ASI Consortium, specifically the water network, upon payment of consideration that will be quantified at the outcome of an estimate calculated by mutually trusted parties or through compensation of the payable exceeding the differential between two other solutions.

Such a resolution would increase the number of user accounts served by the IWS operator, with consequent positive impacts also on the tariff, to the benefit of all AATO 5 users.

It is clear that such an operation having inevitable repercussions on the water tariff – both in terms of costs (the purchase of the water network by Acea Ato 5 should be remunerated in the IWS tariff) and benefits (for the reasons highlighted above) – requires the prior consent of AATO 5.

Acea Ato 5 – Lazio Regional Administrative Court appeal of contract termination

With regard to the matter of the termination of the Management Agreement, we are awaiting rulings on the appeals filed by several Municipalities of the Ato 5 against sentence no. 638/2017 by which the Lazio Regional Administrative Court – detached section of Latina upheld the appeal filed by the Company against resolution no. 7 of 13 December 2016 of the Conference of Mayors that ordered the resolution, annulling the measure.

It should be noted that the aforementioned appeals do not present any arguments of particular novelty or relevance with respect to what has already been submitted for the examination of the Court of First Instance, nor have the appellants proposed an application for interim relief. In any case, the Company filed the formal documents for both disputes, for which as of today there is no information regarding the scheduling of the hearing.

For more details on the contents of the proceedings mentioned, see the paragraph entitled "Information on concession arrangements".

Acea Ato 5 – Municipality of Atina – City Council Resolution no. 14 of 17 April 2019

Following the transfer of the management of the IWS of the Municipality of Atina to Acea Ato 5, which took place as of 19 April 2018, the Municipality decided to "establish the optimal territorial sub/area called Atina Territorial Area 1, with reference to the optimal territorial area no. 5, for the continuity of the autonomous and direct management of the water service pursuant to art. 147 paragraph 2 bis of Italian Legislative Decree 152/2006, declaring the Integrated Water Service <local public service without economic importance>" (Municipal Council resolution no. 14 of 17 April 2019).

AATO 5 appealed the above resolution before the Lazio Regional Administrative Court – Latina Section – also serving the Company and the Lazio Region.

As far as Acea Ato 5 is concerned, while the legal action taken by the AGB is suitable to protect the interests of the Operator, the Company has deemed it appropriate to file suit.

The case is docket RG 503/2019 and the hearing has yet to be scheduled.

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 claimant: 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 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 (Euro 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 Legislative Decree 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 183 of the 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.

Acea Ato 2 SpA – Regulation of the hydrometric level of Lake Bracciano

The Ordinances issued by the Director of the Regional Directorate for Water Resources, Soil Protection and Waste no. 0375916 of 20 July 2017 and no. 0392583 of 28 July 2017 concerning the Regulation of the hydrometric level of Lake Bracciano were both challenged by Acea Ato 2 before the Superior Court of Public Waters (TSAP) with separate appeals.
At the hearing before the Investigating Judge held on 24 January 2018, it was requested that the matter of the dispute be dismissed, in consideration of the subsequent Determination of the Regional Director for Water Resources, Soil Protection and Waste no. G18901 of 29 December 2017 concerning "Supply of the basin of Lake Bracciano as a strategic water reserve and seasonal compensation for drinking water. Taking note of the will of Acea Ato 2 not to activate the derivation of the Lake of Bracciano". The hearing before the Court for the declaration of the dismissal of the dispute is scheduled for 28 November 2018 and as a result of the same the TSAP declared, for both judgements, the impossibility to proceed with the appeal due to supervening lack of interest.
The same for the aforementioned regional provision no. G18901 dated 29 December 2017, Acea Ato 2 proposed an appeal, with a request for suspension, before the TSAP. With a ruling of 6 August 2019, the Superior Court of Public Waters rejected the appeal brought by Acea, while pointing out that it cannot be prevented from carrying out temporary and controlled withdrawals from the lake, strictly related to the carrying out of conservative maintenance actions aimed at minimising the risks of water potability. In October 2019, Acea Ato 2 appealed to the United Sections of the Supreme Court of Cassation in order to protect the concession. Currently we are awaiting the scheduling of the hearing.

Acea Ato 2 SpA and Acea Ato 5 SpA – Challenge to Regional deliberations concerning the identification of the Optimal Territorial Areas of the Hydrographic Basin

With an appeal lodged before the Superior Court of Public Waters of Rome, Acea Ato 2 challenged the regional resolutions concerning the identification of the Optimal Territorial Areas of the Hydrographic Basin (GRL resolution no. 56 of 6 February 2018, GRL resolution no. 129 of 20 February 2018, GRL resolution no. 152 of 2 March 2018). A similar appeal was also proposed by the Optimal Territorial Area Authority no. 2 Central Lazio. With resolution no. 218 of 8 May 2018, the Lazio Region suspended the effectiveness of the challenged resolutions, delegating to the Regional Director of Water Resources and Soil Defence any activity useful for achieving a new governance model for the IWS during the following six months. Therefore, at the hearing of 11 July 2018 the case was postponed to 6 February 2019, pending the new assessments of the Region on the matter, announced in the provision that suspended the contested acts. Subsequently, the Region issued resolution no. 682 of 20 November 2018 with which it has extended the deadline for the definition of the new IWS model, confirming the suspension of the effectiveness of the challenged resolutions. There have been a number of postponements, and most recently the hearing was set for 9 September 2020. A similar appeal was filed by Acea Ato 5 SpA and, in this case as well the hearing was postponed to 9 September 2020 due to the ongoing suspension of the contested measure and, in any case, the Region's ongoing investigation.

Acea Ato 2 SpA – Parco dell'Aniene Scarl

In June 2019 the company Parco dell'Aniene Scarl sued Acea Ato 2 and Roma Capitale for alleged liability of the defendants, jointly and severally or to the extent to which they are responsible, for alleged wrongful acts arising from the failure to build and/or repair the sewerage system prior to the construction works carried out by the claimant in the Tor Cervara – Via Melibeo area. The consortium is making an exorbitant claim for compensation, totalling more than € 105 million. The Judgement is currently pending before the Court of Rome and the first hearing was postponed to 7 October 2020 to allow the summons of the third parties involved. Although it is premature, at the moment it can be said that the claim appears to be exaggerated and probably even of doubtful foundation.

areti SpA – Gala SpA

The pending disputes generated by the complex matter are summarised below.

Precautionary measures

Against the enforcement of guarantees issued, on 12 April 2017 Gala filed a cautionary appeal as per art. 700 of the Code of Civil Procedure against the collection on 12 April, obtaining a decree inaudita altera parte, which initially prevented *areti* from exercising its right to collect the guarantees. This decree was thereafter revoked by court order of 30 May 2017, which fully recognised the rights of *areti*.
On 1 June 2017, given the continuation of the serious breach of contract, *areti* notified the termination of the transport contract and also the collection of the additional contractual guarantees.
On 6 June, Gala appealed against the cautionary ordinance of 30 May and, again, on 9 June, submitted a second independent appeal for urgent measures before the Court of Rome, requesting a declaration of invalidity of the termination ordered on 1 June 2017 and initially obtaining the issuing of a decree inaudita altera parte in its favour.
On completion of both legal proceedings, the reasoning of *areti* was again completely recognised, with the issuing on 12 July of a board ordinance rejecting the appeal, following which the judge, called upon to decide on the second appeal as per art. 700 of the Code of Civil Procedure, asked the parties not to appear at the hearing, declaring that the appeal could not continue by ordinance of 13 July 2017.

The first judgement filed by the guarantor Euroins Insurance plc and the injunction issued in favour of GSE SpA

In July 2017, Euroins Insurance plc, guarantor of Gala, independently introduced assessment proceedings to have declared the non-existence of its guarantee obligation; *areti* requested right from the first hearing of appearance of 28 December 2017 to have that judgement consolidated with the ordinary judgement of opposition to the injunction order of the GSE (see below): the hearing of first appearance was set for March 2019.
GSE SpA, after notifying *areti* to pay the general system charges due by Gala, even if it has not been paid, requested and obtained from the Court of Rome an injunction, not immediately enforceable, against *areti* for payment of part of these charges. The injunction was promptly opposed by *areti* with a writ of summons served to GSE and inscribed in the rolls in December 2017, with the simultaneous summons, as a guarantee, of Gala and its guarantors (China Taiping Insurance (UK) Co. Ltd and Insurance Company Nadejda), the first hearing scheduled for March 2019.

Note that in July 2018, in view of access to the mechanism provided for by ARERA resolution no. 50/2018/R/EEL of 1 February 2018 for "recognition of charges that would otherwise not be recoverable for failure to collect general system charges", *areti* paid the GSE the sum specified in the opposed injunction.
Both judgements are currently pending before Section XVII of the Court of Rome with the same judge, and a postponement of the hearing to 25 November 2020 has been ordered.

Gala's citation to *areti*, Acea Energia SpA and Acea SpA

By means of a summons served in March 2018, Gala requested the Court of Rome to declare the invalidity of some clauses of the transport contract stipulated with *areti* in November 2015 and the consequent invalidity/ineffectiveness of the termination of the contract by *areti*, ordering the latter to pay the corresponding damage, for a total of about € 200,000,000.00.
Gala also requested that the behaviour of *areti* and other defendant companies – Acea SpA and Acea Energia SpA – be declared acts of unfair competition, condemning them to pay the corresponding damages. The companies of the Acea group that were sued acted within the terms of the law, denying the opposing claims and requesting their rejection.
In addition, as a counter-claim, *areti* has requested to declare the contract legitimately terminated, as well as to ascertain and declare the non-fulfilment of Gala of the payment and guarantee obligations assumed under the transport contract with consequent order to pay the related amount, plus interest and without prejudice to the additional amounts being accrued.
The judgement is currently pending before the 17th civil section of the Court of Rome and on 5 November 2018 the Designated Judge assigned to the Parties the terms for the presentation of their briefs pursuant to art. 183, paragraph 6 of the Code of Civil Procedure starting from 9 December 2018 and set the hearing for 12 May 2021 for the clarification of the conclusions, without prejudice to any preliminary investigation to be carried out. By decree of 13 June 2019, the Investigating Judge ordered an official technical consultancy. The expert operations started on 17 September 2019 and are still ongoing.

Appeal for Cassation against sentence no. 5619/2017 of the Council of State on System Charges

It should also be noted that with sentence no. 5619/2017, the Council of State pronounced itself on general system charges, general ARERA regulation and traders' obligations; this sentence was challenged by *areti* with recourse to the United Sections of the Court of Cassation in January 2018, pursuant to articles 111, paragraph 8 of the Italian Constitution, 362 and 382 of the Italian Code of Civil Procedure and 110 of the Italian Civil Code, for overriding the jurisdictional function. By Order of 29 November 2019, the Supreme Court declared the action brought by *areti* to be inadmissible due to lack of capacity to sue.

areti SpA – Metanewpower

In November 2015, in its capacity as operator of the electricity distribution network, *areti* entered into a transport contract with Metanewpower, which operates in the sale of electricity to end users, a contract it repeatedly breached.

Judgement on guarantees

With summons served on 7 September 2018, Metanewpower (MNP) challenged the legitimacy of the contractual conditions for the transport of energy and the system of guarantees required by the distributor for the failure to pay the system charges regardless of the actual collection from the end customer, claiming compensation for damages due to the performance of the guarantees for about € 2.0 million. In the course of the proceedings, precisely in December 2019, MNP amended its claim for damages, quantifying them at over € 34.0 million. The preliminary hearing is set for 7 October 2020.
In the meantime, due to the serious breach of contractual obligations, on 8 October 2018 *areti* notified MNP of the termination of the transport contract.

Precautionary measure

With an urgent ante causam appeal pursuant to art. 669 bis and 700 of the Italian Criminal Code, MNP brought an action before the Court asking it to order the suspension of the effects of the termination for non-fulfilment of the transport contract ordered by *areti* and of the request for enforcement of the guarantee policy issued by MNP on 26 September 2018, ordering *areti* to restore the execution of the energy transport contract.
By order of 15 November 2018, the Investigating Judge, lifting the reservation on the outcome of the hearing of the parties, granted the precautionary measure, recognising from a marginal standpoint the violation of the distributor's duty to cooperate despite Metanewpower's default, each party paying their own legal expenses.

Ordinary Judgement

Following the conclusion of the precautionary phase, with a summons served on 5 December 2018, MNP instituted ordinary proceedings, contesting the validity of the contractual clauses and claiming compensation for damages due to the annulment of the termination of the contract following the aforementioned Court order. The request amounts to over € 13.0 million. The first hearing was set for 26 March 2020.

Recovery of *areti*'s receivable from Metanewpower

On 30 May 2019, following MNP's continuing breach, *areti* ordered a new contractual termination and initiated the recovery of its receivable, obtaining the issue of an injunction for the amount of approximately € 3,850,000.00 by way of default. MNP – for the same reasons mentioned above – lodged a challenge to the injunction and the first hearing is scheduled for 14 May 2020.

Gori SpA – Consorzio di Bonifica Integrale del Comprensorio Sarno

The Consorzio di Bonifica Sarno sued the Company to order it to pay over € 20 million in concession fees due for the use of the consortium channels used to deliver the wastewater produced in the area under the Company's management. In particular, this quantification was derived from the acts of the Consortium, which unilaterally fixed the percentage of 45% (and then 26/62% from 2013) as part of the contribution relating to the collection of wastewater pertaining to Gori. In this regard, it should be noted that, as things stand, the agreement between the Consortium and Gori has not yet been defined (and therefore stipulated), so that the request for payment for breach of contract due to the absence of a contract, which is necessary in relations with a public administration like the Consortium, would appear unfounded. Moreover, the Company also highlighted the substantial irrelevance of the "benefit" received for the use of the consortium network. Moreover, in addition to the necessary contractualisation of the relationship, it is necessary that Ente Idrico Campano – i.e. the public administration competent according to the law – provide for the coverage of the alleged costs for concession fees (once the relevant calculation methods have been defined) in the IWS tariff of the Ato 3. Moreover, such costs – qualified as "updatable operating costs" pursuant to art. 27 of Annex A to the resolution of ARERA 664/2015/R/idr – are always recognised by the local regulatory authority (i.e. Ente Idrico Campano) and by the national regulatory authority (i.e. ARERA). That said, the Court considered it necessary to entrust a technical consultant with the task of "quantifying any amounts owed by the defendant Gori for consortium charges in relation to what was deducted in [the Consortium's] application on the basis of such obligation and the period of reference, including distinguishing the amounts year by year", "after examining the documentation produced and taking into account what was found therein". In the course of the expert appraisals, given the impossibility of determining a "contribution" that would have to be agreed upon during negotiations, the court-appointed expert asked the parties to produce documents and calculations in order to arrive to quantify the contribution due by the Company based on a logic specified by the expert. With the objection of the Consortium's legal counsel on the production of new documents, the expert concluded the appraisal, declaring that it was not possible to answer the questions based on the documents in the record alone. However, the expert filed a report declaring that it was impossible to quantify the contribution borne by Gori in proportion to the benefit based on a methodology consistent with the legislation of reference, but did identify an amount of over € 8 million which is the tax on the collection of wastewater borne by all members "without being able to specify the amount owed by Gori" pursuant to art. 13, paragraph 5 of Italian Law 4/2003 of the Campania Region for the years 2008-2016, lacking "any measure whatsoever regarding the direct benefit obtained and the flow of water discharged by Gori". The case was adjourned to a hearing on 11 November 2019 to allow the designated expert to clarify the criteria used in the report submitted. A review hearing is currently pending.

Gori SpA – Update of the 2016-2019 regulatory framework of the Sarnese-Vesuvian District of the Campania Region

Preliminarily, it is clarified that the ARERA has determined: a first transitional tariff method for the years 2012 and 2013 (which entirely replaced the previous "normalised method" referred to in Italian Ministerial Decree LL.PP. 1 August 1996), issued with resolution 585/2012/R/idr ("Transitional Tariff Method" or "MTT"); a second water tariff method for the years 2014 and 2015 issued with resolution 643/2013/R/idr ("Water Tariff Method" or "MTI"); a third and currently applicable water tariff method for the second regulatory period 2016-2019 implemented with resolution 664/2015/R/idr, as amended by subsequent resolution 918/2017/R/idr ("Water Tariff Method - 2" or "MTI-2").

Based on the tariff method implemented by the Authority, the Area Governing Body is required to prepare the Regulatory Scheme for the period of reference, which is then approved by the Authority.

In fact, the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority, in execution of the ARERA 664/2015/R/idr resolution, prepared the 2016-2019 Regulatory Scheme with resolution no. 19 of 8 August 2016 and then updated it, in execution of the ARERA 918/2017/R/idr resolution, with resolution no. 39 of 17 July 2018. With this last resolution: 1) the RCappr adjustment component was valued at € 216,948,037; 2) the Operator's Revenue Constraint ("VRG") for the years 2016 was recognised (VRG: € 167,958,694); 2017 (VRG: € 183,072,979), 2018 (VRG: € 197,001,101) and 2019 (VRG: € 206,352,671) as well as the corresponding "tariff multipliers" for the 2018 financial years (ϑ 1.247505) and the 2019 financial year (ϑ 1.309880); 3) it was decided to allocate the FoNI quota already envisaged for the year 2017 and not yet used to finance tariff reductions of a social nature; 4) the additional Water Bonus was established with the valuation of the OPsocial cost component for the years 2018-2019; 5) table no. 2 was updated relating to accruals, amortisation and separate loans for Municipalities of Ato 3. In addition, the 2016-2019 Regulatory Scheme updated with Resolution 39/2018 was prepared on the basis of a plan aimed at the full implementation of the IWS of the Sarnese-Vesuvian District that guarantees, concurrently with economic-financial equilibrium: (a) the social sustainability of the IWS tariff applied to users, (b) the investments necessary for the improvement of the service as well as (c) the recovery of accumulated tariff adjustments. For these purposes, the current Ato 3 Regulatory Scheme has established the following objectives to be achieved to ensure, as mentioned, the full implementation of the IWS: 1) the transfer and increased efficiency of the "Regional Works", and, that is, it underlines, the water infrastructure falling within Ato 3 still under the management of the Campania Region and listed in the resolution of the Regional Council 243/2016; 2) re-employment and relocation – always with a view to making the IWS more efficient – the personnel assigned to the Regional Works in accordance with the procedures set forth in the agreements with the Trade Unions on the basis of aforementioned resolution 243/2016 and the relevant Framework Agreement of 3 August 2018 specified above; 3) the provision of instalment plans for the debts accrued by the Company – essentially due to the inadequacy of the tariff system effectively applied until 2016 – for wholesale supplies disbursed from 2013 onwards to the Campania Region and the concurrent resolution of the complex legal dispute arising from the payment of regional supplies of "wholesale water" and services of "collection and treatment of wastewater".

The 2018 financial year was characterised by the definition and normalisation of relations between the Company and the Campania Region (as well as its concessionaire for collections, Acqua Campania SpA) with regard to regional supplies of "wholesale water" and "wastewater collection and treatment services" for the period from 1 January 2013 to the second quarter of 2018.

Refer to the entire contents of the paragraph "Service Concession Arrangements" also for information on the financial effects deriving from the conclusion of the recognition of equalisation measures.

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 consider that the settlement of the ongoing dispute and other potential disputes should not create any additional charges for Group companies, with respect to the amounts set aside (note 28 a on the Provision for risks and charges).

These allocations represent the best estimate possible based on the elements available 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 IFRS 9.

€ thousand	FVTPL	FVTOCI	Amortised cost	Balance sheet value	Explanatory Notes
Non-current fixed assets	**49,974**			**49,974**	
Other equity investments	2,772	0	0	2,772	21
Financial assets	47,202	0	0	47,202	23
Current assets	**0**	**0**	**1,527,631**	**1,527,631**	
Trade receivables	0	0	1,035,462	1,035,462	25
Other current assets: fair value evaluation of differential and swap contracts on commodities with effect on the shareholders' equity			0	0	25
Current financial assets	0	0	299,212	299,212	25
Other current assets			192,957	192,957	25
Non-current liabilities					
Bonds	0	182,017	2,572,281	2,754,298	29
Payables to banks	0	126,628	614,578	741,206	29
Current liabilities					
Payables to banks	0	0	541,950	541,950	31
Financial Payables			132,414	132,414	31
Other current liabilities: fair value evaluation of differential and swap contracts on commodities	330	5,593			31
Trade payables			1,600,263		31
Other liabilities			308,490		31

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of securities not listed on an active market is determined using the valuation models and techniques prevailing on the market or using the price provided by several independent counterparties.
The fair value of medium/long-term financial assets and liabilities is calculated on the basis of the risk less and the risk less adjusted interest rate curves.
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

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

Market risk

The Group is exposed to market risk, represented by the risk that the fair value or future cash flows of a financial instrument fluctuate as a result of market price movements, above all in relation to the risk of movements in the prices of commodities in which the Group trades.
Through the activities carried out by the Commodity Risk Control Unit of the Finance Unit within the Administration, Finance and Control department, Acea ensures the analysis and measurement of exposure to market risks, interacting with the Energy Management Unit of Acea Energia SpA, verifying compliance with the limits and criteria adopted by the General Risk Management of the Commercial and Trading Industrial Segment and by the Administration, Finance and Control Department in line with the Acea SpA's "Guidelines for the Internal Control and Risk Management System" and the specific procedures approved in 2019.
The analysis and management of risks is carried out according to a second-level control process that involves the execution of activities throughout the year with different frequency (annual, monthly and daily), carried out by the Commodity Risk Control Unit and by Risk Owners. Specifically:

- **every year**, the measures of the risk indicators, i.e. the limits in force, must be reviewed and respected in the management of the risks;

- **every day**, the Commodity Risk Control Unit is responsible for verifying the exposure to market risks of the companies in the Commercial and Trading Industrial Segment and for verifying compliance with the defined limits.

The reports are sent to the Top Management on a daily and monthly basis. When requested by the Internal Control System, Commodity Risk Control prepares the information requested and available to the system in the format appropriate to the procedures in force and sends it to Acea SpA's Internal Audit Unit.
The risk limits of the Commercial and Trading Segment are defined in such a way as to:

- minimise the overall risk of the entire segment;
- guarantee the necessary operating flexibility in the provisioning of commodities and hedging;
- reduce the possibility of over-hedging deriving from the variation in expected volumes for the definition of hedges;
- ensure the necessary operational flexibility for trading activities not related to industrial needs.

Market risk can be distinguished between the "price risk", i.e. the risk connected with changes in the prices of commodities, and the "volume risk", i.e. the risk connected with changes in the volumes effectively sold with respect to those envisaged by contracts of sale to end customers (sales profiles).
Forward contracts (for physical transactions for the purchase and sale of commodities) are stipulated to meet the expected requirements deriving from the contracts in the portfolio or for transactions not involving sales to end customers.
The risk hedging strategy adopted by the Commercial and Trading Industrial Area also aims to minimise the risk associated with the volatility of the Income Statement deriving from the variability of market prices and ensure correct application of the Hedge Accounting (in accordance with current International Accounting Standards) to all derivative financial instruments used for such purpose.
As regards the commitments undertaken by the Acea Group to stabilise the cash flow from purchases and sales of electricity for the next year, it should be noted that all of the ongoing hedging operations are recorded in the accounts using the flow hedge method, as far as the effectiveness of hedging can be demonstrated. The financial instruments used are of the swap and contracts for difference (CFD) type.
The evaluation of risk exposure involves the following activities:

- recording of all transactions involving physical quantities carried out in special books (known as Commodity Books) differentiated according to the purpose of the activity (Sourcing on wholesale markets, Portfolio Management, Sale to internal end customers inside and outside the Acea Group, Trading not linked to industrial needs) and commodities (e.g. Electricity, Gas, EUA) and nature of the operations (physical and financial);
- accurate analysis of the time profile of the purchases and sales containing the open positions, in other words exposure of the physical purchase and sale of single commodities, within set volume limits;
- creation of scenarios of reference (prices, indices);
- calculation of risk indicators/metrics (Volumetric exposure, VAR, PAR, price range);
- verification of compliance with current risk limits.

The activity performed by the Commodity Risk Control Unit provides for daily codified checks at "event" on compliance with risk procedures and limits (also for purposes of compliance with Law 262/05) and reports to the Top Management any discrepancies detected during the phases of checks, so that measures can be adopted to be within the established limits.
The Finance Department reports to the Managers on any discrepancies noted during controls, so that all measures suitable to limiting/eliminating the risk connected with exceeding this limit, can be adopted.
The objectives and policies for market risk, counterparty credit risk and regulatory risk management are detailed in the relevant section of the Report on Operations, to which reference is made.
It should be noted that the hedges effected on the purchases and sales portfolio were conducted with leading operators in the electricity market and the financial sector. Below, in accordance with former article 2427-bis of the Italian Civil Code, is the information necessary for the description of transactions carried out, aggregated by hedged index, effective as of 1 January 2019.

Swaps	Purposes	Purchases/Sales	Fair Value in € thousand	Portion recognised to shareholders' equity	Portion recognised in the income statement
GM_PUN_c FE_PSV_u	Hedge power portfolio	Electricity and gas purchases and sales	5,593	5,593	0

The Group determines the classification of financial instruments at fair value, in accordance with the provisions of IFRS 13. The fair value of the assets and liabilities is classified in a fair value hierarchy that envisages three different levels, defined as follows, according to the inputs and valuation techniques used to measure fair value:

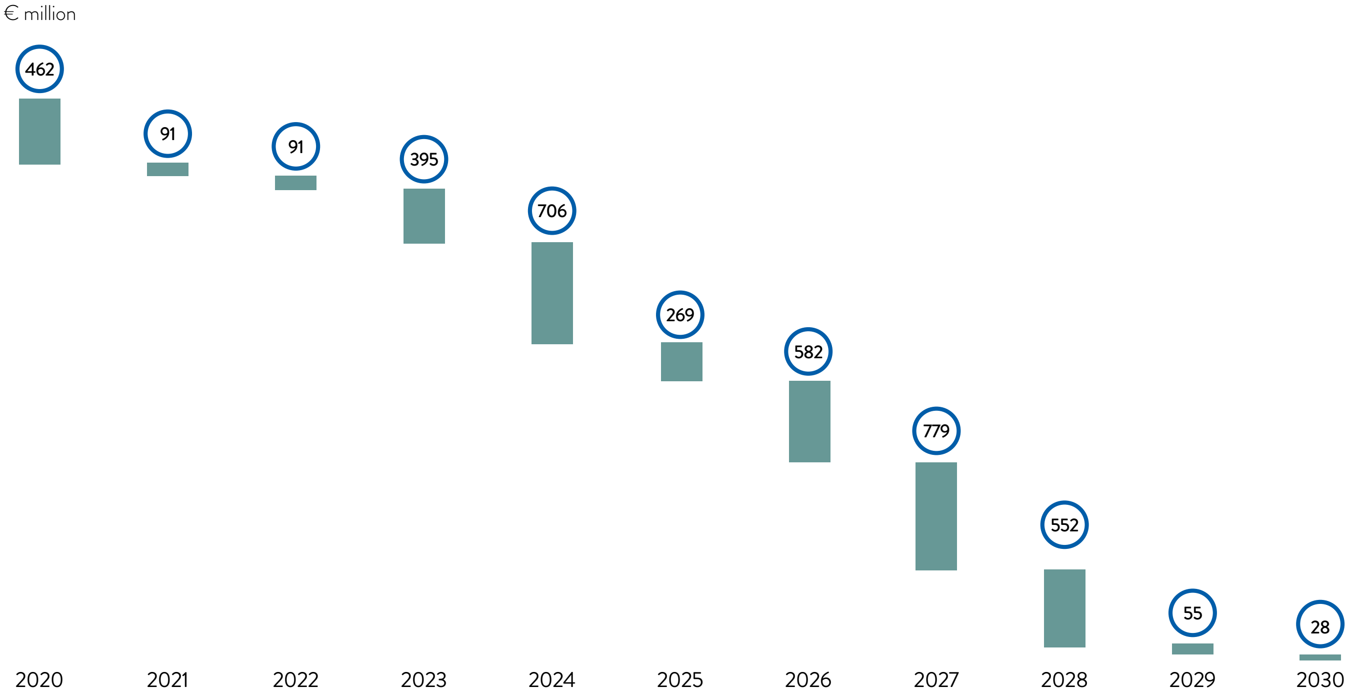
- level 1: prices listed (not adjusted) on a market for identical assets and liabilities;
- level 2: inputs other than listed prices pursuant to level 1, which can be observed for the asset or liability, both directly and indirectly;
- level 3: inputs not based on observable market data. This note provides some detailed information on the valuation techniques and inputs used to prepare these valuations.

It should be noted that, with regard to the types of commodities whose fair value is determined: for single commodity derivatives (PUN standard base load products, Peak/Off Peak) the level of fair value is 1 as they are quoted on markets active, for complex indices (ITRemix, PUN profiled products, etc.) the level of fair value is 2 as these derivatives are the result of formulas containing a mix of commodities listed on active markets.
Finally, it should be noted that, as of 2014, the Group has applied the rules laid down in EC regulations 148 and 149/2013 (jointly and together with Regulation 648/2012, EMIR) and is currently defined as NFC (Non-Financial Counterparty).

Liquidity risk

Acea's liquidity risk management policy is based on ensuring the availability of significant bank lines of credit. Such lines exceed the average requirement necessary to fund planned expenditure and enable the Group to minimise the risk of extraordinary outflows. In order to minimise liquidity risk, the Group has adopted a centralised treasury management system, which includes the most important Group companies, and provides financial assistance to the companies (subsidiaries and associates) not covered by a centralised finance contract.
At 31 December 2019 the Parent Company has uncommitted credit lines of € 628 million. No guarantees were granted in obtaining these lines. In the event of the drawdown of these types of facilities, Acea would pay an interest rate equal to the Euribor at one, two, three or six months (depending on the chosen period of use), in

addition to a spread that, in some cases, may vary according to the rating assigned to the parent company.
At the end of the year the Parent Company has commitments in short-term deposit transactions for an amount of € 125 million.
Please note that the EMTN Programme approved in 2014 for an amount of € 1.5 billion and adjusted during 2018 to a total amount of € 3 billion, was further adjusted during 2019 to a total amount of € 4 billion. Following the bond issue of € 500 million in May 2019, Acea can place additional bond issues up to the total residual amount of € 1.4 billion.
The graph below depicts the future development of all debt maturities, forecast based on the situation at the end of the year.



Regarding the trade payables (€ 1,472.8 million) it should be noted that the portion which is due to expire in the next twelve months amounted to € 1,273.9 million. The amount already expired of € 198.9 million will be paid by the first quarter of 2020.

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).

The Group currently uses interest rate risk hedging derivatives for Acea, which swapped at a fixed rate the loan signed on 27 December 2007 for € 100 million. The plain vanilla IRS, was entered into on 24 April 2008, effective as of 31 March 2008 (date of drawdown of the underlying loan) and expires on 21 December 2021 and completed a cross currency swap plain vanilla transaction to transform the Private Placement (Yen) currency and the yen rate applied in a fixed rate in Euros.
All the derivative instruments taken out by Acea and listed above are non-speculative and the fair values, calculated according to the bilateral method, of the same are respectively:

- negative for € 1.0 million (negative for € 2.1 million at 31 December 2018);
- negative for € 19.9 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.

Bank Loans € 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)
fixed rate	227,212	280,938	(53,726)	268,384	(41,171)
floating rate	583,053	628,431	(45,378)	625,153	(42,100)
floating rate to fixed rate	17,682	17,840	(158)	17,687	(5)
Total	**4,035,635**	**4,431,931**	**(396,296)**	**4,212,413**	**(176,778)**

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)
(1.50%)	(293.6)
(1.00%)	(187.8)
(0.50%)	(85.9)
(0.25%)	(36.4)
0.00%	0.0
0.25%	59.8
0.50%	106.6
1.00%	197.5
1.50%	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.

Credit risks

In July 2019, Acea issued new guidelines for the Group's Credit Policy to make them consistent with the organisational changes made at the end of 2018. These general guidelines, inspired by the principle of decentralisation of credit activities within companies, identify the responsibilities of the Parent Company and those of the operating companies based on a governance matrix.
Also in July, the "Customer Scoring and Credit Check" procedure was issued, which defines the procedures for the prevention of credit risk (hereinafter referred to as "Credit Check") for non-regulated markets.
Within Acea's Administration, Finance and Control Function, the Corporate Credit Unit:

1. defines the strategic guidelines for the management of the group's trade credit and monitors the related performance indicators, compliance with the application of the Credit Policy and the procedures issued as a result of the Credit Policy;
2. defines the strategic direction of the Credit Check process integrated in the CRM system for Mass Market and Small Business customers and constantly monitors their performance;
3. punctually assesses the Large/Top Business customers;
4. manages the judicial recovery of ceased "Large ticket" and strategic receivables;
5. manages extraordinary transactions on performing and non-performing receivables.

Based on the above guidelines, the companies are responsible for the operational management of active and discontinued loans of the entire receivable portfolio, with the exception of customers managed by Credito Corporate and for positions taken by tax injunction or law firms directly by the Legal and Corporate Affairs Department.
The Corporate Credit Unit monitors the performance of receivables on an ongoing basis and provides periodic management reports (monthly) by segment and by company.
With the May 2019 operational kick-off, project work was launched on Credit Risk Profiling for the three-year period 2019-2021, the macro objectives being the optimisation of the acquisition process, models and tools for managing Large Business customers, the activation of information platforms to support sales and the development of an advanced monitoring dashboard.
The assessment of Large Business customers continues to be managed through an approval workflow with decision-making bodies consistent with the level of exposure expected from the supply.
The dynamic management of recovery strategies is carried out in the billing system for active customers and through a dedicated management system for those discontinued. There is also a full review of the credit management process both in terms of the application map and the standardisation of activities for all Group companies, with the definition of a new Collection Strategy, fully integrated into the systems.
From the organisational point of view, in 2016 a further strengthening of the centralised management was achieved through the establishment of a new unit within the Parent Company, responsible for credit policies and the recovery of receivables from customers discontinued or with significant exposures. The structures of each single company responsible for managing credit reported functionally to the Acea Unit that guarantees end-to-end supervision of the entire process.
At the end of 2018, once the extraordinary design review and recovery processes had been completed, the mass management of receivables that had ceased – of a limited amount – was trans-

ferred to the operating companies, leaving to the holding company the activity of disposing of non-performing receivables through disposal operations, as well as the management of customers that had ceased to exist for a significant amount of time.
During 2019, the Group significantly improved its collections capacity both in terms of electricity sales and the water supply business, significantly reducing the respective unpaid amounts compared to current turnover.
As in previous years, this year the Group has set up non-recourse, revolving and spot transactions, of receivables from private customers and public administrations. These transactions led to the de-recognition of all the sold assets from the financial statements as all the associated risks and benefits had been transferred.
The Corporate Credit Unit monitors the performance of receivables on an ongoing basis and provides periodic management reports (monthly) by segment and by company.
The following table shows the credit risk management of the main business areas of the group by number of customers/turnover.
As for the distribution of electricity activities, credit risk is associated with relations with wholesalers: billing to them relates to the transport of energy in the distribution network and the services rendered to the end customers. The services are strictly regulated by ARERA resolutions.
The key principles on which the credit risk management strategies are based are as follows:

- homogeneous management of sellers' receivables, deemed of equal risk;
- uniformity of standard criteria for the application of default interest;
- credit risk mitigation through guarantees provided by the sellers; on this aspect of the new network code, Resolution 268/2015 and annexes A, B and C, allows sellers to submit a public rating, in place of the guarantee, provided it exceeds certain thresholds and is issued by certified bodies;
- adequate monitoring through credit ageing reports;
- management and assessment of instalment proposals made by sellers;
- training of dedicated staff.

Credit management starts with a "behavioural score", i.e. based on the knowledge of the individual seller through constant analysis of payment attitudes/habits which is then articulated through a series of targeted actions ranging from phone collection carried out internally, reminders and warnings through communications sent by certified mail, enforcement of the surety or forfeiture of the security deposit, up to the termination of the transport contract, as envisaged by resolution 268/2015/R/EEL.
As regards the supply of electricity and gas on the deregulated market, preventive credit risk assessment is performed using the credit scoring system (business decisions), with automatic results for mass market and small business customers and with a timely analysis with reference to sales of gas and electricity made to industrial and business customers. The integration is currently under way between the BD system and the SAS platform and with the Siebel system.
With regard to the water sector, the implementation of credit risk management strategies starts with a macro-distinction between public sector end users (Municipalities, public administrations, etc.) and private sector end users (industrial, commercial, condominium, etc.), given that said categories present different levels of risk, in particular:

- low risk of insolvency and high risk of late payment for public sector end users;
- variable risk of insolvency and late payment risk for private sector end users.

As regards credits due from public sector end users, which account for over 25% of the past due trade receivables, they are converted to cash through without-recourse factoring to financial partners, while a residual portion is managed directly through the offsetting of receivables/payables or by means of settlement agreements, where applicable.
Credit management for private sector end users, which represent approximately 75% of past due receivables, starts with behavioural scores or "knowledge in terms of the probability of default of each individual customer through the constant analysis of payment attitudes/habits", and is subsequently implemented through a series of targeted actions ranging from reminder letters, assignment to specialised companies for credit recovery via phone collection, to disconnection of defaulting end users and receivable factoring transactions.
Finally, by decree of the Minister of Economy and Finance of 16 September 2015, published in the Official Gazette of 30 September 2015, no. 227, Acea Ato 2 was authorised to make collections through enforcement procedures (through Equitalia) and to preliminary rely on tax injunctions, which replace the injunction orders pursuant to art. 17, paragraphs 3-bis and 3-ter of Legislative Decree no. 46/1999. On one hand, the public relevance of receivables arising from the integrated water service was acknowledged; on the other hand this will enable the company to be even more effective in the recovery of payments from delinquent customers, as it is now able to rely on a tool typically used for the collection of taxes. Thereafter, Acea Ato 5 and Gori were also authorised to collect by means of roll, respectively by Decree no. 58 of the Minister for Economy and Finance of 22 February 2016, published in Official Journal of 10 March 2016 and Decree of 22 September 2016, published in Official Journal no. 235 of 7 October 2016.
In Acea Energia, the first step in credit management is the prior assessment of the client. Corporate Credit has the task, amongst others, of implementing and managing the preventive scoring system, which enables real time assessment of the credit rating of the potential customer, when acquiring it.

- With regard to Mass Market and Small Business customers, the Credit Check system integrated in the CRM is directly usable by Acea Energia and the commercial agencies appointed thereby. Specific scorecards have been defined to statistically identify customers that are potentially unsuitable for the supply of electricity or gas, as they have a risk profile that is not in line with company standards;
- with reference to Large and Top customers, the investigation is performed in Acea SpA using a dedicated platform with specific workflows that support the timely analysis of prospective customers, thanks also to the availability of updated accounting and commercial information.

Acea Energia uses the "Collection Strategy" SAP module to manage credit relating to utilities operative on the protected market and "Credit Care" for the management of credit of customers operating on the deregulated market and ceased customers. In recent years, in-court and out-of-court recovery was strengthened, with specific reference to legal litigation activities and using the services offered by market operators for the bulk recovery of receivables.
On the management side, activities successfully continued for the collection matching process, acting both on the collection channels and the application systems, and with regard to the number of dedicated employees.
The "large-ticket" customers that have ceased to be "large-ticket" customers following an internal collection process set up by Acea Energia are transferred to the Acea SpA Corporate Credit Unit in the event of an unsuccessful outcome of the recovery, which then entrusts them in packages with uniform characteristics to law firms contracted by the Legal and Corporate Affairs Department.
Law firms are assessed on the basis of their recovery performance and are engaged in proportion to the results achieved.
The ageing of the Trade Receivables is as follows, gross of the allowance for doubtful accounts, detailed in Note 23.

- Total trade receivables, gross of Provision for Impairment of Receivables: € 2,064 million;
- Trade receivables expiring: € 848 million;
- Outstanding trade receivables: € 1,216 million.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ANNEXES

A. LIST OF CONSOLIDATED COMPANIES

Company name	Location	Share Capital (in €)	Shareholding	Group consolidation quota	Method of Consolidation
Environment Segment					
Acea Ambiente Srl	Via G. Bruno 7 - Terni	2,224,992	100.00%	100.00%	100%
Aquaser Srl	P.le Ostiense. 2 - Rome	3,900,000	93.06%	100.00%	100%
Bioecologia Srl	Via Simone Martini. 57 - 53100 Siena	2,382,428	100.00%	100.00%	100%
Iseco SpA	Loc. Surpian n. 10 - 11020 Saint-Marcel (AO)	110,000	80.00%	100.00%	100%
Berg	Via delle Industrie. 38 - Frosinone (FR)	844,000	60.00%	100.00%	100%
Demap Srl	Via Giotto. 13 - Beinasco (TO)	119,015	90.00%	100.00%	100%
Acque Industriali Srl	Via Bellatalla.1 - Ospedaletto (Pisa)	100,000	73.05%	100.00%	100%
Commercial and Trading Segment					
Acea Energia SpA	Piazzale Ostiense 2 - Rome	10,000,000	100.00%	100.00%	100%
Acea8cento Srl	Piazzale Ostiense 2 - Rome	10,000	100.00%	100.00%	100%
Cesap Vendita Gas Srl	Via del Teatro 9 - Bastia Umbra (PG)	10,000	100.00%	100.00%	100%
Umbria Energy SpA	Via B. Capponi 100 - Terni	1,000,000	50.00%	100.00%	100%
Acea Energy Management Srl	Piazzale Ostiense 2 - Rome	50,000	100.00%	100.00%	100%
Parco della Mistica Srl	Piazzale Ostiense 2 - Rome	10,000	100.00%	100.00%	100%
Overseas					
Acea Dominicana SA	Avenida Las Americas - Esquina Mazoneria. Ensanche Ozama -Santo Domingo	644,937	100.00%	100.00%	100%
Aguas de San Pedro S.A.	Las Palmas. 3 Avenida. 20y 27 calle - 21104 San Pedro. Honduras	6,457,345	60.65%	100.00%	100%
Acea International S.A.	Avenida Las Americas - Esquina Mazoneria. Ensanche Ozama - 11501 Santo Domingo	8,850,604	99.99%	100.00%	100%
Acea Perù S.A.C.	Cal. Amador Merino Reyna 307 MI-RAFLORES - LIMA	1,000	100.00%	100.00%	100%
Consorcio Acea-Acea Dominicana	Av. Las Americas - Esq. Masoneria - Ens. Ozama	67,253	100.00%	100.00%	100%
Consorcio Servicios Sur	Calle Amador Merino Reyna - San Isidro	233,566	51.00%	100.00%	100%
Water Segment					
Acea Ato 2 SpA	Piazzale Ostiense 2 - Rome	362,834,320	96.46%	100.00%	100%
Acea Ato 5 SpA	Viale Roma snc - Frosinone	10,330,000	98.45%	100.00%	100%
Acque Blu Arno Basso SpA	Piazzale Ostiense 2 - Rome	8,000,000	76.67%	100.00%	100%
Acque Blu Fiorentine SpA	Piazzale Ostiense 2 - Rome	15,153,400	75.01%	100.00%	100%
Crea Gestioni Srl	Piazzale Ostiense 2 - Rome	100,000	100.00%	100.00%	100%
Crea SpA (in liquidation)	Piazzale Ostiense 2 - Rome	2,678,958	100.00%	100.00%	100%
AdF SpA	Via Mameli 10 - Grosseto	1,730,520	40.00%	40.00%	100%
Gesesa SpA	Corso Garibaldi 8 - Benevento	534,991	57.93%	100.00%	100%
Gori SpA	Via Trentola 211 – Ercolano (NA)	44,999,971	37.05%	100.00%	100%
Lunigiana SpA (in liquidation)	Via Nazionale 173/175 – Massa Carrara	750,000	95.79%	100.00%	100%
Ombrone SpA	Piazzale Ostiense 2 - Rome	6,500,000	99.51%	100.00%	100%
Pescara Distribuzione Gas Srl	Via G. Carducci 83 Pescara	120,000	51.00%	100.00%	100%
Sarnese Vesuviano Srl	Piazzale Ostiense 2 - Rome	100,000	99.16%	100.00%	100%
Umbriadue Servizi Idrici S.c.a.r.l.	Strada Sabbione zona ind. A72 - Terni	100,000	99.20%	100.00%	100%
Energy Infrastructure Segment					
areti SpA	Piazzale Ostiense 2 - Rome	345,000,000	100.00%	100.00%	100%

(follows)

Company name	Location	Share Capital (in €)	Shareholding	Group consolidation quota	Method of Consolidation
Acea Produzione SpA	Piazzale Ostiense 2 - Rome	5,000,000	100.00%	100.00%	100%
Acea Liquidation and Litigation Srl	Piazzale Ostiense 2 - Rome	10,000	100.00%	100.00%	100%
Ecogena Srl	Piazzale Ostiense 2 - Rome	1,669,457	100.00%	100.00%	100%
KT 4 Srl	Viale SS Pietro e Paolo 50 - Rome	110,000	100.00%	100.00%	100%
Brindisi Solar Srl	Via Paolo da Cannobio 33 - Milan	10,000	65.00%	100.00%	100%
Solaria Real Estate srl	Via Paolo da Cannobio 33 - Milan	160,000	65.00%	100.00%	100%
Compagnia Solare 2	Via Paolo da Cannobio 33 - Milan	10,000	65.00%	100.00%	100%
Compagnia Solare 3	Via Paolo da Cannobio 33 - Milan	10,000	65.00%	100.00%	100%
SPES Srl	Via Paolo da Cannobio 33 - Milan	457,426	65.00%	100.00%	100%
Acquaviva Srl	Via Paolo da Cannobio 33 - Milan	10,000	65.00%	100.00%	100%
Luna Energia Srl	Strada degli Alberi 7 - Galliera Veneta (PD)	10,000	100.00%	100.00%	100%
Sisine Energia Srl	Strada degli Alberi 7 - Galliera Veneta (PD)	10,000	100.00%	100.00%	100%
Acea Solar Srl	Piazzale Ostiense 2 - Rome	10,000	100.00%	100.00%	100%
Acea Sun Capital Srl	Piazzale Ostiense 2 - Rome	10,000	100.00%	100.00%	100%
Trinovolt	Viale Tommaso Columbo 31/D - Bari (BA)	10,000	100.00%	100.00%	100%
Marche Solar Srl	Via Achille Grandi 39 - Concordia sulla Sec-chia (MO)	10,000	100.00%	100.00%	100%
Urbe Cerig Srl	Via Cardinale Agostino Ciasca 9 - Bari	10,000	100.00%	100.00%	100%
Urbe Solar Srl	Via Cardinale Agostino Ciasca 9 - Bari	10,000	100.00%	100.00%	100%
Engineering and Services Segment					
Acea Elabori SpA	Via Vitorchiano - Rome	2,444,000	100.00%	100.00%	100%
Technologies For Water Services SpA	Via Ticino. 9 -25015 Desenzano Del Garda (BS)	11,164,000	100.00%	100.00%	100%
Corporate					
Acea Innovation	Piazzale Ostiense 2 - Rome	10,000	100.00%	100.00%	100%

COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD AS FROM 1 JANUARY 2014 IN ACCORDANCE WITH IFRS 11

Company name	Location	Share Capital (in €)	Shareholding	Group consolidation quota	Method of Consolidation
Environment Segment					
Ecomed Srl	Piazzale Ostiense 2 - Rome	10,000	50.00%	50.00%	Shareholders' Equity
Overseas					
Consorcio Agua Azul S.A.	Calle Amador Merino Reina 307 - Lima - Perù	17,371,834	25.50%	25.50%	Shareholders' Equity
Water Segment					
Acque SpA	Via Garigliano 1- Empoli	9,953,116	45.00%	45.00%	Shareholders' Equity
Acque Servizi Srl	Via Bellatalla 1 - Ospedaletto (Pisa)	400,000	100.00%	45.00%	Shareholders' Equity
Geal SpA	Viale Luporini 1348 - Lucca	1,450,000	48.00%	48.00%	Shareholders' Equity
Intesa Aretina S.c.a.r.l.	Via B.Crespi 57 - Milan	18,112,000	35.00%	35.00%	Shareholders' Equity
Nuove Acque SpA	Patrignone Loc. Cuculo - Arezzo	34,450,389	46.16%	16.16%	Shareholders' Equity
Publiacqua SpA	Via Villamagna - Florence	150,280,057	40.00%	40.00%	Shareholders' Equity
Umbra Acque SpA	Via G. Benucci 162 - Ponte San Giovanni (PG)	15,549,889	40.00%	40.00%	Shareholders' Equity
Engineering and Services Segment					
Ingegnerie Toscane Srl	Via Francesco de Sanctis 49 - Florence	100,000	42.52%	42.52%	Shareholders' Equity
Visano S.c.a.r.l.	Via Lamarmora 230 -25124 Brescia	25,000	40.00%	40.00%	Shareholders' Equity

The following companies are also consolidated using the equity method:

Company name	Location	Share Capital (in €)	Shareholding	Group consolidation quota	Method of Consolidation
Environment Segment					
Amea SpA	Via San Francesco d'Assisi 15C - Paliano (FR)	1,689,000	33.00%	33.00%	Shareholders' Equity
Coema	Piazzale Ostiense 2 - Rome	10,000	33.50%	33.50%	Shareholders' Equity
Overseas					
Aguaazul Bogotà S.A.	Calle 82 19°-34 - Bogotà - Colombia	1,162,872	51.00%	51.00%	Shareholders' Equity
Water Segment					
Azga Nord SpA (in liquidation)	Piazza Repubblica Palazzo Comunale - Pontremoli (MS)	217,500	49.00%	49.00%	Shareholders' Equity
Sogea SpA	Via Mercatanti 8 - Rieti	260,000	49.00%	49.00%	Shareholders' Equity
Le Soluzioni Scarl	Via Garigliano 1 - Empoli	250,678	34.32%	24.62%	Shareholders' Equity
Umbria Distribuzione Gas SpA	Via Bruno Capponi 100 – Terni	2,120,000	15.00%	15.00%	Shareholders' Equity
Servizi idrici Integrati ScPA	Via I Maggio 65 - Terni	19,536,000	25.00%	24.80%	Shareholders' Equity
Energy Infrastructure Segment					
Citelum Napoli Pubblica Illuminazione S.c.a.r.l.	Via Monteverdi Claudio 11 - Milan	90,000	32.18%	32.18%	Shareholders' Equity
Sienergia SpA (in liquidation)	Via Fratelli Cairoli 24 - Perugia	132,000	42.08%	42.08%	Shareholders' Equity
Other					
Marco Polo Srl (in liquidation)	Via delle Cave Ardeatine 40 - Rome	10,000	33.00%	33.00%	Shareholders' Equity

B. RECONCILIATION OF SHAREHOLDERS' EQUITY AND STATUTORY PROFIT – CONSOLIDATED

	Profit for the year		Shareholders' equity	
€ thousand	2019	2018	31/12/2019	31/12/2018
Balances in statutory financial statements (Acea)	**208,488**	**147,776**	**1,628,812**	**1,574,048**
Surplus of shareholders' equity in financial statements, including the related results, compared to book values in consolidated companies	57,460	94,573	(98,846)	(143,759)
Consolidation Goodwill	(4,726)	(4,789)	203,348	170,666
Accounted for using the equity method	36,227	44,448	145,519	137,125
Other changes	(13,764)	(11,008)	(24,061)	(8,440)
Balances in consolidated financial statements	**283,686**	**270,999**	**1,854,772**	**1,729,638**

C. REMUNERATION OF DIRECTORS, STATUTORY AUDITORS AND KEY MANAGERS

Board of Directors and Board of Statutory Auditors

€ thousand	Remuneration due: Remuneration for the office	Non-monetary benefits	Bonuses and other incentives	Other compensation	Total
Board of Directors	232	87	280	689	1,288
Board of Statutory Auditors	364	0	0	0	364

Key Managers

Fees due to executives with strategic responsibilities for 2019 amounted to:

- salaries and bonuses € 1,907 thousand,
- non-monetary benefits € 193 thousand.

Remuneration paid to key managers is established by the Remuneration Committee based on average levels of pay in the labour market.

Auditing Firm

In accordance with article 149 duodecies of CONSOB Issuers' Regulations, the fees accrued by the independent auditors PWC in 2019 are provided in the table below.

€ thousand	Audit Related Service	Audit Services	Non Audit Services	Total
Acea SpA	435	215	443	1,093
Acea Group	153	803	37	993
Total Acea SpA and Group	**588**	**1,018**	**480**	**2,086**

The services other than auditing provided to the Parent Company or its subsidiaries during 2019 are highlighted, mainly concerning assistance in carrying out the 262/05 tests identified by the Acea Group.

D. PUBLIC DISBURSEMENT INFORMATION PURSUANT TO ART. 1, PARAGRAPH 125, LAW 124/2017

Based on recent developments regarding transparency in the public payment system pursuant to art. 1, paragraph 125 of Italian law 124/2017, we declare that during 2019 no contributions have been received that fall within the legislation of reference. In particular, it is specified that the 2019 collections deriving from green certificates, white certificates and energy accounts are not specified since they constitute a payment for supplies and services rendered.
It should be noted that the company *a*reti has two loans granted by Cassa Depositi e Prestiti SpA and UBI Banca SpA pursuant to Italian Law no. 311, art. 1, paragraphs 354 to 361 of 30 December 2004 and subsequent amendments and additions and of Italian Law no. 46 of 17 February 1982, granted for the implementation of an investment programme permitted by the Ministry of Economic Development for the allowances envisaged by the aforementioned laws (Smart Network Management System Project).
The loan is made up of a subsidised amount paid by Cassa Depositi e Prestiti and UBI Banca at a fixed rate of 0.5% and a non-subsidised bank loan provided by UBI Banca at a variable rate equal to the Euribor six-month rate plus a spread of 4%, both to be repaid according to an amortisation plan that will end in 2022.
The debt relating to the subsidised loan as at 31 December 2019 is equal to € 5,101 thousand (€ 6,784 thousand at 31 December 2018) while the non-subsidised bank loan at 31 December 2019 is equal to € 940 thousand (€ 940 thousand also at 31 December 2018) as no repayment of the principal amount is envisaged in the first few years.

Finally, it should be noted that in 2019 the company Acea Ambiente received the disbursement of another contribution from the Tuscany Region relating to the Territorial Development Pact of the Maremma Grossetana for a total amount of € 274 thousand.
Finally, it is useful to recall that the rules contained in article 1, paragraphs 125-129 of Italian law no. 124/2017 still present many critical issues that lead to believe that further regulatory action is desirable. Therefore the above represents the best interpretation of the law.

E. SEGMENT INFORMATION: STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT

Please note the following for a better understanding of the breakdown provided in this section:

- sales refer to the Commercial and Trading Segment which, from an organisational standpoint, is responsible for Acea Energia, Acea8cento, AEMA, Umbria Energy, Parco della Mistica and Cesap Vendita Gas;
- distribution and Public Lighting refer to the Networks segment which, from an organisational standpoint, is responsible for Acea Produzione, Ecogena, Acea Liquidation and Liquidation, *a*reti, Acea Sun Capital, Acea Solar and the new photovoltaic companies acquired in 2019;
- analysis and research services refer to the Engineering and Services Segment, which, from an organisational standpoint, is responsible for Acea Elabori and TWS;
- Overseas refers to the Industrial Segment of the same name which, from an organisational standpoint, is responsible for operations overseas;
- Water refers to the Industrial Segment of the same name, which, from an organisational standpoint, is responsible for the water companies operating in Lazio, Campania, Tuscany and Umbria;
- Environment refers to the Industrial Segment of the same name which, from an organizational standpoint, is responsible for Acea Ambiente, Aquaser, Acque Industriali, Iseco, Bioecologia, Demap and Berg.

BALANCE SHEET ASSETS 2018

€ thousand	Environment	Commercial and Trading	Overseas	Water	Electricity generation	Distribution
Investments	19,987	24,639	6,588	342,120	15,503	218,413
Tangible Fixed Assets	233,026	(3,267)	34,533	52,193	209,623	1,735,371
Intangible Fixed Assets	14,780	152,986	11,191	2,560,968	290	84,076
Non-current financial assets measured at equity	-	-	-	-	-	-
Financial assets	-	-	-	-	-	-
Other non-current trade assets	-	-	-	-	-	-
Other non-current financial assets	-	-	-	-	-	-
Inventories	5,608	401	945	9,217	440	29,853
Trade receivables from third parties	95,554	238,263	8,238	458,875	20,149	157,280
Trade receivables from Parent Company	124	11,709	-	42,881	4,519	(12,079)
Receivables from subsidiaries and associates	4	1,544	26	4,016	-	-
Other current trade assets	-	-	-	-	-	-
Other current financial assets	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-
Non-current assets held for sale	-	-	-	-	183	-
Total Assets						

BALANCE SHEET LIABILITIES 2018

€ thousand	Environment	Commercial and Trading	Overseas	Water	Electricity generation	Distribution
Segment liabilities						
Trade payables to third parties	47,930	392,419	2,950	647,353	17,329	336,159
Trade payables to Parent Company	2,011	26,188	892	136,005	1,597	26,329
Trade payables to subsidiaries and associates	-	3,968	-	59	-	-
Other current trade liabilities	-	-	-	-	-	-
Other current financial liabilities	-	-	-	-	-	-
Employee severance indemnity and other defined benefit plans	6,837	4,744	340	29,970	2,247	33,032
Other provisions	19,266	19,308	1	38,966	19,025	20,312
Provision for deferred taxes						
Other non-current trade liabilities						
Other non-current financial liabilities						
Liabilities directly associated with assets held for sale	-	-	-	-	37	-
Shareholders' Equity						
Total liabilities and shareholders' equity						

€ thousand	Public Lighting	Engineering and Services	Corporate	Group total	Total consolidation adjustments	Consolidated total
Investments	4,419	1,573	10,030	643,272	(12,442)	**630,831**
Tangible Fixed Assets	5,116	3,394	97,978	2,367,969	(461)	**2,367,508**
Intangible Fixed Assets	(895)	(2)	11,887	2,835,281	(412,045)	**2,423,236**
Non-current financial assets measured at equity	-	-	-	-		**279,085**
Financial assets	-	-	-	-		**2,614**
Other non-current trade assets	-	-	-	-		**607,240**
Other non-current financial assets	-	-	-	-		**55,831**
Inventories	-	2,325	(0)	48,789	-	**48,789**
Trade receivables from third parties	782	25,642	534	1,037,715	(142,116)	**863,200**
Trade receivables from Parent Company	15,187	60	28	67,893	(9,917)	**52,513**
Receivables from subsidiaries and associates	420	6,971	87,729	100,711	(88,589)	**12,122**
Other current trade assets	-	-	-	-		**262,643**
Other current financial assets	-	-	-	-		**113,960**
Cash and cash equivalents	-	-	-	-		**1,068,138**
Non-current assets held for sale	-	-	-	183	-	**183**
Total Assets						**8,157,061**

€ thousand	Public Lighting	Engineering and Services	Corporate	Group total	Total consolidation adjustments	Consolidated total
Segment liabilities						
Trade payables to third parties	4,610	12,259	95,322	1,556,331	(142,403)	**1,413,928**
Trade payables to Parent Company	637	461	2	194,123	(86,480)	**107,644**
Trade payables to subsidiaries and associates	3,031	120	6,770	13,949	(10,644)	**3,305**
Other current trade liabilities	-	-	-	-		**357,119**
Other current financial liabilities	-	-	-	-		**408,675**
Employee severance indemnity and other defined benefit plans	-	3,246	23,512	103,930	-	**103,930**
Other provisions	12	2,513	(6,570)	118,298	23,818	**136,651**
Provision for deferred taxes						**-**
Other non-current trade liabilities						**348,148**
Other non-current financial liabilities						**3,374,134**
Liabilities directly associated with assets held for sale	-	-	-	37	-	**37**
Shareholders' Equity						**1,903,491**
Total liabilities and shareholders' equity						**8,157,061**

INCOME STATEMENT 2018

€ thousand	Environment	Commercial and Trading	Overseas	Water	Electricity generation	Distribution
Revenues	173,910	1,693,218	37,460	801,100	81,241	559,267
Personnel costs	19,601	24,338	8,943	71,431	5,050	32,380
Purchase of electricity	3,539	1,465,572	-	28,166	9,715	132,941
Sundry costs of materials and overheads	85,180	127,186	14,832	308,438	17,498	76,833
Costs	108,319	1,617,096	23,775	408,035	32,263	242,153
Income/(Costs) from equity investments of a non-financial nature	(6)	-	1,120	39,888	-	-
EBITDA	65,585	76,122	14,805	432,953	48,978	317,113
Depreciation/amortisation	27,155	72,456	6,956	211,994	24,279	129,088
Operating profit/loss	38,429	3,666	7,849	220,960	24,699	188,025
Financial (costs)/income						
(Costs)/Income from Equity Investments			526	4,170		
Profit/(loss) before tax						
Taxes						
Net profit/(loss)						

€ thousand	Public Lighting	Engineering and services	Corporate	Group total	Consolidation adjustments	Group total
Revenues	48,481	74,151	129,486	3,598,314	(569,827)	**3,028,487**
Personnel costs	5,768	28,808	57,196	253,514	(33,891)	**219,624**
Purchase of electricity	6,046	86	1,093	1,647,158	(247,378)	**1,399,780**
Sundry costs of materials and overheads	42,056	27,158	106,139	805,320	(286,164)	**519,156**
Costs	53,870	56,052	164,429	2,705,992	(567,432)	**2,138,560**
Income/(Costs) from equity investments of a non-financial nature	-	2,318	-	43,320	-	**43,320**
EBITDA	(5,389)	20,418	(34,943)	935,642	(2,395)	**933,247**
Depreciation/amortisation	8,528	2,544	(31,512)	451,487	3,200	**454,687**
Operating profit/loss	(13,917)	17,874	(3,431)	484,155	(5,595)	**478,560**
Financial (costs)/income						**(82,859)**
(Costs)/Income from Equity Investments		8,902	(266)	13,332		**13,332**
Profit/(loss) before tax						**409,033**
Taxes						**124,334**
Net profit/(loss)						**284,699**

BALANCE SHEET ASSETS 2019

€ thousand	Environment	Commercial and Trading	Overseas	Water	Electricity generation	Distribution
Investments	51,893	42,529	7,020	401,292	18,832	265,662
Tangible Fixed Assets	252,451	(3,440)	36,989	96,814	261,420	1,859,850
Intangible Fixed Assets	41,725	174,120	11,138	2,982,550	28,607	104,093
Non-current financial assets measured at equity	-	-	-	-	-	-
Financial assets	-	-	-	-	-	-
Other non-current trade assets	-	-	-	-	-	-
Other non-current financial assets	-	-	-	-	-	-
Inventories	5,935	300	1,336	16,615	423	29,271
Trade receivables from third parties	97,133	214,014	6,263	531,447	27,455	175,529
Trade receivables from Parent Company	158	13,682	-	76,339	3,045	4,285
Receivables from subsidiaries and associates	4	1,371	27	7,199	4	-
Other current trade assets	-	-	-	-	-	-
Other current financial assets	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-
Non-current assets held for sale	-	-	-	-	-	-
Total Assets						

BALANCE SHEET LIABILITIES 2019

€ thousand	Environment	Commercial and Trading	Overseas	Water	Electricity generation	Distribution
Segment liabilities						
Trade payables to third parties	72,062	387,473	3,901	709,858	16,508	319,482
Trade payables to Parent Company	2,059	21,887	775	162,657	2,487	26,298
Trade payables to subsidiaries and associates	13	2,330	257	5,202	-	-
Other current trade liabilities	-	-	-	-	-	-
Other current financial liabilities	-	-	-	-	-	-
Employee severance indemnity and other defined benefit plans	7,955	4,886	317	31,285	2,008	32,015
Other provisions	21,220	16,287	5	50,336	20,427	22,975
Provision for deferred taxes						
Other non-current trade liabilities						
Other non-current financial liabilities						
Liabilities directly associated with assets held for sale	-	-	-	-	-	-
Shareholders' Equity						
Total liabilities and shareholders' equity						

€ thousand	Public Lighting	Engineering and Services	Corporate	Group total	Total consolidation adjustments	Consolidated total
Investments	3,274	1,787	21,699	813,989	(21,212)	**792,776**
Tangible Fixed Assets	6,999	3,856	97,436	2,612,376	(461)	**2,611,915**
Intangible Fixed Assets	(767)	1,257	40,675	3,383,397	(430,256)	**2,953,141**
Non-current financial assets measured at equity	-	-	-	-		**268,039**
Financial assets	-	-	-	-		**2,772**
Other non-current trade assets	-	-	-	-		**618,359**
Other non-current financial assets	-	-	-	-		**47,202**
Inventories	-	3,454	(0)	57,335	-	**57,335**
Trade receivables from third parties	1,122	42,435	582	1,095,980	(160,899)	**935,082**
Trade receivables from Parent Company	(0)	40	-	97,549	(10,805)	**86,745**
Receivables from subsidiaries and associates	111	7,219	97,246	113,181	(99,545)	**13,636**
Other current trade assets	-	-	-	-		**225,285**
Other current financial assets	-	-	-	-		**299,212**
Cash and cash equivalents	-	-	-	-		**835,693**
Non-current assets held for sale	-	-	-	-	-	-
Total Assets						**8,954,416**

€ thousand	Public Lighting	Engineering and Services	Corporate	Group total	Total consolidation adjustments	Consolidated total
Segment liabilities						
Trade payables to third parties	9,160	10,145	107,702	1,636,291	(163,489)	**1,472,802**
Trade payables to Parent Company	424	1,070	28	217,686	(96,025)	**121,661**
Trade payables to subsidiaries and associates	6,459	128	3,134	17,524	(11,724)	**5,800**
Other current trade liabilities	-	-	-	-		**374,058**
Other current financial liabilities	-	-	-	-		**674,364**
Employee severance indemnity and other defined benefit plans	-	2,824	23,323	104,613	-	**104,613**
Other provisions	-	2,506	(6,094)	127,662	23,757	**151,418**
Provision for deferred taxes						-
Other non-current trade liabilities						**391,100**
Other non-current financial liabilities						**3,551,889**
Liabilities directly associated with assets held for sale	-	-	-	-	-	-
Shareholders' Equity						**2,106,710**
Total liabilities and shareholders' equity						**8,954,416**

INCOME STATEMENT 2019

€ thousand	Environment	Commercial and Trading	Overseas	Water	Electricity generation	Distribution
Revenues	182,875	1,619,278	47,296	1,012,013	79,634	559,132
Personnel costs	22,171	25,178	9,796	98,288	4,683	25,703
Purchase of electricity	5,146	1,427,012	-	53,748	10,702	115,256
Sundry costs of materials and overheads	103,967	97,956	21,737	392,224	19,682	72,731
Costs	131,285	1,550,146	31,533	544,260	35,068	213,690
Income/(Costs) from equity investments of a non-financial nature	(2)	-	1,130	37,206	-	-
EBITDA	51,588	69,132	16,892	504,959	44,566	345,442
Depreciation/amortisation	30,878	50,810	9,219	252,765	21,686	130,303
Operating profit/loss	20,709	18,322	7,673	252,194	22,880	215,138
Financial (costs)/income						
(Costs)/Income from Equity Investments			2,552	(0)		40
Profit/(loss) before tax						
Taxes						
Net profi/(loss)						

€ thousand	Public Lighting	Engineering and Services	Corporate	Group total	Consolidation adjustments	Group total
Revenues	44,559	75,918	142,555	3,763,259	(574,375)	**3,188,884**
Personnel costs	2,320	38,931	60,096	287,168	(38,297)	**248,871**
Purchase of electricity	4,262	89	1,005	1,617,220	(246,654)	**1,370,566**
Sundry costs of materials and overheads	36,034	26,980	87,025	858,337	(289,820)	**568,517**
Costs	42,616	66,000	148,127	2,762,725	(574,770)	**2,187,954**
Income/(Costs) from equity investments of a non-financial nature	-	3,033	-	41,367	-	**41,367**
EBITDA	1,943	12,952	(5,571)	1,041,902	395	**1,042,297**
Depreciation/amortisation	2,241	2,443	23,844	524,190	-	**524,190**
Operating profit/loss	(298)	10,509	(29,415)	517,712	395	**518,107**
Financial (costs)/income						**(90,302)**
(Costs)/Income from Equity Investments		-	(7)	2,585		**2,585**
Profit/(loss) before tax						**430,390**
Taxes						**123,213**
Net profi/(loss)						**307.177**

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

ACEA SPA

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 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 Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Acea Group, (the Group), which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position as of 31 December 2019, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 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 Consolidated Financial Statements* section of this report. We are independent of Acea SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

PricewaterhouseCoopers SpA

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Emphasis of matter

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

- 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	***Auditing procedures performed in response to key audit matters***
Determination of revenue from sales and services and receivables for invoices to be issued *Note 1 “Revenue from sales and services” and note 25.b “Trade receivables” to the consolidated financial statements* The Group recognised in the consolidated financial statements as of 31 December 2019 receivables from users for invoices to be issued for an amount equal to Euro 445 million compared to revenue from sales and services amounting to	The audit procedures we performed consisted in understanding, assessing and testing the operations of the key controls implemented by management as part of the revenue cycle, with particular, but not exclusive, reference to

Euro 3,022 million.

The Group recognises revenue from sales and services when control of the good is actually transferred or when a service is rendered and measures it at the fair value of the consideration received or receivable. In particular:

i) Revenues from the sale and transport of electricity and gas are recognised at the time the service is supplied or provided, even if they are not invoiced, and are determined by adding estimates on the volumes supplied/transported to revenues that are calculated on the basis of pre-established meter reading calendars.

ii) Revenues from distribution of electricity take into account the tariffs and the restriction on revenue established by the Italian Regulatory Authority for Energy, Networks and the Environment ("ARERA" formerly "AEEGSI"). Moreover, if the admission of investments in tariffs that establishes the operator's right to payment is virtually certain, the corresponding revenues are recognised as determined by the ARERA resolution 654/2015 (the so-called regulatory lag).

iii) Revenues from integrated water service are determined on the basis of the estimated consumption for the period and of the tariffs and of the operator's Guaranteed Revenue Constraint (GRC) provided for in the updated 2018-2019 tariffs prepared in accordance with the Water Pricing Method applied for the calculation of the 2016-2019 tariffs and approved by the competent authorities. Furthermore, the Group recognises under revenues for the year adjustments for the so-called pass-through items, as well as any adjustment related to costs pertaining to the Integrated Water Service incurred for the occurrence of

the update of the customer database , the recognition of meter readings, consumption estimates, the calculation of tariffs and the valuation of invoices and receipts.

Moreover, we performed the following specific substantive tests for each type of revenue.

i) <u>Revenues from the sale and transport of electricity and gas</u>

- We compared the electricity and gas quantities sold included in the billing system with the data communicated by the distributors and the quantities purchased, in order to establish the reasonableness of the estimated quantities sold still to be billed;
- We verified the correct valuation of invoices to issue based on the estimated quantities sold but not yet invoiced and the tariffs in force in the period under analysis.

ii) <u>Revenues from electricity distribution</u>

- We compared the quantities distributed included in the billing system with the quantities supplied to the grid communicated by the dispatcher net of expected grid losses, in order to ascertain the reasonableness of the estimated quantities distributed not yet invoiced;
- We tested the correct valuation of invoices to issue on the basis of the estimated distributed quantities still to be invoiced and of the tariffs in force in the period under analysis;
- We verified the correct calculation of receivables/payables for the electricity equalisation to the extent of the difference between sales revenues invoiced/to be invoiced to customers and the regulatory revenues attributable to the year and established by the ARERA;
- We verified the consistency of the methods followed to determine the accruals for the "regulatory lag".

exceptional events (i.e. water and environmental emergencies), if the preliminary investigation for their recognition has given positive results.

The methods to determine allocations for invoices to be issued are based on the use of complex algorithms and include significant estimates. Therefore, we paid particular attention to the risk of wrong calculation of revenues from sales and services and of the related receivables from users for invoices to be issued.

iii) Revenues from the integrated water service

- We reconciled revenues from the integrated water service with the GRC adjusted to reflect the adjustments to the pass-through items and those related to the costs incurred in consequence of exceptional events occurred;
- We verified the correct determination of receivables for invoices to be issued for tariff adjustments to an extent equal to the difference between revenues for bills issued /to be issued and the adjusted GRC;
- We tested, on a sample basis, the correct valuation of bills issued/to be issued based on the consumption data and the tariffs in force.

Investments and disinvestments of non-current assets and impairment test

Note 14 "Tangible fixed assets", note 16 "Goodwill", note 17 "Concessions and rights on infrastructure", note 18 "Intangible assets" and note 19 "Right of use" to the consolidated financial statements

The Group recognised in the consolidated financial statements as of 31 December 2019 non-current assets equal to Euro 5,565 million, of which Euro 2,609 million related to tangible assets, Euro 2,706 million related to intangible assets, Euro 182 million related to goodwill and Euro 63 million of right of use.

The Group investments in the period totalled Euro 826 million, of which Euro 319 million related to tangible assets and Euro 507 million related to intangible assets (including concessions).

In this respect, we highlight that for regulated activities (in particular the integrated water service and the electricity distribution), the tariffs and, accordingly, the Group's revenues are directly influenced by the amount of the invested

We addressed our compliance procedures in order to comprehend, evaluate and validate the internal control system with reference to the corporate processes related to the management of non-current assets.

Our substantive tests were focused on the analysis of the changes in non-current assets during the financial year, verifying that they were reconciled with the fixed asset register, with a sample of investments and divestments during the year, especially in the integrated water service and in the electricity distribution segments.

With reference to the latter, we verified if the requirements for the capitalization of internal and external costs provided for by IAS 16 and IAS 38 had been complied with and also the existence of the services capitalized, that is if the service or assets being verified had been actually rendered or delivered/installed and correctly recognised.

capital and therefore by the changes in non-current assets. As a result, the overestimate or underestimate of the abovementioned non-current assets could increase or decrease the tariffs applied to final users under the performance of the integrated water service and the transport of electricity.

Annually, the Group, on the basis of its internal procedures, performs the impairment test pursuant to IAS 36 using the Discounted Cash Flow method to determine the recoverable amount of assets. The impairment test is based on a two-level approach. A first level concerns the estimate of the recoverable amount of intangible assets with an indefinite life (goodwill) and a second level relates to the estimate of the recoverable amount of equity investments in associates and the other non-current assets. In particular, goodwill is tested for impairment at least annually, and with the same frequency the impairment test is carried out on the equity investments in associates and the other non-current assets, also without any impairment indicators.

Considering the numerous changes occurred during the year in the assets of the regulated activities and the presence of impairment indicators for non-current assets, we devoted special audit attention to this financial statement area.

With reference to the impairment test, we addressed our audit procedures in order to:

i) assess the consistency of the estimate method used by the Group with the provisions of IAS 36 and the valuation practice,
ii) verify the process of identification of the Cash Generating Units (CGUs), based on the current organisational structure,
iii) verify the appropriateness of the types of cash flows used and their consistency with the Group's Industrial Plan 2019-2022 approved by the Board of Directors, and updated, if necessary, to take account of the events occurred in the year, and
iv) verify the reasonableness of the main assumptions used by management to perform the impairment test and related sensitivity analyses.

As part of our auditing we were supported, where necessary, by our PwC network experts in valuations.

Determination of the allowance for doubtful accounts – trade receivables

Note 25.b to the consolidated financial statements "Trade receivables"

The Group recognised in the consolidated financial statements as of 31 December 2019 an allowance for doubtful trade accounts for an amount equal to Euro 652 million.

At the reporting date the Group estimates the irrecoverable amount of trade receivables based

We addressed our audit procedures in order to verify the correctness of the reports generated by the information systems and used by the directors in order to determine the Expected Credit Losses that can be attributed to the balance of receivables from specific customers or customer clusters. We also tested the reasonableness of the assumptions underlying the calculation model.

on complex calculation models which rely upon the requirements in the new accounting standard IFRS 9 "*Financial Instruments*".

The estimate of the recoverability of trade receivables is characterised by a specific complexity related to the high number of customers and to the fragmentary nature of the amounts. Furthermore, the evaluations are affected by different socio-economic variables related to the different categories of customers. Therefore, as part of our audit activities we paid particular attention to the risk of a wrong quantification of the estimate under examination.

Through inquiries of the credit managers, of the group and of individual companies, we evaluated, on a sample basis, certain specific positions by analysing the lawyers' replies to the requests for information, by examining the guarantees given by the various customers and by assessing any other piece of information gathered after the reporting date.

Finally, we verified the consistency of the method used by the Company with the provisions of IFRS 9 and the accuracy of the mathematical calculation for the determination of the expected credit losses.

Business combinations

"Business Combination" section of the consolidated financial statements

During 2019, the Group continued the acquisition process, started in the last quarter of the prior year, of several companies operating in the Group's relevant sectors.

The control of the aforesaid companies, recognised in accordance with IFRS 3 "Business combinations", was acquired both through the acquisition of the majority of the capital shares and through the signing of a shareholders' agreement.
The allocation of the price paid required a significant estimation process considering the assumptions used to determine the fair value of the acquired assets and liabilities.
For such matters, the directors were supported, when necessary, by external experts.

Due to the number of acquisitions and the complex issues underlying the related measurement and recognition process, we paid particular attention to such financial statement matter.

We addressed our audit procedures in order to verify the methodological correctness of the accounting process underlying the acquisitions, with particular reference to the transactions entailing the acquisition of control through the signing of a shareholders' agreement.

Furthermore, we verified that assets and liabilities were appropriately identified as well as the reasonableness of the assumptions underlying the directors' estimates to determine the related fair value and the allocation of the price paid.
We evaluated the technical capabilities and the objectivity of the external experts involved, as well as the methods used by them.

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 Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated financial statements.

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

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

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

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

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

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

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

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to 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 the Acea Group as of 31 December 2019, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Acea Group as of 31 December 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 consolidated financial statements of the Acea Group 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.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

The directors of Acea SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.
We have verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

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

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

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

    of the administrative and accounting procedures for preparing the consolidated financial statements at 31 December 2019.

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

3. It is also certified that:
    3.1 the consolidated financial statements:
        a) were drawn up in compliance the applicable international accounting standards recognised in European Community in accordance with EC regulation 1606/2002 of the European Parliament and the Council, of 19 July 2002,
        b) are consistent with the underlying accounting books and records,
        c) provide a true and correct view of the operating results and financial position of the issuer and the overall of companies included in the consolidation,

    3.2 the report on operations includes a reliable analysis of the operational performance and result, as well as the situation of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Rome, 16 April 2020

signed by: Stefano Donnarumma, The CEO

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

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