



# **2018 Interim Condensed Consolidated Financial Statements**

## Report on Operations

Report on Operations .....	2
Interim Condensed Consolidated Financial Statements Explanatory and illustrative notes.....	2
ACEA Organisational Model.....	3
Corporate bodies .....	5
Summary of Results.....	6
Summary of operations and income, equity and financial performance of the Group .....	8
Reference context .....	17
Trend of Operating segments.....	30
Significant events during the period and afterwards.....	57
Main risks and uncertainties .....	58
Operating (and financial) outlook.....	65

## Interim Condensed Consolidated Financial Statements and illustrative notes

Form and Structure.....	67
Consolidation policies, procedures and scope.....	69
Basis of consolidation.....	72
Accounting standards and measurement criteria .....	73
Half-year Consolidated Income Statement .....	78
Quarterly Consolidated Income Statement (*).....	79
Half-year Consolidated Statement of Comprehensive Income .....	80
Quarterly Consolidated Statement of Comprehensive Income (*).....	81
Consolidated Statement of Financial Position .....	82
Consolidated Statement of Cash Flows .....	83
Consolidated Statement of Changes in Shareholders' equity .....	84
Notes to the Consolidated Income Statement.....	85
Notes to the Consolidated Statement of Financial Position .....	98
Commitments and contingencies.....	119
Service Concession Arrangements.....	120
Related Party Transactions.....	135
Update on major disputes and litigation .....	138
Annexes.....	149

## ACEA Organisational Model

ACEA is one of the major Italian multiutility operators, and has been quoted on the stock exchange since 1999.

ACEA adopts an operational model based on an organisational layout in line with the Strategic Business Plan consolidating its role to govern, guide and control the Holding not only with the current business portfolio focused on areas of greater value, but also on the strategic development of the Group in new business segments and territories. ACEA's macrostructure, changed in May 2017, is based around the corporate functions and six industrial areas - Environment, Commercial and Trading, Water, Energy Infrastructures, Engineering and Services and Overseas. The activities of each business segment are described below.

### **Environment**

The ACEA Group is one of the main national players with over 1 million tonnes of waste treated per year. It manages the main waste-to-energy plant and the largest composting plant in Lazio. In particular, the Group develops investments in the waste to energy business, considered high potential, in accordance with the strategic goal of producing energy from waste and protecting the environment.

### **Commercial and Trading**

The ACEA Group is a major operator in Italy in the sale of electrical energy and offers innovative and flexible solutions for the supply of electrical energy and natural gas to consolidate its position as a dual fuel operator. Acea operates mainly in the market segments of small-medium businesses and families, striving to improve the quality of its services in particular as far as web and social channels are concerned. It supervises the Group's energy management policies.

### **Water**

The ACEA Group is the biggest Italian operator in the water sector supplying water to 9.0 million people. The Group manages the integrated water service in Rome and Frosinone and in the respective provinces, as well as in other parts of Lazio, in Tuscany, Umbria and

Campania. The quality of the services offered is completed with a sustainable management of water resources and respect for the environment.

### **Energy Infrastructures**

The ACEA Group is a major operator in Italy with over 10 TWh of electricity distributed in Rome, where the Group manages the distribution network providing services for over 1.6 million delivery points. The Group also manages the public and artistic lighting of the capital with 224,000 light bulbs for a total of 195,000 lighting fixtures, applying solutions that strive to become more and more efficient with a lower environmental impact. The replacement of 190,000 light bulbs with LED bulbs is expected by the end of 2018, thereby enabling a reduction of about 35,000 tonnes in CO<sub>2</sub> emissions annually and a significant reduction in light pollution. The ACEA Group is committed to energy efficiency projects and the development of new technologies, such as smart grids and electric mobility, through particularly innovative pilot projects. Lastly, the Group operates in the energy generation sector, running hydroelectric and thermoelectric plants in Lazio, Umbria and Abruzzo.

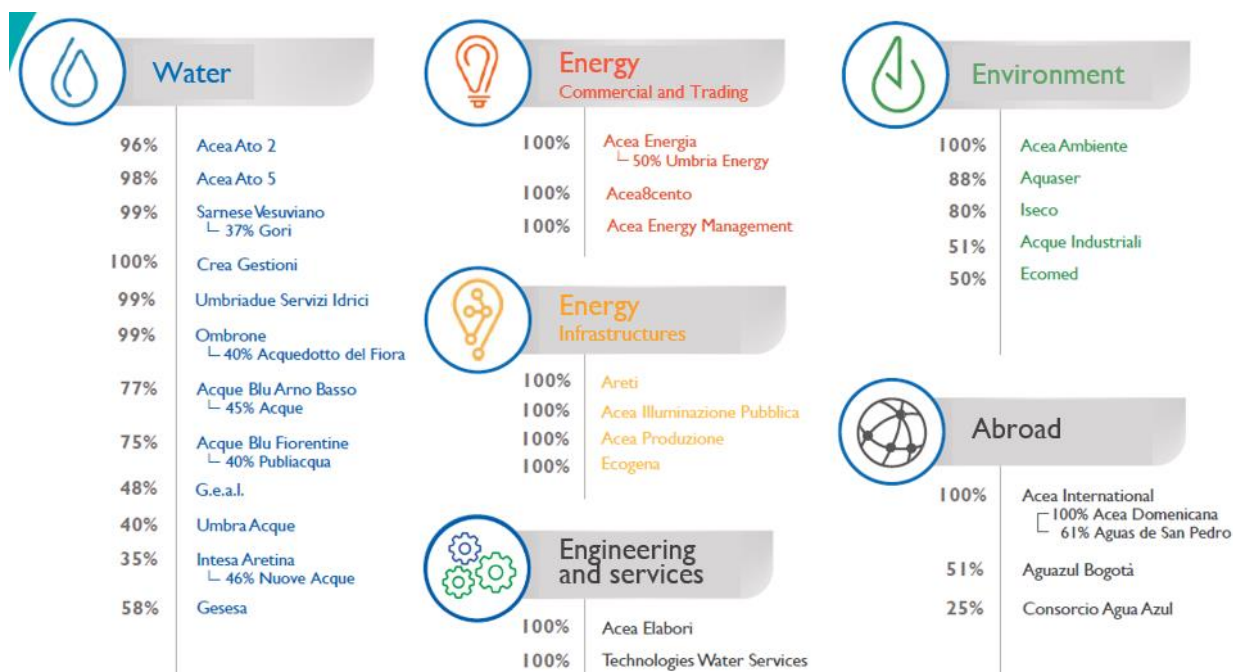
### **Engineering and Services**

The Group has developed know how at the forefront in the design, construction and management of integrated water systems: from the source to the aqueducts, from distribution to the sewer network, and treatment. It develops applied research projects aimed at technological innovation in the water, environmental and energy sectors. Laboratory services are of particular importance.

### **Overseas**

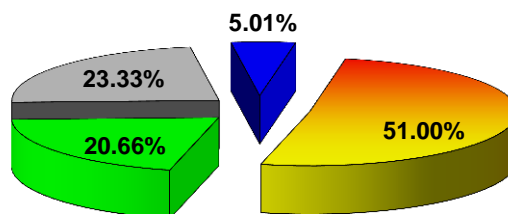
Through this Area, the ACEA Group manages water activities in Latin America and its objective is to make the most of development opportunities in other businesses related to those already held in Italy.

The Group structure, in the various business segments, comprises the following main companies.



The share capital of ACEA S.p.A. at 30 June 2018 is broken down as follows:

No change compared to the end of 2017



■ Roma Capitale   
 ■ Mercato   
 ■ Suez   
 ■ Caltagirone

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

## Corporate bodies

### **Board of Directors**

Michaela Castelli	Chairman <sup>1</sup>
Stefano Antonio Donnarumma	CEO
Luca Alfredo Lanzalone	Director <sup>2</sup>
Alessandro Caltagirone	Director
Massimiliano Capece Minutolo del Sasso	Director
Gabriella Chiellino	Director
Giovanni Giani	Director
Liliana Godino	Director
Fabrice Rossignol	Director

### **Board of Statutory Auditors**

Enrico Laghi	Chairman
Rosina Cichello	Statutory Auditor
Corrado Gatti	Statutory Auditor
Lucia Di Giuseppe	Alternate Auditor
Carlo Schiavone	Alternate Auditor

### **Executive Responsible for Financial Reporting**

Giuseppe Gola

### **Auditing Firm**

PricewaterhouseCoopers S.p.A.

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<sup>1</sup> Appointed Chairman of the Board of Directors on 21 June 2018

<sup>2</sup> Resigned as Chairman of the Board of Directors on 14 June 2018

## Summary of Results

Income Statement Data (million euros)	30/06/18	30/06/2017	Variation	Variation %
<b>Consolidated net revenue</b>	1,454.3	1,372.5	81.8	6.0%
<b>Consolidated operating costs</b>	1,022.9	969.0	53.9	5.6%
<b>Income/(Costs) from equity investments of a non-financial nature</b>	18.5	10.6	8.0	75.3%
- of which: EBITDA	80.9	71.4	9.5	13.4%
- of which: Amortisation, depreciation, impairment charges and provisions	(51.2)	(51.3)	0.1	(0.2%)
- of which: Financing activities	(2.6)	(4.2)	1.5	(36.7%)
- of which: (Profit)/loss on investments	0	0	0	0.0%
- of which: Taxes	(8.9)	(5.4)	(3.5)	65.0%
Net income/(costs) from commodity risk management	-	-	-	0.0%
<b>EBITDA</b>	<b>449.9</b>	<b>414.1</b>	<b>35.8</b>	<b>8.7%</b>
<b>EBIT</b>	<b>250.7</b>	<b>194.9</b>	<b>55.9</b>	<b>28.7%</b>
<b>Net profit/(loss)</b>	<b>150.7</b>	<b>110.3</b>	<b>40.3</b>	<b>36.5%</b>
<b>Profit/(loss) attributable to minority interests</b>	<b>8.0</b>	<b>6.8</b>	<b>1.1</b>	<b>16.6%</b>
<b>Net profit/(loss) attributable to the Group</b>	<b>142.7</b>	<b>103.5</b>	<b>39.2</b>	<b>37.9%</b>

Adjusted income statement data (million euros)	30/06/18	30/06/2017	Variation	% Variation
Gross operating profit (EBITDA)	449.9	414.1	35.8	8.7%
Operating profit/loss (EBIT)	250.7	213.9	36.8	17.2%
Profit/(loss) before tax (EBT)	217.8	183.4	34.3	18.7%
Net profit/(loss) (NP)	150.7	124.3	26.3	21.2%
<b>Net profit/(loss) attributable to the Group</b>	<b>142.7</b>	<b>117.5</b>	<b>25.2</b>	<b>21.5%</b>

The 2017 adjusted economic data do not include the negative effects - totalling 19.0 million euros gross of the tax effect - produced by (i) the ruling that resulted in the re-entry into ownership of the Autoparco property (9.5 million euros) and (ii) the reduction in value of the areti receivable with GALA (9.5 million euros)

EBITDA per operating segment (million euros)	30/06/18	30/06/2017	Variation	% Variation
<b>ENVIRONMENT</b>	<b>31.8</b>	<b>31.3</b>	<b>0.4</b>	<b>1.4%</b>
<b>COMMERCIAL AND TRADING</b>	<b>44.1</b>	<b>40.6</b>	<b>3.5</b>	<b>8.6%</b>
<b>OVERSEAS</b>	<b>7.3</b>	<b>6.7</b>	<b>0.6</b>	<b>9.2%</b>
<b>WATER</b>	<b>192.3</b>	<b>172.4</b>	<b>19.9</b>	<b>11.5%</b>
<b>Integrated water service</b>	<b>192.0</b>	<b>172.4</b>	<b>19.7</b>	<b>11.4%</b>
Lazio - Campania	178.1	161.9	16.2	10.0%
Toscana - Umbria	13.9	10.5	3.5	33.1%
<b>Others</b>	<b>0.3</b>	<b>0.1</b>	<b>0.2</b>	<b>n.s.</b>
<b>ENERGY INFRASTRUCTURES</b>	<b>178.6</b>	<b>160.0</b>	<b>18.6</b>	<b>11.6%</b>
<b>Distribution</b>	<b>155.1</b>	<b>135.8</b>	<b>19.3</b>	<b>14.2%</b>
<b>Generation</b>	<b>25.2</b>	<b>21.9</b>	<b>3.2</b>	<b>14.8%</b>
<b>Public Lighting</b>	<b>(1.7)</b>	<b>2.2</b>	<b>(3.9)</b>	<b>(177.5%)</b>
<b>ENGINEERING AND SERVICES</b>	<b>7.5</b>	<b>8.8</b>	<b>(1.3)</b>	<b>(15.0%)</b>
<b>ACEA (Corporate)</b>	<b>(11.7)</b>	<b>(5.8)</b>	<b>(5.9)</b>	<b>101.8%</b>
<b>Total EBITDA</b>	<b>449.9</b>	<b>414.1</b>	<b>35.8</b>	<b>8.7%</b>

Consolidated balance sheet data (million euros)	30/06/18	31/12/2017	Variation	% Variation	30/06/2017	Variation	% Variation
<b>NET INVESTED CAPITAL</b>	4,236.6	4,232.7	3.9	0.1%	4,145.5	91.1	2.2%
<b>NET DEBT</b>	(2,570.3)	(2,421.5)	(148.8)	6.1%	(2,401.4)	(168.9)	7.0%
<b>CONSOLIDATED SHAREHOLDERS' EQUITY</b>	(1,666.3)	(1,811.2)	144.9	(8.0%)	(1,744.1)	77.8	(4.5%)

Adjusted Income Statement Data (million euros)	30/06/18	31/12/2017	Variation	% Variation
<b>Net debt (NP)</b>	<b>2,570.3</b>	<b>2,325.1</b>	<b>245.2</b>	<b>10.5%</b>

The adjusted net financial debt for 2017 does not include the impact deriving from the GALA matter

Net debt per Operating Segment (million euros)	30/06/18	31/12/2017	Variation	% Variation	30/06/2017	Variation	% Variation
<b>ENVIRONMENT</b>	204.8	195.3	9.4	4.8%	203.4	1.3	0.7%
<b>COMMERCIAL AND TRADING</b>	5.6	(4.9)	10.6	n.s.	63.1	(57.5)	(91.1%)
<b>OVERSEAS</b>	6.5	7.4	(0.9)	(12.4%)	10.1	(3.6)	(35.9%)
<b>WATER</b>	986.4	921.2	65.2	7.1%	862.9	123.5	14.3%
<i>Integrated water service</i>	994.9	930.1	64.8	7.0%	871.4	123.6	14.2%
Lazio - Campania	1,003.9	939.3	64.6	6.9%	878.6	125.4	14.3%
Toscana - Umbria	(9.0)	(9.2)	0.2	(2.2%)	(7.2)	(1.8)	25.2%
Others	(8.5)	(8.9)	0.4	(4.4%)	(8.4)	0.0	0.3%
<b>ENERGY INFRASTRUCTURES</b>	1,101.1	1,032.9	68.1	6.6%	991.1	110.0	11.1%
Distribution	968.0	905.4	62.6	6.9%	865.1	102.8	11.9%
Generation	126.9	121.7	5.2	4.3%	121.0	6.0	4.9%
Public Lighting	6.2	5.8	0.4	6.7%	5.0	1.2	22.8%
<b>ENGINEERING AND SERVICES</b>	14.6	12.3	2.3	18.6%	7.0	7.5	106.8%
<b>ACEA (Corporate)</b>	251.3	257.3	(6.0)	(2.3%)	263.7	(12.4)	(4.7%)
	2,570.3	2,421.5	148.8	6.1%	2,401.4	168.8	7.0%

Capex per Operating Segment (million euros)	30/06/18	30/06/2017	Variation	% Variation
<b>ENVIRONMENT</b>	8.6	8.5	0.1	1.7%
<b>COMMERCIAL AND TRADING</b>	5.5	7.9	(2.4)	(30.1%)
<b>OVERSEAS</b>	2.2	2.5	(0.3)	(10.4%)
<b>WATER</b>	156.4	121.9	34.6	28.4%
<i>Integrated water service</i>	156.4	121.8	34.6	28.4%
Lazio - Campania	156.4	121.8	34.6	28.4%
Toscana - Umbria	0.0	0.0	0.0	n.s.
Others	0.0	0.0	0.0	(46.5%)
<b>ENERGY INFRASTRUCTURES</b>	105.5	105.2	0.3	0.3%
Distribution	100.5	93.6	6.9	7.4%
Generation	4.9	11.2	(6.3)	(56.2%)
Public Lighting	0.1	0.4	(0.3)	(67.1%)
<b>ENGINEERING AND SERVICES</b>	0.5	0.4	0.1	23.6%
<b>ACEA (Corporate)</b>	3.1	5.9	(2.7)	(46.6%)
<b>TOTAL</b>	282.0	252.2	29.8	11.8%

## Summary of operations and income, equity and financial performance of the Group

### Definition of alternative performance indicators

On 5 October 2015, ESMA (European Securities and Markets Authority) published its guidelines (ESMA/2015/1415) on criteria for the presentation of alternative performance indicators which replace, as of 3 July 2016, CESR/05-178b recommendations. This orientation was acknowledged in our system in CONSOB Communication no. 0092543 dated 3 December 2015. The content and meaning of the non-GAAP measures of performance and other alternative performance indicators used in these financial statements are illustrated below:

1. for the ACEA Group, the *gross operating profit* (or EBITDA) is an operating performance indicator and from 1 January 2014 also includes the condensed result of equity investments in jointly controlled entities for which the consolidation method changed when international accounting standards for financial reporting IFRS10 and IFRS11 came into force. The *gross operating profit* is calculated by adding the operating result to the item "Amortisation, depreciation, provisions and impairment charges" as these are the main non-cash items. Instead, it is specified that the 2017 adjusted economic data do not include the

- negative effect resulting from the re-entry into ownership of the Autoparco property (following a ruling issued in June) and the effect of the assessment of areti's exposure to GALA;
2. the *net financial position* is an indicator of the ACEA Group's financial structure, obtained by adding together Non-current borrowings and financial liabilities net of Non-current financial assets (loans and receivables and securities other than equity investments), Current borrowings and other Current financial liabilities net of Current financial assets, Cash and cash equivalents; it is noted that the adjusted net financial position does not include the impact deriving from the GALA matter;
  3. *net invested capital* is the sum of "Current assets", "Non-current assets" and Assets and Liabilities held for sale, less "Current liabilities" and "Non-current liabilities", excluding items taken into account when calculating the *net financial position*;
  4. *net working capital* is the sum of the current receivables, inventories, the net balance of other current assets and liabilities and current debts, excluding the items considered in calculating the *net financial position*.



## Summary of Results: performance of economic results

Income Statement Data (million euros)	30/06/18	30/06/2017	Variation	% Variation
Revenue from sales and services	1,390.0	1,333.0	57.0	4.3%
Other revenue and proceeds	64.2	39.5	24.8	62.7%
Costs of materials and overheads	913.0	859.8	53.1	6.2%
Personnel costs	109.9	109.1	0.8	0.8%
Net income/(costs) from commodity risk management	0.0	0.0	0.0	0.0%
Income/(Costs) from equity investments of a non-financial nature	18.5	10.6	8.0	75.3%
<b>Gross Operating Profit</b>	<b>449.9</b>	<b>414.1</b>	<b>35.8</b>	<b>8.7%</b>
Amortisation, depreciation, provisions and impairment charges	199.2	219.2	(20.0)	(9.1%)
<b>Operating profit/(loss)</b>	<b>250.7</b>	<b>194.9</b>	<b>55.9</b>	<b>28.7%</b>
Financial items	(42.4)	(31.2)	(11.2)	36.0%
Equity investments	9.4	0.6	8.8	0.0%
<b>Profit/(loss) before tax</b>	<b>217.8</b>	<b>164.4</b>	<b>53.4</b>	<b>32.5%</b>
Taxes	67.1	54.0	13.1	24.2%
<b>Net profit/(loss)</b>	<b>150.7</b>	<b>110.3</b>	<b>40.3</b>	<b>36.5%</b>
<b>Profit/(loss) attributable to minority interests</b>	<b>8.0</b>	<b>6.8</b>	<b>1.1</b>	<b>16.6%</b>
<b>Net profit/(loss) attributable to the Group</b>	<b>142.7</b>	<b>103.5</b>	<b>39.2</b>	<b>37.9%</b>

Revenue from sales and services amounted to 1.4 billion euros, an increase of 57.0 million euros

At 30 June 2018 revenues from sales and services amounted to 1,390.0 million euros, up 57.0 million euros (+4.3%) compared to the first half of 2017: the main change is due to the increase in revenues from the sale and performance of electrical energy (+ 61.2 million euros). Contributing to the change are: (i) Acea Energia (+ 43.2 million euros) due to the increase in prices only partially mitigated by the decrease in quantities sold, (ii) areti (+ 13.6 million euros) and (iii) Umbria Energy (+ 5.3 million euros).

The increase in revenues from the integrated water service and of waste collection and landfill management revenues (+ 8.4 million euros) is offset by the decrease

in revenues from services provided to customers (-13.8 million euros) recorded in the Parent Company as a result of the reduction of the number of lighting fixtures replaced with LEDs as part of the management of the public lighting service carried out in the Municipality of Rome.

Revenues from the integrated water service include the best estimate of the premium related to the commercial quality recognised to ACEA Ato2 (15.7 million euros). The positive change in revenues from the transfer of waste and landfill management depends directly on the greater contributions and the increase in the quantity of waste treated in the Aprilia plant.

Other revenues for 64.2 million euros

An increase of 24.8 million euros is highlighted, mainly due to the following effects:

- ✓ the inclusion of 31.6 million euros from contributions accrued on white certificates (TEE) in the portfolio which increased by 14.1 million euros compared to the same period of 2017; these revenues are balanced by the costs incurred for acquiring the TEEs;

- ✓ the inclusion of 11.2 million euros in the companies of the Water Area of other income; of these 2.4 million euros refer to ACEA Ato5 and relate to the settlement agreement of 15 May 2018 signed with the Consortium for Industrial Development for the period 2005-2011 for the management of treatment plants and water supply to some municipalities of the province of Frosinone.

Costs of materials and overheads of 913.0 million euros, a slight increase compared to the first half of 2017

This item shows an overall increase of 53.1 million euros (6.2%) compared to 30 June 2017. The change is due to opposing effects, primarily:

- ✓ higher costs related to the supply of electricity for both the protected market and the free market (+ 45.6 million euros), partly offset by lower transport costs (- 4.5 million euros);
- ✓ the purchase costs of the white certificates by areti (30.7 million euros) for the fulfilment of the regulatory obligation concerning energy efficiency;

- ✓ the decrease in costs for areti (- 8.2 million euros) mainly relating to the LED Plan for the upcoming conclusion;
- ✓ the increase in other operating costs (+ 3.2 million euros in areti) due to the recognition of costs not recorded in previous years as well as for administrative sanctions;
- ✓ the increase in the mandatory management costs for the costs related to the mandatory Agreement for the water management of the Peschiera - Le Capore aqueduct system (ATO3 interference).

The cost of personnel is basically in line with the past

The cost of labour is substantially in line with the first half of 2017. The change in the scope of consolidation refers exclusively to Gori Servizi and contributes with a

reduction of 0.6 million euros compared to the same period of the previous year.

The average workforce is 5,545 employees, an increase of 90 units compared to the same period of last year.

million euros	30/06/18	30/06/2017	Variation	% Variation
Staff costs including capitalised costs	173.7	169.4	4.3	2.6%
Capitalised costs	(63.8)	(60.3)	(3.5)	5.8%
Personnel costs	109.9	109.1	0.8	0.8%

The TUC water companies recorded an increase of 7.9 million euros

The income from non-financial equity investments represent the consolidated result according to the equity method included among the components forming the consolidated Gross Operating Profit of the

companies with joint control. The following table is a breakdown of its composition, while the performance by company is given in the comments on the Water Operating Segment.

million euros	30/06/18	30/06/2017	Variation	% Variation
GROSS OPERATING PROFIT	80.9	71.5	9.5	13.3%
Amortisation, depreciation, impairment charges and provisions	(50.7)	(51.2)	0.5	(0.1%)
Financial items	(2.6)	(4.2)	1.5	(36.7%)
Taxes	(9.0)	(5.4)	(3.6)	64.3%
Income from equity investments of a non-financial nature	18.5	10.7	7.9	70.8%

EBITDA at 449.9 million euros up by 8.7%

EBITDA rose from 414.1 million euros in 2017 to 449.9 million euros in the first half of 2018, recording an increase of 35.8 million euros or 8.7%. The increase mainly derives from the water sector (+ 19.9 million euros), followed by a significant increase in margins in the distribution and generation sectors (+ 18.9 million euros) due to the annual tariff updates of the fifth regulatory cycle and the increase in quantities produced by hydroelectric plants. Furthermore, the Commercial and Trading Environment Segment recorded a growth of 3.8 million euros mainly due to

the optimisation of costs. Environment, Overseas and Engineering and Services show a substantial alignment between the two half-year periods being compared, while the Parent Company reported a 5.9 million euro decrease in EBITDA due to the reduction in margins on service contracts, offset in part by the contribution to results of the margin from the management of the Facility Management service acquired on 1 January 2018 as a result of the transfer of the Facility Management branch from ACEA Elabari.

Adjusted EBIT of 213.8 million euros (+17.3%)

EBIT, on an adjusted basis, shows an increase of 36.9 million euros compared to the same period of the previous year. The items influencing this margin indicator are mainly affected by the lower Provisions for impairment of receivables, also due to the impairment of a portion of the receivables from GALA

in 2017, by lower risk provisions (at 30 June 2017 provisions were set aside for 11.7 million euros while this year for 2.2 million euros) and finally for the release of a portion of the provision for risks set aside for GORI (- 6.1 million euros).

million euros	30/06/18	30/06/2017	Variation	% Variation
Amortisation and depreciation	161.8	152.5	9.3	6.1%
Provision for impairment of receivables	31.9	46.3	(14.5)	(31.2%)
Provision for risks and charges	5.5	20.4	(14.9)	(73.1%)
Amortisation, depreciation, impairment charges and provisions	199.2	219.2	(20.0)	(9.1%)

The increase in **amortisation and depreciation** is mainly linked to the increase in investments in all business areas and the technological developments of the Acea2.0 technological platform in the main companies of the Group. It should also be noted that following the first application of the new IFRS15 international standard, the costs for agents have been capitalised, defined as incremental costs for obtaining the contract and whose amortisation takes place consistent with the estimate of expected renewals.

**Provisions decreased** by 14.9 million euros mainly due to the combined effect of: **i)** the decrease in the appropriations aimed at managing the personnel reduction programme through the implementation of voluntary redundancy and early retirement measures for Group personnel (- 9.5 million euros), **ii)** the

decrease in provisions intended to deal with risks of a legal nature (- 0.7 million euros), **iii)** the decrease in provisions (- 4.6 million euros) due to the reduction in the provision for restoration charges made in the previous year.

The decrease in the item "impairment of receivables" mainly regards the companies in the Commercial and Trading Segment (- 8.9 million euros) and those in the Energy Infrastructure Segment (- 10.1 million euros). With regard to the latter, it should be noted that in the first half of 2017 the receivables due from Gala were impaired for a total amount of 9.5 million euros. The Water Segment compensates for this decrease with higher provisions for 3.0 million euros.

**Financial items decreased by 11.2 million euros**

The result of financial operations is negative by 42.4 million euros and shows a worsening of 11.2 million euros compared to the first half of 2017. The change is mainly due to the increase in charges on bond loans relating to the two newly issued loans under the Euro

Medium Term Notes (EMTN) programme. Note that as at 30 June 2017, the average all-in global cost of the ACEA Group's debt stood at 2.22% compared to 2.65% for the same period of the previous year.

**Tax rate of 30.8%, a reduction of 2.1 percentage points**

The estimate of the fiscal charges amounted to 67.1 million euros, compared to 54.0 million euros for the same period last year. The overall increase recorded in the period, equal to 13.1 million euros, derives for 2.2 million euros from the effects resulting from the

reorganisation of foreign equity investments as a consequence of the application of capital gain on the sale of a shareholding as well as the higher pre-tax profit. The tax rate for the first half of 2018 was 30.8% (32.9% at 30 June 2017).

**The adjusted net profit increased by 21.6%**

The Group's net income amounted to 142.7 million euros, marking an increase of 39.2 million euros compared to the same period of 2017.

## Summary of Results: performance of economic results

Consolidated balance sheet data (million euros)	30/06/18	31/12/2017	Variation	% Variation	30/06/2017	Variation	% Variation
<b>NON-CURRENT ASSETS AND LIABILITIES</b>	<b>4,652.8</b>	<b>4,514.2</b>	<b>138.6</b>	<b>3.1%</b>	<b>4,268.6</b>	<b>384.2</b>	<b>9.0%</b>
<b>NET WORKING CAPITAL</b>	<b>(416.2)</b>	<b>(281.5)</b>	<b>(134.7)</b>	<b>47.9%</b>	<b>(123.1)</b>	<b>(293.0)</b>	<b>0.0%</b>
<b>INVESTED CAPITAL</b>	<b>4,236.6</b>	<b>4,232.7</b>	<b>3.9</b>	<b>0.1%</b>	<b>4,145.5</b>	<b>91.1</b>	<b>2.2%</b>
<b>NET DEBT</b>	<b>(2,570.3)</b>	<b>(2,421.5)</b>	<b>(148.8)</b>	<b>6.1%</b>	<b>(2,401.4)</b>	<b>(168.9)</b>	<b>7.0%</b>
<b>Total shareholders' equity</b>	<b>(1,666.3)</b>	<b>(1,811.2)</b>	<b>144.9</b>	<b>(8.0%)</b>	<b>(1,744.1)</b>	<b>77.8</b>	<b>(4.5%)</b>
<b>Total sources of financing</b>	<b>4,236.6</b>	<b>4,232.7</b>	<b>3.9</b>	<b>0.1%</b>	<b>4,145.5</b>	<b>91.1</b>	<b>2.2%</b>

The non-current assets and liabilities increased by 3.1% thanks to the investments in the period

The non-current assets and liabilities increased by 138.6 million euros (+ 3.1%) compared to 31 December 2017, mainly due to the increase in intangible fixed assets (+ 138.8 million euros).

million euros	30/06/18	31/12/2017	Variation	% Variation	30/06/2017	Variation	% Variation
Tangible/intangible fixed assets	4,459.4	4,320.6	138.8	3.2%	4,289.5	169.9	4.0%
Equity investments	251.8	283.5	(31.7)	(11.2%)	272.9	(21.1)	(7.7%)
Other non-current assets	532.3	505.3	27.0	5.3%	306.4	225.8	73.7%
Staff termination benefits and other defined benefit plans	(106.7)	(108.4)	1.7	(1.6%)	(112.1)	5.4	(4.8%)
Provisions for risks and charges	(197.3)	(209.6)	12.4	(5.9%)	(209.4)	12.1	(5.8%)
Other non-current liabilities	(286.7)	(277.1)	(9.6)	3.5%	(278.7)	(8.0)	2.9%
<b>Non-current assets and liabilities</b>	<b>4,652.8</b>	<b>4,514.2</b>	<b>138.6</b>	<b>3.1%</b>	<b>4,268.6</b>	<b>384.2</b>	<b>9.0%</b>

The change in intangible fixed assets is mainly due to the investments, which reached 282.0 million euros, and amortisations and value reductions, totalling 161.8 million euros.

See the following table as regards the investments made in each Operating Segment.

Capex per operating segment (million euros)	30/06/18	30/06/2017	Variation	% Variation
<b>ENVIRONMENT</b>	<b>8.6</b>	<b>8.5</b>	<b>0.1</b>	<b>1.7%</b>
<b>COMMERCIAL AND TRADING</b>	<b>5.5</b>	<b>7.9</b>	<b>(2.4)</b>	<b>(30.1%)</b>
<b>OVERSEAS</b>	<b>2.2</b>	<b>2.5</b>	<b>(0.3)</b>	<b>(10.4%)</b>
<b>WATER</b>	<b>156.4</b>	<b>121.9</b>	<b>34.6</b>	<b>28.4%</b>
<b>ENERGY INFRASTRUCTURES</b>	<b>105.5</b>	<b>105.2</b>	<b>0.3</b>	<b>0.3%</b>
<b>Distribution</b>	<b>100.5</b>	<b>93.6</b>	<b>6.9</b>	<b>7.4%</b>
<b>Generation</b>	<b>4.9</b>	<b>11.2</b>	<b>(6.3)</b>	<b>(56.2%)</b>
<b>Public Lighting</b>	<b>0.1</b>	<b>0.4</b>	<b>(0.3)</b>	<b>(67.1%)</b>
<b>ENGINEERING AND SERVICES</b>	<b>0.5</b>	<b>0.4</b>	<b>0.1</b>	<b>23.6%</b>
<b>ACEA (Corporate)</b>	<b>3.1</b>	<b>5.9</b>	<b>(2.7)</b>	<b>(46.6%)</b>
<b>TOTAL</b>	<b>282.0</b>	<b>252.2</b>	<b>29.8</b>	<b>11.8%</b>

Investments increased by 29.8 million euros (+ 11.8%)

The investments in the Environment Segment refer mainly to the investments made by Acea Ambiente: (i) the works to expand the Monterotondo Marittimo plant, (ii) the works carried out in the WTE plants in Terni and San Vittore, (iii) the works on the waste treatment plant and biogas production located in Orvieto and, (iv) works to upgrade and further develop the composting plants in Aprilia and Sabaudia.

The **Commercial and Trading Segment** showed a reduction of 2.4 million euros due to Acea Energia. The **Overseas Segment** showed a decrease of 0.3 million euros, mainly due to the company Aguas de San Pedro.

The **Water Segment** made total investments of 156.4 million euros, the change compared to the same period of the previous year mainly referring to ACEA Ato2 (+ 37.7 million euros) due to recovery and expansion of water pipelines and sewage systems of the various municipalities, the extraordinary maintenance of the water stations, works done on the treatment plants and on the transport systems (connectors and feeders).

The **Energy Infrastructures Segment** saw an increase in investments of 0.6 million euros due to the expansion, renewal and enhancement of the HV, MV and LV network, work on the primary and secondary substations and meters; intangible investments refer to projects for the re-engineering of information and commercial systems. The investments made by Acea

**Equity investments** increased by 31.7 million euros compared to 31 December 2017. The change is due to negative values. Among these we note:

- ✓ the reclassification from the provision for investment risks of the amount related to the equity investment in Gori. This provision fully covers the value of the investment and, as explained in the paragraph "Performance by Operating Segment" of this report and in the *Service Concession Arrangements* in the explanatory

The stock of the **employee severance indemnity and other defined benefit plans** recorded a decrease of 1.7 million euros, mainly due to the drop of

Provisions for **risks and charges** fell by 5.9% due to the combined effect of some reclassifications made at 30 June 2018. Among these we note:

- the provisions for the coverage of any refund of VAT to the tax authorities reclassified to the provision for impairment of receivables (- 26.7 million euros);

Produzione refer mainly to the extension of the district heating network in the Mezzocammino area and plant maintenance.

The **Engineering and Services Segment** recorded investments of 0.5 million euros, mainly due to the purchase of industrial and trade equipment by ACEA Elabori.

**Corporate** made investments of 3.3 million euros that include hardware and software for the Acea2.0 project and to extraordinary maintenance on the premises used for company activities.

Group investments concerning Acea2.0 totalled 10.6 million euros.

notes, given the financial situation the allocation made was maintained as connected to the persistence of the uncertainty associated with the company's operations;

- ✓ the valuation of companies consolidated using the net equity method in accordance with the application of IFRS 11 for 19.5 million euros;
- ✓ the effect deriving from the first application of the new international standards IFRS15 and IFRS9.

the rate used (from 1.30% at 31 December 2017 to 1.50% in 30 June 2018).

- the taxes for the period (+ 58.4 million euros) allocated among the provisions for charges to others;
- the reclassification in the item "Equity investments" of the provision relating to Gori (- 38.3 million euros).

million euros	31/12/2017	Uses	Provisions	Payment of Redundancy Funds	Reclassifications/Other changes	30/06/18
Legal	11.7	(0.8)	1.1	(0.1)	(0.1)	11.8
Tax Office	9.3	0.0	0.5	0.0	(0.2)	9.6
Regulatory risks	61.0	0.0	1.9	0.0	(38.1)	24.8
Investees	10.8	0.0	1.2	(6.4)	(3.3)	2.3
Contributory risks	2.6	(0.1)	0.2	0.0	(0.1)	2.6
Insurance excess	2.1	(0.2)	0.0	(0.2)	0.0	1.7
Other risks and charges	19.6	(1.2)	2.1	0.0	0.1	20.6
<b>Total Provision for Risks</b>	<b>117.2</b>	<b>(2.3)</b>	<b>7.0</b>	<b>(6.7)</b>	<b>(41.8)</b>	<b>73.4</b>
Early retirements and redundancies	18.2	(5.6)	2.2	0.0	0.0	14.8
VAT Variation Notes	26.7	0.0	0.0	0.0	(26.7)	0.0
Post mortem	17.3	0.0	0.0	0.0	0.2	17.5
Provision for Settlement Charges	0.2	(0.1)	0.0	0.0	0.0	0.1
Provision for Charges of others	0.4	0.0	59.8	0.0	0.0	60.2
Provisions for restoration charges	29.7	0.0	1.6	0.0	0.0	31.3
<b>Total Provision for Charges</b>	<b>92.4</b>	<b>(5.7)</b>	<b>63.6</b>	<b>0.0</b>	<b>(26.5)</b>	<b>123.8</b>
<b>Total Provisions for Risks and Charges</b>	<b>209.6</b>	<b>(7.9)</b>	<b>70.6</b>	<b>(6.7)</b>	<b>(68.3)</b>	<b>197.3</b>

It should be noted that last year funds were appropriated to the "Investee" provision following the recognition according to the provisional acquisition method of the first consolidation of the TWS group (8.9 million euros). At the end of the Business

Combination, this provision was released to the Income Statement. For more details, please refer to the 2017 Consolidated Financial Statements.

million euros	30/06/18	31/12/2017	Variation	30/06/2017	Variation
<b>Current receivables</b>	<b>848.3</b>	<b>1,022.7</b>	<b>(174.4)</b>	<b>1,193.7</b>	<b>(345.4)</b>
- due from end users/customers	750.9	933.7	(182.8)	1,106.3	(355.4)
- due to Roma Capitale	55.1	52.5	2.6	50.4	4.7
<b>Inventories</b>	<b>49.2</b>	<b>40.2</b>	<b>9.0</b>	<b>47.2</b>	<b>2.0</b>
<b>Other current assets</b>	<b>188.7</b>	<b>210.1</b>	<b>(21.4)</b>	<b>213.9</b>	<b>(25.2)</b>
<b>Current payables</b>	<b>(1,155.2)</b>	<b>(1,237.8)</b>	<b>82.6</b>	<b>(1,178.5)</b>	<b>23.3</b>
- due to Suppliers	(1,033.4)	(1,106.7)	73.3	(1,024.7)	(8.7)
- due to Roma Capitale	(118.2)	(126.1)	7.9	(150.7)	32.5
<b>Other current liabilities</b>	<b>(347.1)</b>	<b>(316.7)</b>	<b>(30.4)</b>	<b>(399.3)</b>	<b>52.2</b>
<b>Net working capital</b>	<b>(416.2)</b>	<b>(281.5)</b>	<b>(134.7)</b>	<b>(123.1)</b>	<b>(293.0)</b>

The net working capital is negative for 416.2 million euros and increased 134.7 million euros compared to the end of 2017.

The change in net working capital compared to 31 December 2017 is due to the decrease in receivables from users and customers for 182.8 million euros. It should be noted that, as extensively noted in the section on accounting standards and measurement criteria of the Explanatory Notes, starting from 1 January 2018 IFRS9 replaced the previous accounting standard IAS39, resulting in an increase in the provision for impairment of receivables.

Receivables from users and customers gross of the Provision for impairment of receivables are in line with values recorded at the end of 2017. More specifically, we note: (i) an increase in receivables from the Energy Infrastructure Segment, which refers to the effects deriving from regulatory changes that led to the recognition of the income deriving from the elimination of the so-called regulatory lag, valued at the end of the reporting period at 64.7 million euros (+ 11.2 million euros compared to the end of 2017) which does not include the non-current portion of 89.3 million euros

and, (ii) an increase in receivables from the Water Segment due to the effects deriving from the registration of the commercial quality premium in ACEA Ato2. For the first half of 2018, this premium amounts to 15.7 million euros.

Receivables from customers are shown net of the Provision for impairment of receivables, amounted to 592.3 million euros compared to 403.6 million euros at the end of 2017. The increase, net of the provision for the period of 31.9 million euros, is essentially due to the application of the new IFRS9 standard.

In the first half of 2018, receivables totalling 674.5 million euros were transferred pro-soluto, 125.3 million euros to Public Administrations.

Lastly, it should be noted that the provision for impairment of receivables at 31 December 2017 did not include the amounts relating to the VAT Change Note (26.7 million euros) included in the previous year within the specific item of the provision for risks.

Roma Capitale: net balance is positive for 11.7 million euros

As regards the relations with Roma Capitale, the net balance at 30 June 2018 was 11.7 million euros receivable by the Group, a reduction compared to 31 December 2017. The change in receivables and payables results from items accrued in the period and consequent to adjustments and amounts received. During the period, collections and compensation were recognised for a total of 54.9 million euros, including

41.4 million euros for receivables related to the public lighting contract and 9.9 million euros for receivables for water utilities.

The following table shows the amounts deriving from the ACEA Group's relations with Roma Capitale, as regards both the credit position and the debit position, including items of a financial nature.

Amounts due from Roma Capitale	30/06/18	31/12/2017	Variation
Services billed	60.1	51.3	8.8
Services to be billed	1.5	1.4	0.2
<b>Total trade receivables</b>	<b>61.6</b>	<b>52.7</b>	<b>8.9</b>
<b>Financial receivables for Public lighting services</b>	<b>119.7</b>	<b>135.5</b>	<b>(15.9)</b>
<b>Total receivables due within one year (A)</b>	<b>181.3</b>	<b>188.2</b>	<b>(6.9)</b>
<b>Payables due to Roma Capitale</b>	<b>30/06/18</b>	<b>31/12/2017</b>	<b>Variation</b>
Total payables due within one year (B)	(108.4)	(115.5)	7.1
<b>Total (A) + (B)</b>	<b>72.9</b>	<b>72.7</b>	<b>0.2</b>
Other receivables/(payables) of a financial nature	(44.9)	1.2	(46.1)
Other trade receivables/(payables)	(16.3)	(10.8)	(5.5)
<b>Total other receivables/(payables) (C)</b>	<b>(61.2)</b>	<b>(9.6)</b>	<b>(51.6)</b>
<b>Net balance</b>	<b>11.7</b>	<b>63.1</b>	<b>(51.4)</b>

Amounts in million euros

Current payables reduced by 6.7%

The current receivables reduced by 82.6 million euros compared to the end of 2017 due to the reduction of the stock of payables to suppliers (- 80.1 million euros), mainly as a result of the optimisation of the Acea

Energia customer portfolio. The payables attributed to Acea Produzione and to the Parent Company also decreased.

The **Other Current Assets and Liabilities** recorded a total increase of 21.4 million euros and 30.4 million euros respectively compared to last year.

Specifically, other assets decreased due to the counterbalance effect of the increase in prepaid expenses relating principally to Acea Energia and areti for a total of 23.8 million euros, mainly due to the effects of the first application of the new international standards, from the decrease in receivables of the

Equalisation fund (- 17.6 million euros) and the reduction of tax receivables for 26.1 million euros.

The increase in deferred income (+ 30.2 million euros) is also due to the application of the new IFRS15 international accounting standard starting from 1 January 2018. This change is mainly due to the effects linked to the connection fees.

Shareholders' equity amounted to 1.7 billion euros

The **net shareholders' equity** amounted to 1,666.3 million euros. The changes amounting to 144.9 million euros are analytically described in the relevant table and are basically due to the distribution of dividends, the accrual of period profits, the change in the area of

consolidation and the change in the cash flow hedge reserves and those formed by actuarial profits and losses, as well as to the registration of the FTA reserve for the application of the new IFRS9 and IFRS15 international standards.

Net financial debt on an adjusted basis increased by 245.2 million euros compared to the end of 2017

Group **debt** recorded an overall increase of 148.8 million euros, going from 2,421.5 million euros at the end of 2017 to 2,570.3 million euros at 30 June 2018. This change is a direct result of investments in the period, including those of a technological nature. The worsening of the debt position of the Water Segment (+ 65.2 million euros) and of the Energy Infrastructure Segment (+ 68.1 million euros) contributed to the

negative change due to effects linked to seasonality, higher investments and numerous payments made from the companies of the Water Segment also with reference to Roma Capitale.

Please note that the comparative values of the first half of 2017 have been reclassified with respect to the published data in order to better understand the changes.



million euros	30/06/18	31/12/2017	Variation	% Variation	30/06/2017	Variation	% Variation
Non-current financial assets/(liabilities)	2.4	2.7	(0.4)	(13.7%)	2.7	(0.3)	(12.9%)
Parent company, subsidiaries and associates current financial assets/(liabilities)	33.8	35.6	(1.8)	(5.2%)	37.9	(4.1)	(10.8%)
Non-current borrowings and financial liabilities	(3,395.9)	(2,745.0)	(650.9)	23.7%	(2,872.4)	(523.5)	18.2%
<b>Net medium/long-term debt</b>	<b>(3,359.7)</b>	<b>(2,706.7)</b>	<b>(653.1)</b>	<b>24.1%</b>	<b>(2,831.8)</b>	<b>(527.9)</b>	<b>18.6%</b>
Cash and cash equivalents and securities	1,200.5	680.6	519.9	76.4%	554.0	646.5	116.7%
Short-term debt	(782.9)	(544.6)	(238.4)	43.8%	(157.4)	(625.5)	n.s.
Current financial assets/(liabilities)	309.4	32.9	276.6	0.0%	(76.6)	386.0	n.s.
Parent company and associates current financial assets/(liabilities)	62.4	116.2	(53.8)	(46.3%)	110.4	(48.1)	(43.5%)
<b>Net short-term debt</b>	<b>789.4</b>	<b>285.1</b>	<b>504.3</b>	<b>176.9%</b>	<b>430.4</b>	<b>359.0</b>	<b>83.4%</b>
<b>Total net financial position</b>	<b>(2,570.3)</b>	<b>(2,421.5)</b>	<b>(148.8)</b>	<b>6.1%</b>	<b>(2,401.4)</b>	<b>(196.4)</b>	<b>8.2%</b>

Medium and long-term borrowings increased by 650.9 million euros

As regards the **medium/long-term component**, the increase of 650.9 million euros compared to the end of 2017 refers to 983.9 million euros for the increase in the compensated debenture loans for 333.1 million

euros from the reduction in non-current payables and financial liabilities. The non-current borrowings and financial liabilities are broken down as in the following table:

million euros	30/06/18	31/12/2017	Variation	Variation %	30/06/2017	Variation	Variation %
Bonds	2,679.0	1,695.0	983.9	58.1%	2,046.0	633.0	30.9%
Medium/long-term borrowings	716.9	1,050.0	(333.1)	(31.7%)	826.5	(109.5)	(13.2%)
<b>Medium/long-term borrowings</b>	<b>3,395.9</b>	<b>2,745.0</b>	<b>650.9</b>	<b>23.7%</b>	<b>2,872.5</b>	<b>523.5</b>	<b>18.2%</b>

**Bonds** amounted to 2,679.0 million euros, registering an increase of 983.9 million euros, essentially due to the placement of two bond issues in the first quarter of

2018 amounting to 300 million euros and 700 million euros respectively for the Euro Medium Term Notes (EMTN) programme.

**Medium/long-term loans** of 716.9 million euros decreased by 333.1 million euros, which almost exclusively refers to the parent company (320.7 million euros). This change is essentially due to the early repayment of an EIB loan of 50 million euros and the reclassification to the short-term position of two other

loans falling due in January and June 2019 of 100.0 million euros and 150.0 million euros respectively. The following table shows medium/long-term and short-term borrowings by term to maturity and type of interest rate:

Bank Loans:	Total Residual Debt	By 30.06.2019	Due from 30.06.2019 to 30.06.2023	After 30.06.2023
fixed rate	507.6	272.7	101.5	133.5
floating rate	487.0	33.6	134.3	319.1
floating rate to fixed rate	31.9	8.3	23.5	0.0
<b>Total</b>	<b>1,026.4</b>	<b>314.6</b>	<b>259.3</b>	<b>452.5</b>

The fair value of ACEA hedging derivatives was a negative 2.7 million euros, decreasing by 0.7 million

euros compared to 31 December 2017 (was a negative 3.4 million euros).

The short-term component was positive for 789.3 million euros, an increase of 504.2 million euros

The **short-term** component is positive for 789.3 million euros and, compared to the end of 2017, shows an increase of 504.2 million euros.

At 30 June 2018 the Parent Company held unused uncommitted credit lines totalling 744 million euros, of which 484 million euros unused. No guarantees were issued to obtain these credit lines.

The ACEA rating

The long-term ratings assigned to ACEA by international rating agencies are as follows:

- Fitch's 'BBB+'
- Moody's "Baa2".



## Reference context

### Performance of the equity markets and the ACEA share

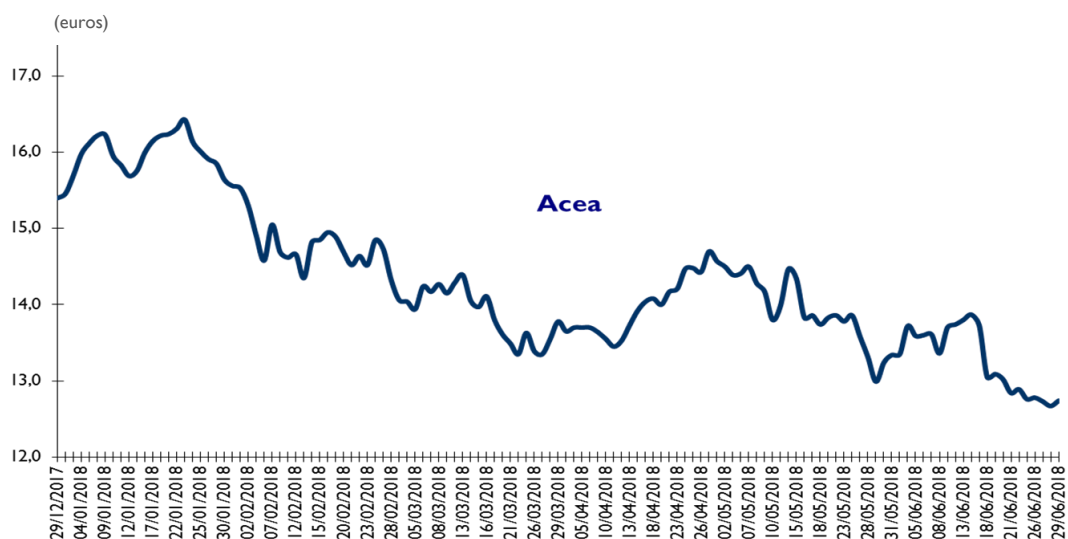
In the first six months of 2018, international equity markets recorded the following changes: FTSE MIB -

1.0%, FTSE Italy All Share -1.5%, FTSE Italy Mid Cap - 4.0%.

In the first six months of 2018, Acea's shares fell by 17.3%. The share price stood at 12.74 euros at 29 June 2018 (capitalisation: 2,713 million euros). The maximum value of 16.43 euros was reached on 23

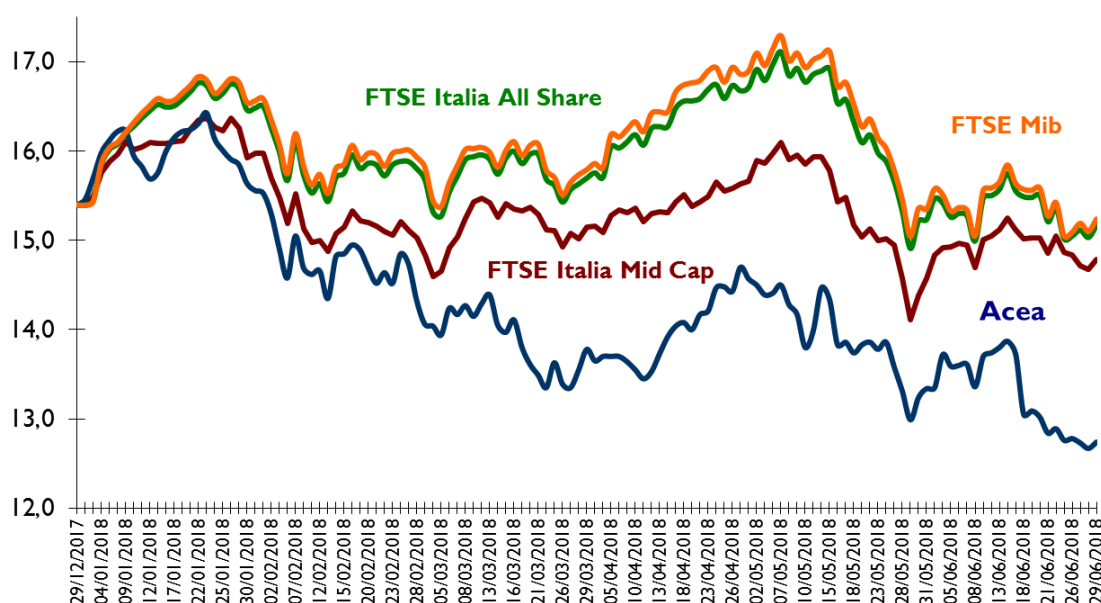
January, while the minimum value of 12.67 euros was reached on 28 June.

During the period under analysis, average daily volumes were around 141,000 (higher than the approximately 130,000 in the first half of 2017).



(Source: Bloomberg)

The following chart shows re-based figures for ACEA's share (euros) compared to Stock Market indices.



(Chart normalised to Acea values - Source: Bloomberg)

	<b>Var % 30/06/18</b> (compared to 31/12/2017)
<b>Acea</b>	<b>-17.3%</b>
FTSE Mib	-1.0%
FTSE Italia All Share	-1.5%
FTSE Italia Mid Cap	-4.0%

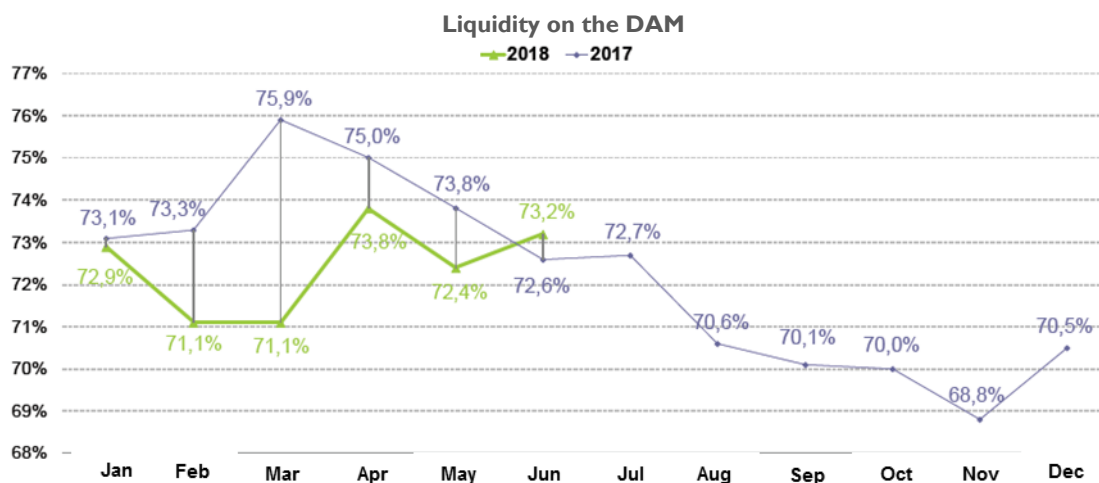
In the first six months of 2018 over 60 studies/notes on ACEA were published.

## Energy market

According to Terna, in the first six months of 2018, electricity demand in Italy (158,622 GWh) increased by 0.8% compared to the same period of the previous year. On a seasonally adjusted basis the change was equal to +0.6%. 86% of electricity requirements were covered by national (Italian) production and the remaining share, amounting to 14%, was covered by imports from abroad (balance of imports +30.2% compared to the same period of last year). The net national production (136,115 GWh) showed a significant increase of 3.1% compared to the same period in 2017. Specifically, electricity produced from thermal production sources decreased by 11.0%, as did electricity produced from photovoltaic systems (-

10.5%) and geothermal sources (-1.3%), while the energy produced by water sources (+36.5%) and wind sources (+9.2%) is growing.

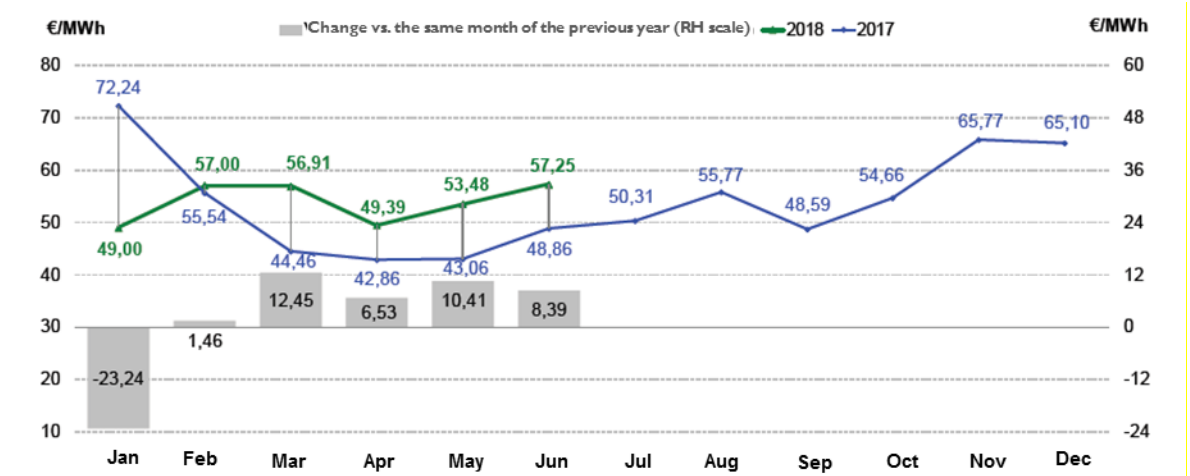
With regard to the results of the electricity market in the month of June, there was a decline in volumes treated in the DAM after four consecutive increases. The volumes traded in the Power Exchange fell (-1.1%) as the volumes traded OTC recorded on the PCE and nominated on the DAM are following a decidedly negative trend, reaching the value 6.6 TWh (-3.7%). Market liquidity stood at 73.2%, growing both on a monthly (+0.8%) and annual (+0.6%) basis.



During the first half of 2018, the average purchase price of energy (PUN) recorded an average value of 53.84 euros/MWh. In June the average price reached 57.25 euros/MWh, the highest level of the current year and of the last six years for the month in question, recording a conjuncture variation of +7.1% (+3.78% euros/MWh) and a trend of +17.2% (+ 8.39 euros/MWh). The analysis by groups of hours shows

trending increases in both off-peak hours and peak hours: in fact, an increase of + 8.58 euros/MWh (+18.8%) was seen in the off-peak hours and of + 8.03 euros/MWh (+14.7%) during peak hours, with prices standing at 54.26 and 62.80 euros/MWh respectively. The peak/baseload price ratio is equal to 1.10, basically the same as a year ago (- 0.02).

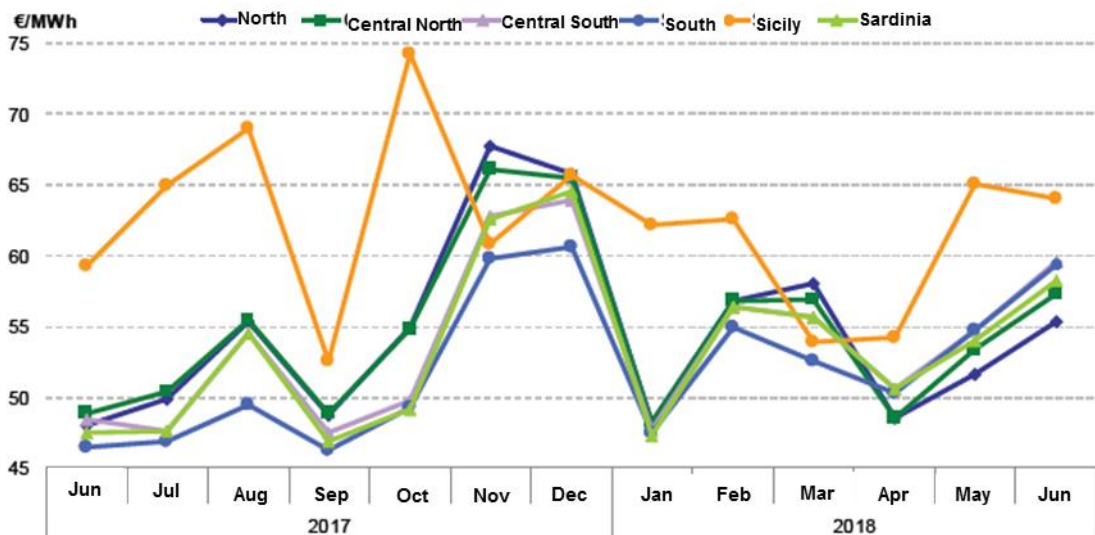
### DAM: Sole National Price (PUN)



Selling prices have also risen, in the peninsular areas and in Sardinia reaching 55 euros/MWh in the north and 59 euros/MWh in the south. The growth appears more uniform on a monthly basis corresponding to a widespread increase in demand, while on an annual basis the more intense reduction of the lower-cost offer in the south favours higher

increases in the price in the south compared to the north (+ 13 euros/MWh vs + 7 euros/MWh). The price in Sicily is still higher, equal to 64 euros/MWh, the only one with a slight decline in May when the island was penalised by a narrowing of exchange with the continent.

### DAM: Sale Prices<sup>3</sup>



### Transport service tariffs

2018 was the third year of the new regulatory period, the term of which has been increased from four to eight years (2016-2023) divided into two sub-periods: the first four with method continuity, the method for the others to be subsequently implemented.

“Integrated Text of dispositions of the Authority for supplying electricity transmission and distribution

services (TIT)”, Annex A to resolution 654/2015/R/eel, the “Integrated Text of dispositions of the Authority for the supply of the electricity metering service (TIME)”; Annex B to resolution 654/2015/R/eel, and the “Integrated Text on dispositions of the Authority for the economic conditions for supplying connection

services (TIC)", Annex C to resolution 654/2015/R/eel,

For the distribution service, ARERA confirmed unbundling of the tariff applied to end customers (the so-called compulsory tariff) from the reference tariff for determination of the restriction on revenue permitted to each company (the reference tariff).

The current regulations in force in 2016 include:

1. Regulatory lag and return on invested capital;
2. Extension of regulatory useful life;
3. Tariff adjustment criteria: cost coverage, measurement.

With regard to the first point, the ARERA has changed the manner for offsetting the regulatory lag, recognising new investments made both for Distribution and for measurement (no retroactivity).

The criterion based on the increase in the investment rate of return granted to new investments, equal to 1% (year  $t-2$ ), has been replaced by recognition in the capital base (RAB) also of the investments made in year  $t-1$ , evaluated on the basis of pre-final data communicated to ARERA. These data will be used for the determination of the provisional tariffs of reference published by 31 March and then replaced by the final data for the determination of the definitive tariffs of reference published by February of the following year. On 15 March 2018, in resolution 150/2018/R/eel, the ARERA published the definitive reference tariff for the electricity distribution service for 2017 and, on 29 March 2018, in resolution 178/2018/R/eel, the ARERA published the provisional reference tariff for the electricity distribution service for the year 2018 with resolution 175/2018/R/eel.

The ARERA recognises in year  $t$  only the return on capital for assets that came into operation in year  $t-1$ , without recognizing the related depreciation charge (which remains recognised in year  $t-2$ ).

With reference to depreciation recognised in the tariff, the new regulation increases the useful regulatory life of certain assets, such as HV electric lines (increased from 40 to 45 years), MV and LV lines and "end users' connection points" (from 30 to 35 years).

The rate of return on net invested capital (WACC), whose calculation parameters were published in

The ARERA confirms for 2017 the mechanism, already introduced in the third regulatory period, for the higher remuneration of certain categories of investments made until 2015, not extending this mechanism also for the 2016-2023 cycle.

With regard to the transmission tariff, the ARERA confirmed the introduction of a binomial tariff (capacity and consumption) for high voltage customers, and the cost tariff structure for the transmission service to Terna (CTR), also introducing a binomial price. Given the two tariffs, the equalization mechanism has been confirmed.

The general equalisation mechanisms for distribution costs and revenue for the regulatory cycle in force are:

- equalisation of distribution service revenue;

published on 23 December 2015.

Resolution 654/2015/R/eel, is 5.6% for the distribution service on the investments made until 31 December 2016.

In terms of operating costs, the new company-based tariff covers the specific costs by means of a national average cost adjustment coefficient, calculated by the ARERA on the basis of actual company costs and on the basis of scale variables.

These costs, when calculating the company-based tariff, according to the definitions of Resolution No. 654/2015, are supplemented by flat rate connection contributions acknowledged throughout Italy, and will be considered as other grants and no longer deducted from operating costs.

Furthermore, the flat rate connection contributions of each company are deducted directly from the invested capital considering them as equal to MV/LV assets.

Updating of the distribution reference tariff after the first year is individual and based on financial increases reported by the companies on the RAB databases. The updating criterion envisages that:

- the portion of the tariff covering operating costs will be updated using the price cap mechanism (with a productivity recovery target of 1.9%);
- the part intended to provide a return on invested capital will be updated on the basis of the gross fixed investment deflator, movements in the volume of services provided, gross investments started up and differentiated according to the voltage level and the rate of variation linked to increased returns designed to provide incentives for investments;
- the part intended to cover depreciation has been updated, using the gross fixed investment deflator, movements in the volume of services provided and the rate of variation linked to the reduction in gross invested capital as a result of disposal, discontinuation and end of life, and the rate of variation associated with gross investments that have become operational.

As regards marketing activities, the ARERA introduces a single reference tariff that reflects both the costs for managing the network service and marketing costs, with recognition of the specific capital costs also for investments in marketing activities.

- equalisation of transmission costs;
- equalisation of the difference between actual and standard losses.

Starting in 2017, the ARERA has introduced a tariff applied to home customers that is no longer divided between D2 and D3 but single (TD), as specified in resolution 799/2016/R/eel dated 28 December 2016, leading to the removal of the calculation mechanism for the equalisation of revenue from the supply of electricity to home customers, in force until 2016

In the new Transport Integrated Text, the ARERA has confirmed the mechanism of advance recognition on a

The Measurement Integrated Text (TIME) governs tariffs for the metering service, divided into meter installation and maintenance, taking meter readings, confirming and recording readings. The structure of the fees has been changed compared to the previous regulatory period only with regard to the fees for collection and validation of meter readings, previously broken down and now unified into a single fee.

The ARERA has introduced a new method for recognising the cost of capital in relation to low voltage electronic meters, for companies that supply the service to more than 100,000 withdrawal points, based on the recognition of investments actually made by the individual firms confirming the criterion for determining the metering service tariff on the basis of the national cost for remote management systems and for electromechanical meters still in place (residual cost), maintaining the metering equalisation also for the fifth regulatory period to equalise the surplus deriving from the comparison of the obligatory tariffs billed to end users and the revenue valorised in the reference tariff. The equalisation mechanism is aimed at equalising the revenue deriving from the comparison of the mandatory tariffs invoiced to the final users and the revenues from the tariff of reference.

On 29 March 2018, the ARERA published in resolution 174/2018/R/eel the definitive tariff for metering activities in 2017. On 29 March 2017, in resolution No. 176/2018/R/eel, the ARERA published the provisional

The “Integrated Text on dispositions of the Authority for the economic conditions for supplying connection services (TIC)”, Annex C to Resolution 654/2015/R/eel, governs the economic terms for the provision of

### **Water Regulation**

The year 2018 was marked by the entry into force of several ARERA provisions (issued in the course of the year 2017) that significantly changed the regulatory framework with regard to the following aspects: redefinition of the tariff structure, launch of the social water bonus for utilities in conditions of economic hardship, start of the application of the regulation of technical quality, consumer protection.

At the end of 2017, with resolution 918/2017/R/idr the measures concerning the two-year update of the tariff provisions for the two-year period 2018-2019 were

### **ARERA electricity services activities**

#### **Resolution 26/2018/E/eel - Approval of two audits concerning economic compensation for arrears for fraudulent use**

Pursuant to Resolution 26/2018/E/eel, on 28 February 2018 and 1 March 2018 an audit by the Authority and Fund for energy and environmental services was carried out at the Acea Energia headquarters with regard to the request for economic compensation for

two-monthly basis, of equalisation balances for revenue from the distribution service and transmission costs.

reference tariff for the 2018 electricity metering service.

The tariffs covering the metering service are updated, as for the distribution service, by price cap mechanisms for the part covering operating costs (with a productivity recovery target of 1%) and by the deflator, change in invested capital and rate of change in volumes for the part covering invested capital and depreciation. The rate of return on metering capital is equivalent to that of the distribution service.

In resolution 646/2016/R/eel dated 10 November 2016, the ARERA described the methods of defining and recognising costs concerning the second generation (2G) *smart metering* system for metering low voltage electricity. On 8 March 2017, it published a release in which it updated the evaluation of the plan for entry into service of the 2G *smart metering* system prepared by e-distribuzione S.p.A.

Starting in 2017, and only with regard to the investments that come into operation in 2017, the ARERA has established in the same resolution that for the annual updating of the return on invested capital and depreciations concerning metering points effectively in low voltage, for each distribution firm, the maximum gross investment value recognisable per meter installed in 105% of the corresponding gross investment value per meter for the investments that came into operation in 2015.

connection services and specific services (transfers of network equipment requested by end users, contract transfers, disconnections, etc.) to paying end users, essentially in line with the previous regulatory period.

also issued (two-year period ending the second regulatory period 2016-2019). The same resolution also provides for the quantification from 1 January 2018 of the UI2 equalisation tariff component (Technical Quality) and the introduction of the UI3 equalisation tariff component (Social Water Bonus).

The framework relating to the measures to contain arrears in the IWS is yet to be defined, for which DCO 80/2018 of February 2018 was issued and the final provision is currently pending.

arrears related to fraudulent use presented in 2014 for the period August 2010 - July 2011. The Company promptly replied to the requests made by producing the required documentation (for example, the documents related to the commercial management of a

certain sample of customers have been gathered: invoices, reminders, supply suspension notices, receivable assignments, receipts, etc.). Furthermore, on 30 March copies of the VAT registers were submitted relative to the total turnover of the enhanced

protection customers during the period under audit. The audit did not find any critical issues regarding the request in question, therefore we await confirmation from the Authority.

#### **Resolution 31/2018/R/eel - Guidelines for the integration of sections related to the resilience of the electricity system in the development plans of distribution companies**

The resolution updates the Integrated Text of the ARERA's output-based regulation of electricity distribution and metering services (TIQE), introducing obligations to prepare Resilience Plans for distribution companies. Specifically, the Plan must:

- have a horizon of at least three years;
- be processed in a coordinated way with Terna (if the distribution companies are interconnected with the national transmission network) and with the interconnected and underlying distribution companies;

- include actions to contain the risk of disruption in the face of the main critical risk factors that may have an impact on the distribution network (e.g. flooding due to particularly intense rain, heat waves and prolonged droughts, etc.).

For the main distributors, the obligation is met by setting up a specific section dedicated to resilience within the Development Plan. This section, together with specific information for each action, must be published on the distributor's website by 30 June of each year.

#### **Resolution 50/2018/R/eel - Provisions regarding the recognition of charges otherwise not recoverable due to the failure to collect general system charges**

The provision introduces specific mechanisms for the recovery of the general system charges paid but not collected by the distributors; specifically, it establishes:

- the conditions for accessing the mechanism: it is envisaged that access will be given to any distributor that requests it and that fulfils the obligations of paying the general system charges starting from the receivables accrued from 1 January 2016, in relation to transport contracts terminated for non-compliance for at least 6 months;
- the recoverable amount: the amounts to be included both related to the charges incurred for any actions aimed at the collection of receivables

and the receivables not collected identified by the ARERA, as well as the amounts to be excluded or considered reduced.

The procedural aspects and obligations set by the Energy and Environmental Services Fund (CSEA) are then defined for quantification and settlement of the amounts to be recognised, providing in particular that:

- by 31 May each year CSEA will publish the form for submitting data;
- by 31 July 31 the distribution companies submit the requested data;
- by 30 September CSEA will calculate the amounts and pay the amounts to the companies.

#### **DCO 52/2018/R/eel - System for recognising unpaid and otherwise non-recoverable system charges applicable to users of the electricity transport service**

On 30 November 2017 the State Council rejected the appeals filed by E-Distribuzione and the Authority against the regional administrative court's rulings of January 2017, thus confirming the annulment of the provisions of the Network Code that provide for the inclusion of general system charges in the calculation of guarantees that sellers must offer to distributors for the conclusion of the transport contract. Thereafter, with a press release on 29 December 2017 the Authority reiterated that the transitional provisions regarding the reduction of the distributor guarantee amounts, defined by resolution 109/2017/R/eel, had been fully applied in all its parts.

In order to settle the whole matter, with this consultation document the Authority gathered comments on the proposal to establish a mechanism

that from 2019 would allow sellers to recover general system charges (incurred in 2016 ) from those paid to the distribution companies but not collected by the final customer and any transfer costs and legal costs related to these charges. The document also provided that in cases of particular difficulty of the seller it can submit an early application for recovery, in 2018. With its own document the Acea Group proposed clarifications and improvements to the mechanism in question. On 2 February the Authority requested ACEA to quantify as precisely as possible the amounts recoverable through the mechanism proposed in the consultation document for the two-year period 2016-2017. The estimated amount is approximately 8 million euros.



**Resolution 53/2018/R/eel - Approval of the method for the products that can be included in the day-ahead market coupling process and in the intraday market coupling process, pursuant to EU regulation 2015/1222 (CACM), as resulting from the unanimous vote expressed by all the European regulatory authorities within the Energy Regulatory Forum**

With Resolution **53/2018/R/eel**, the Authority approved the amended proposal concerning the products that can be included in the day-ahead market and the intraday market coupling process, prepared by all NEMOs (Nominated Electricity Market Operator) in accordance with EU Regulation 2015/1222 (CACM Regulation - Capacity Allocation and Congestion Management) and therefore sent a mandate to GME (NEMO for Italy) to initiate the implementation procedures provided for therein.

With the subsequent resolution **54/2018/R/eel**, the Authority instead approved the joint proposal on the back-up method prepared by all NEMOs pursuant to the CACM Regulations, which allows for the correct and punctual elaboration of the price coupling algorithm for the day-ahead market (article 39 of the CACM) and of the algorithm for combining the negotiations in continuous trading for the intra-day market (article 52 of the CACM) even when there are IT problems.

**Resolution 72/2018/R/gas - Reform of the regulation concerning gas settlement**

With this resolution, the Authority approved the provisions related to the new regulation of gas settlement contained in the "Integrated text of the provisions for the regulation of physical and economic balances of the natural gas balancing service (TISG)" that will come into force on 1 January 2020.

The new regulation aims to ensure a more efficient supply of balancing and natural gas transport services with reference to the calculation of the energy withdrawn by each user of the balancing.

**Resolution 97/2018/R/com - Urgent implementation of the provisions of Italian Law 205/2017 on billing and measurement in the retail electricity market and launch of the procedure for the complete implementation of the aforementioned provisions in the sectors of electricity and natural gas**

The resolution introduces the first actions necessary for the implementation of Italian Budget Law 2018, which intends to reduce the non-ordinary amounts in the maxi-bills of final customers, establishing provisions aimed at making both sellers and distributors responsible. In particular, the provision establishes the following:

- the seller is required to issue the billing document relating to adjustments made on the basis of corrections of the metering data within 45 days from the time the correction is made available within the Integrated Information System (IIS);
- at the time of first application the legislation's scope of application is limited to low-voltage domestic and non-domestic end users;
- at the same time as the bill is issued and at least 10 days in advance of the payment deadline, using one or more communication channels to guarantee completeness and transparency, the seller is obliged to inform the customer of the possibility of objecting to both the limitation period of the claim relating to amounts that the seller should

have billed more two years earlier in cases of significant delays, and the right not to pay the billed amounts in case of correction of data relating to periods exceeding two years.

In consideration of the relevant impacts on the current regulation deriving from the implementation of the 2018 Budget Law, given the effects on the various parties in the supply chain and on the related processes an extensive procedure is therefore being launched for the complete settlement of all the necessary actions, which will have to be completed by 31 December 2018.

Furthermore, with resolution 264/2018/R/com of 13 April 2018, the ARERA has established on a transitional basis that in the event of non-collection due to the objection to the limitation period raised by the end customer, for the cases relating to adjustments deriving from corrections attributable to the distributing company, the seller is entitled to request the corresponding restatement of the amounts from the distributor, the reversal of the invoices and the restitution of any amounts paid in excess.

**Resolution 139/2018/R/efr - Start of the procedure for fulfilling the sentences of the Milan Regional Administrative Court, Section II 31 January 2017, 237, 238, 243 and 244, concerning Authority resolution 268/2015/R/eel, concerning guarantees for the collection of general electricity system costs**

The resolution approves the urgent amendment to the Operating Rules of the Energy Efficiency Certificates (EEC) market, as proposed by GME and sent by it to ARERA, in compliance with the instructions of the Ministry of Economic Development. The new Rules reduce the frequency of market sessions to only one session per month (previously the sessions took place

at least once a week in the period from February to May of each year and at least once a month in the remaining months).

The ARERA, confirming the effectiveness of this change, resolved to limit the effects of the anomalous listings of the registered EECs starting from 2017.



**Resolution No. 150/2018/R/eel - Calculation of the definitive reference tariffs for electricity distribution for 2017**

The resolution approves the values of the definitive reference tariffs for 2017 for the electricity distribution service. For *areti*, the fixed rate payments are higher

than those determined provisionally by the ARERA and made known in resolution 286/2017/R/eel.

**Resolution No. 174/2018/R/eel - Calculation of the definitive reference tariffs for electricity distribution for 2017**

This measure definitively determines the T(ins) and T(rav) components of the reference tariff T(MIS) in article 15 of the Amended Text of Electrical

Measurement (TIME) for companies serving more than 100,000 withdrawal points.

**Resolution 175/2018/R/eel - Calculation of the provisional reference tariffs for electricity metering for 2018**

The resolution provides for the provisional determination of the tariffs of reference for the

electricity distribution service referred to in paragraph 8.1 of the Integrated Tariff Law (ITL) for the year 2018.

**Resolution 176/2018/R/eel - Calculation of the provisional reference tariffs for electricity metering for 2018**

The provision defines the provisional tariffs of reference to cover the electricity metering service for the year 2018 for the major distribution companies.

**Resolution 355/2018/R/com - Efficiency and harmonisation of the regulation regarding procedures for out-of-court resolution of disputes between customers or end users and operators or managers in the sectors regulated by the Authority**

With this resolution, the Authority implemented measures to improve the efficiency and harmonisation of the regulation regarding out-of-court dispute resolution procedures between customers and operators in the areas regulated by the Authority, referred to in TICO, in light of the results of the monitoring of the first year of operation of the compulsory mediation mechanism in the energy sectors.

- the minimum term for the activation of the Mediation Service is set at 40 days from the sending of the complaint to the operator rather than 50 days, without prejudice to the possibility of submitting the request for mediation after receiving an answer that is deemed unsatisfactory, if earlier;
- the request for mediation may be submitted even more than one year after the date the complaint is sent.

In particular, the resolution modifies TICO starting from 1 January 2019, establishing among other things that:

**Resolution 366/2018/R/com - Harmonisation and simplification of the comparison sheets for domestic end users under the Code of Commercial Conduct**

With this resolution, the Authority reorganised the text of the current Code of Commercial Conduct to increase the instruction of the final domestic customer in view of the obsolescence of price protections, while ensuring consistency with the criteria of the Offer Portal. In particular, the new text, which will come into force on 1 October 2018, harmonises the criteria for estimating annual expenditures of comparison sheets

with those used in the Offer Portal (for offers published therein), introduces changes to the annual consumption level combinations (in kWh), committed power and type of dwelling used in the sheets relating to the supply of electricity, and finally harmonises the structure of these sheets with those used for the supply of natural gas.

**Cessation of price protection schemes (Annual Market and Competition Law for 2017. Italian Law no. 124 of 4 August 2017)**

The "Annual Market and Competition Law", no. 124 of 2017, which entered into force on 29 August 2017, provided for the termination of price protection schemes both in the electricity and gas sectors starting from 1 July 2019. With a decree of the MISE the necessary measures will be defined to ensure the termination of the transitory price regulation and the conscious entry into the market of final customers, according to mechanisms that ensure competition and

the plurality of suppliers and offers in a free market. The main scenarios in consideration provide that on 1 July 2019 customers served under the standard offer pass into the free market: (i) of the same entity offering the standard service through the application of the PLACET offer or (ii) of the seller winning the relative lot of customers through special auctions. A third possibility provides for the organisation of auctions only for limited cases: for some types of

customers or as part of a process of gradual reduction of market share with the provision of antitrust ceilings

for the incumbent.

## **ARERA water services activities**

### **Resolution 25/2018/R/idr - Initiation of the proceeding concerning the necessary and urgent interventions for the water sector for the definition of the "Aqueducts" section of the national plan, referred to in article 1, paragraph 516 of Italian Law 205/2017**

The provision initiates a proceeding concerning the necessary and urgent works in the water sector for the purposes of defining the "aqueducts" section of the National Water Works Plan, referred to in article 1, paragraph 516 of the 2018 forecast budget law (Italian Law no. 205/17 of 27 December 2017).

The aforementioned budget law provides that the Regulator, after consulting the Regions and local authorities concerned, on the basis of the existing schedules and monitoring the implementation of the financial plans of the managers "conveys the list of necessary and urgent works for the sector, specifying

the implementation methods and times, for the achievement of the following priority objectives: achievement of adequate levels of technical quality, recovery and expansion of the water supply and transportation of water resources, dissemination of tools aimed at saving water in agricultural, industrial and civilian uses". The Authority also resolved to verify the "persistence of any critical issues in the planning and implementation of works in certain areas of the country, as well as to carry out additional monitoring activities" also using the Energy and Environmental Services Fund (CSEA).

### **DCO 80/2018/R/idr - Procedures for the containment of arrears for the integrated water service**

With consultation document (DCO) 80/2018/R/idr (deadline for submitting the observations scheduled for 12 March 2018), the ARERA presents the final guidelines on the measures necessary for the containment of delinquency related to the integrated water service and also attaches the provision scheme for the Regulation of arrears in the integrated water service (REMSI).

In particular, the DCO contains the final guidelines on the following aspects:

- definition of the categories of final users that cannot be disconnected;
- timing and methods for the declaration of default (including the methods for the payment of the amounts subject to declaration of default);
- timing and procedures for limiting, suspending and deactivating the water supply;
- protection measures that benefit the end user, in particular for resident home users and users in conditions of economic hardship or physical disability;
- compensation that the manager is required to pay in the absence of compliance with certain deadlines.

In addition, the DCO introduces changes to the integrated text of the Contractual Quality Regulation -

RQSII, establishing that, in the event that it is not possible to extinguish the complaint, the manager provides the end user with the information to resolve the dispute, indicating in particular the contact details of the Energy and the Environment Consumer Desk and the procedures for involving any other out-of-court dispute resolution bodies, in which the operator commits to participate to make an attempt to resolve the matter through mandatory no-cost end-user mediation.

Lastly, the provision scheme supplements Resolution 86/2013 relating to the security deposit by providing that the security deposit that has been fully or partially depleted due to default of the end user can be reinstated by the manager by adding the related amount in instalments to the subsequent bills over a minimum instalment period equal to 18 months, unless otherwise agreed between the parties. The end user's will to avail himself of the possibility of paying in instalments for a period of less than 18 months must be expressed in writing or in another documented manner.

The Company submitted a document containing its own reflections by the requested deadline (i.e. by 12 April 2018). We are awaiting the final resolution on the matter.

### **Resolution 1/2018/DSID - Definition of the procedures for the collection of technical and tariff data, as well as the standard forms for the report accompanying the programme of works and updating the tariff provisions for the years 2018 and 2019, pursuant to Resolutions 917/2017/R/idr and 918/2018/R/idr**

With regard to the biennial update of the tariff provisions, which is expected to be implemented by the governing bodies of the area (EGA) by 30 April 2018, with resolution 1/2018 drafted by the Water Systems Department (DSID), the ARERA incorporated the contents of resolutions 917/2017 and 918/2017 and established that by 30 April 2018 the EGA must send

the ARERA (for the purpose of its approval) the update of the tariff arrangements for the years 2018 and 2019 through the specific procedure available on the ARERA website.

The decision also approves the standard schemes for the preparation of the works programme and the economic and financial plan, the standard format for

the report accompanying quality data and the works programme, the standard format for the accompanying report on the update of tariff preparation. These documents, duly completed, will be sent to ARERA using the digital procedure described above.

With a subsequent press release dated 17 May 2018 "Tariff and technical quality requirements for the integrated water service", ARERA urged the completion of the tariff determination process and the related implementation of the technical quality regulation, recalling that according to Resolution 1/2018/DSID it is possible for managers to present an application for tariff updates in case of inaction of the

responsible parties, requesting the Authority to authorise the extraordinary procedure for entering the data. With regard to the new formulation of the fees to be applied to industrial waste authorised to discharge into public sewerage, in addition to the flexibility margin associated with the iso-revenue related to the rate of sewerage and treatment deriving from the application of the previous method, where there are significant problems of financial sustainability other transitional forms of tariff convergence are possible in compliance with the constraints envisaged by Resolution 665/2017/R/idr.

### **Resolution 57/2018/A - Approval of the organisation and operation regulations of the new ARERA organisational structure**

This resolution describes the new organisational structure of the Authority, in force since 1 March 2018, updated in light of the new responsibilities in the waste cycle. The framework was completed by subsequent

resolutions 58, 59 and 60 (assignment of macro-structure assignments, interim appointment of the Director of the Environment Division, assignment of offices).

### **Resolution 9/2018 - DACU Changes to the regulation of the operators - managers portal and to the user manual as per the resolution of 5 January 2017, 1/DCCA/2017**

With Resolution 55/2018/E/idr, ARERA defines the transitional regulations in force from 1 July 2018 until 30 June 2019 for the extension of the consumer protection system to the water sector and for the out-of-court settlement of disputes already active in the electricity and gas sectors.

Approved after two consultations in the months of September and December 2017, the provision contains two attachments:

- Annex A "Transitory regulations concerning voluntary out-of-court settlement procedures for disputes between water users and operators";
- Annex B "Regulations concerning the activities carried out by the Desk with reference to the processing of second-level complaints of water users".

With regard to the Transitional Regulation, we note:

**Mediation Scope:** from 1 July 2018, attempts to mediate disputes between users and their managers will be voluntary and possible - also through the ARERA Mediation Service - and for issues related to the aspects regulated by ARERA itself and for all other issues of interest to the user of the IWS, with the exclusion of those not falling within the scope of application of the Integrated Text of Mediation (TICO) and those relating to water quality;

**Duration of the transitional period:** the transitional period, defined in the document itself as the "period from the activation for the water sector of the ARERA Mediation Service managed by the Single Buyer, as of 30 June 2019", will start on 1 July 2018 and will end on 30 June 2019. An assessment of the implementation status of the transitional provision is envisaged in order to evaluate further gradual mechanisms, after discussion with the stakeholders;

**Exemptions from the implementation of the regulation:** if the manager proves that it cannot comply with the obligation to take part in the

mediation procedure in the times provided, the EGA responsible, in agreement with the manager and the regionally registered local consumer associations, has the right to submit to ARERA a request for a justified exemption limited to this obligation and for a maximum period of one year, in any case with a deadline of 31 December 2019. The application is considered admissible if it is submitted by 30 September 2018 and if it is based on the existence of ongoing aggregation processes involving the manager submitting the application. ARERA will check the requests received and grant or deny the requested exemption.

Regarding the second topic, the Regulation establishes that the Energy and Environment Consumer Desk, managed together with the Single Buyer, will deal with complaints concerning issues subject to national regulation in the water sector by means of online procedures. Specifically, the Desk prepares and publishes a complaint submission form on its website and makes online submission methods available through its website by issuing a specific electronic receipt of the submission (article 4.2 of the Regulation). The form and online methods are approved as per the provisions of art. 4.3 of the Regulation upon proposal of the Desk, with resolution of the Director of the Environmental Services Protection of ARERA (see Resolution 2/2018 - DTSA discussed later).

The Regulation enters into force from 1 March 2018 and ceases to be effective on 1 July 2019. There is an exception to the date of 1 March 2018 contained in art. 9.2 of the Regulations, according to which "Managers make available answers to requests for information from the Desk through the Operator - Manager Portal, and, if requested by the Desk, send the answers to the end user without prejudice to any data of a reserved nature". Compliance was achieved on 1 June 2018.

Lastly, in addition to any technical meetings and focus groups, resolution 55/2018/E/idr envisages the convening of two technical round tables the first with consumer and user associations, managers and EGAs aimed at further expanding the procedures for the transformation of the mediation bodies currently operating at a local level - different from the joint mediations - into ADR entities referred to in the Consumer Code; the second with the Regions and the EGA, aimed at expanding further initiatives in support of users to be developed in partnership with the Regions.

In compliance with the provisions of art. 4.2 of the Regulation annexed to resolution 55/2018, with Resolution no. 2 of 23 February 2018 the Director of the Protection of Environmental Services approved the document "Single Portal. Project for the expansion of online services to users of the Integrated Water Service. Online procedure for submitting requests for information-complaints-reports-requests to the Desk and related forms", sent by the Desk to ARERA with a communication dated 23 February 2018.

The document supplements and amends resolution 7/DCCA/2015 "Customer Portal. Online procedure for submitting requests for information/complaints and related forms" and illustrates the revision of the customer and user electronic submission procedure prepared by the Desk and taking into account the changes introduced by resolution 900/2017 (extension of the Single Buyer to the water sector) and the aforementioned resolution 55/2018.

In addition to a new module relating to the bonus for light/gas/water services, ARERA resolution 2/2018 also proposes the following new modules related to the water sector:

- information request;
- notifications;
- complaints;
- Help Desk associations.

The methods of accreditation to the portal by the Managers/Operators were the subject of a specific procedure communicated by ARERA to the managers of the IWS, which, in compliance with the aforementioned art. 9.2 of the Regulations contained in Resolution 55/2018, from 1 June 2018 will have to make available the responses to requests for information from the Desk through the Operator - Manager Portal, managed by the Single Buyer. The procedure referred to above is contained in decision no. 9/DACU/2018 of 29 May 2018 containing "Changes to the regulations of the Operator - Manager Portal and to the User Manual referred to in Resolution 1/DCCA/2017 of 5 January 2017", with which the ARERA updated both the Regulation for Portal operation and the User Manual according to the provisions of resolution 55/2018.

With Resolution 56/2018 ARERA launched a fact-finding investigation concerning complaints and reports

sent to ARERA by IWS users, Consumer Associations and local public bodies.

The procedure, which will be completed by 31 December 2018, will concern in particular the most recurrent critical issues communicated to ARERA regarding:

- interruptions to the supply of the service due to causes or methods that do not comply with current legislation and/or user contracts;
- delays in the execution of works/connections associated with transfer and/or take-over procedures;
- failure to comply with the frequency and transparency of billing;
- responses to complaints, notifications and requests for information from users (missed responses, inaccurate/generic responses also sent using standard forms, inadequate assistance from call centre operators).

The managers involved in the survey (which will be conducted by the User Protection Department of environmental services in collaboration with the Accountability and Enforcement Department and the Finance Police for possible audits) will be selected based on the number, frequency and relevance of the content of the reports sent to ARERA regarding service problems. On the basis of additional reports sent during the course of the survey the assessment may be extended to other managers.

As part of the survey, the conditions for sanctions and/or regulatory actions will also be assessed.

Lastly, again with regard to consumer protection, we point out DCO 199/2018/R/com "Guidelines for sectoral efficiency and harmonisation of the regulation regarding out-of-court dispute resolution procedures between customers or end users and operators or managers in the sectors regulated by the authority for energy networks and the environment (TICO)" with which ARERA expresses its orientation on the topic (by offering 14 different ideas) and represents some clarifications that apply to the regulation.

The effectiveness of the interventions subject to consultation will start from 1 January 2019, with the exception of the provisions for the water sector which are proposed to be effective from 1 July 2018 (coinciding with the entry into force of the transitional period pursuant to Resolution 55/18). In particular, the application clarifications noted for the water sector can be summarised in the following points:

- ARERA incorporates the definitions of "end user" and "manager" contained in Annex "A" of resolution 655/2015 (RQSII) which regulates the contractual quality of the IWS;
- the attempt at mediation on a voluntary basis during the transitional period can be made by the final user, including condominium users;
- as regards separate management, always in accordance with the provisions of the RQSII on the subject of contractual services, the Authority proposes (making it a point of reference for

consultation) that the manager of the water supply is the party that receives requests for mediation in cases of separate management, even if the disputes concern sewerage and/or treatment service;

- in terms of increasing the efficiency of the transitional provision of the Mediation Service for the water sector, ARERA established that in order to avoid the convening of meetings at which it is already known that the manager will not be able to participate, the manager must communicate

participation in the procedure within 5 days prior to the scheduled date of the meeting and, in case of refusal or non-confirmation, the procedure is dismissed and the final user is informed of such dismissal (see art. 7 paragraphs 21 and 22 of the document).

Acea Spa submitted a document containing its reflections on the matter through Utilitalia by the date requested (May 4, 2018).

### **Lombardy Regional Administrative Court judgements on actions brought by certain Operators**

In 2013 ACEA Ato2 filed an appeal against Resolution 585/2012 (MTT) and subsequent resolutions that amended and supplemented the contents (Resolutions 88/2013, 73/2013 and 459/2013). The appeal was partially upheld by the regional administrative court of Lombardy 2528/2014, against which both ACEA Ato2 and ARERA have appealed.

In the public hearing held on 29 September 2015, the suspension of the pending judgement and the postponement of the decision to a later date following the outcome of the technical office consultancy arranged for the appeals proposed in 2014 by Codacons and the associations Acqua Bene Comune and Federconsumatori, considering the existence of a relationship of dependence-consequentiality between the decision of the appeal by ARERA and the decision on appeals promoted by the Consumer Associations, focusing in particular on the tariff component relating to the financial charges of the IWS manager, i.e. on the formulas and parameters implemented in art. 18 of Annex A of Resolution ARERA no. 585/2012/R/ldr of 28 December 2012 (MTT), considered as a reintroduction of the criterion of "adequacy of invested capital" that had been eliminated by the outcome of the 2011 referendum.

The expert committee, appointed in October 2015, filed the report on 15 June 2016, concluding that the formulas and parameters aimed at calculating the interest rate of reference are considered reliable and reasonable in terms of national and international regulations and the component of risk coverage considered in the Resolution.

The final hearing in the case was held on 15 December 2016 and sentence no. 2481/2017 was published on 26 May 2017, in which the Council of State accepted the conclusions of the panel of experts and reiterated the full legitimacy of the tariff method adopted by the Authority, as the definition of the single parameters on the basis of the criterion of efficient cost coverage only and also the different calculation of the tax cost in the water sector compared to the electricity and gas sectors tends to eliminate any performance guarantee, leading to the strict coverage of the cost of invested capital and minimising the user costs, in line with the law and the principle of full cost recovery. This ruling therefore rejected the Codacons and Acqua Bene Comune/Federconsumatori appeals noted above, consequently confirming the original sentences. Following this, the date of the next hearing was set before the Council of State to be held on 20 September 2018.

At the date of this report, in addition to the appeal to the Council of State cited at the opening, the other appeals filed by ACEA Ato2 to the Lombardy Regional Administrative Court against Resolution no. 643/2013/R/ldr (MTI) and Resolution 664/2015/R/ldr ARERA (MTI-2) are still pending. With regard to the latter, in February 2018 ACEA Ato2 extended its original appeal, presenting additional reasons against resolution ARERA 918/2017/R/ldr (biennial update of the tariffs for integrated water service) and against Annex A of resolution 664/2015/R/ldr, as amended by the aforementioned resolution 918/2017/R/ldr.

## Trend of Operating segments

performance in the financial years compared in observance of IFRS 8 accounting standards. Note that the results of the “Other” segment include those deriving from ACEA corporate activities as well as inter-sectoral adjustments.

### Economic results by segment

The results by segment are shown on the basis of the approach used by the management to monitor Group

Million euros 30.06.2018	Environment	Commercial and Trading	Overseas	Water	Energy Infrastructures					Engineering and Services	Other		Consolidated Total
					Generation	Distribution	IP	Adjustments	Total		Corporate	Consolidation adjustments	
Revenue	84	822	18	382	40	284	23	(1)	346	37	60	(276)	1,473
Costs	52	778	10	190	15	129	25	(1)	168	27	72	(274)	1,023
<b>Gross operating profit</b>	<b>32</b>	<b>44</b>	<b>7</b>	<b>192</b>	<b>25</b>	<b>155</b>	<b>(2)</b>	<b>-</b>	<b>179</b>	<b>10</b>	<b>(12)</b>	<b>(2)</b>	<b>450</b>
Depreciation/amortisation and impairment charges	15	26	4	85	9	55	-	-	64	1	5	-	199
<b>Operating profit/(loss)</b>	<b>16</b>	<b>18</b>	<b>4</b>	<b>107</b>	<b>16</b>	<b>101</b>	<b>(2)</b>	<b>-</b>	<b>115</b>	<b>9</b>	<b>(16)</b>	<b>(2)</b>	<b>251</b>
Investments	9	6	2	156	5	100	-	-	105	-	3	-	282

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

Million euros 30.06.2017	Environment	Commercial and Trading	Overseas	Water	Energy Infrastructures					Engineering and Services	Other		Consolidated Total
					Generation	Distribution	IP	Adjustments	Total		Corporate	Consolidation adjustments	
Revenue	80	778	18	354	35	254	34	-	324	39	59	(270)	1,383
Costs	49	737	11	182	13	119	32	-	164	31	65	(270)	969
<b>Gross operating profit</b>	<b>31</b>	<b>41</b>	<b>7</b>	<b>172</b>	<b>22</b>	<b>136</b>	<b>2</b>	<b>-</b>	<b>160</b>	<b>9</b>	<b>(6)</b>	<b>-</b>	<b>414</b>
Depreciation/amortisation and impairment charges	15	31	3	72	9	61	4	-	74	1	23	(1)	219
<b>Operating profit/(loss)</b>	<b>16</b>	<b>9</b>	<b>4</b>	<b>100</b>	<b>13</b>	<b>74</b>	<b>(2)</b>	<b>-</b>	<b>86</b>	<b>8</b>	<b>(29)</b>	<b>1</b>	<b>195</b>
Investments	8	8	2	122	11	94	-	-	105	-	6	-	252





## Environment Operating Segment

### Operating figures, equity and financial results for the period

Operating figures	U.M.	30/06/18	30/06/2017	Variation	Var %
WTE conferment	kTon	237	232	5	2.1%
Conferment to CDR production plant	kTon	0	0	0	n.s.
Net Electrical Energy transferred	GWh	178	175	3	17.2%
Waste coming into Orvieto plants	kTon	46	44	2	4.2%
Waste Recovered/Disposed of	kTon	269	273	(4)	(1.5%)
of which					
Incoming waste composting plants, sludge and liquids disposed of	kt	227	234	(7)	2.9%
Slag and Ash produced by WTE	kt	42	39	3	6.6%

Equity and financial results (million euros)	30/06/18	30/06/2017	Variation	% Variation
Revenue	83.9	80.4	3.5	4.4%
Costs	52.1	49.0	3.1	6.2%
Gross operating profit (EBITDA)	31.8	31.3	0.4	1.4%
Operating profit/loss (EBIT)	16.4	16.1	0.4	2.2%
Average number of personnel	360	350	11	3.1%

Financial results (million euros)	30/06/18	31/12/2017	Var	Var %	30/06/2017	Var	Var %
Investments	8.6	15.4	(6.7)	(43.9%)	8.5	0.1	1.7%
Net financial debt	204.8	195.3	9.4	4.8%	203.4	1.3	0.7%

Gross operating profit (EBITDA) (million euros)	30/06/18	30/06/2017	Variation	% Variation
Gross operating profit (EBITDA) ENVIRONMENT Area	31.8	31.3	0.4	1.4%
Gross operating profit (EBITDA) GROUP	449.9	414.1	35.8	8.7%
Percentage weight	7.1%	7.6%	(0.5 p.p.)	

The Segment closed the first half of 2018 with an EBITDA of 31.8 million euros (+1.4%). This trend is mainly attributable to the lower performance recorded by Aquaser (- 0.7 million euros), primarily due to the persistence of regulatory uncertainty in the sludge recovery business and by Acque Industriali (- 0.5 million euros), more than offset by the positive effects of Acea Ambiente (+ 1.4 million euros) and Iseco (+ 0.2 million euros).

The average number of staff as at 30 June 2018 was 360, 11 more than the same period of the previous year. The growth is mainly attributable to **Acea Ambiente**.

### Significant events in the first half of 2018

The acquisition of 51% of Acque Industriali was carried out at the beginning of the year as part of the wider reorganisation programme of the Industrial Environment Segment. With this transaction, consequent line-by-line consolidation was carried out (the companies were previously consolidated under the equity method, being fully controlled by Acque). In 2017 Iseco also entered the Segment, acquired at the

As regards the single local units, it should be noted that:

The Segment's investments amount to 8.6 million euros and are in line with the same period of the previous year (+ 0.1 million euros). Investments in the first half of 2018 mainly refer to the slag extraction system located in San Vittore, to works by the waste treatment plant and biogas production of the Orvieto landfill.

The financial indebtedness of the Segment stands at 204.8 million euros, + 1.3 million euros compared to 30 June 2017 and + 9.4 million euros compared to 31 December 2017. The increase is mainly due to the dynamics of the operating cash flow.

end of February as part of the acquisition of the TWS Group (Technologies for Water Services).



**Terni (UL1):** the conferment of the pulper waste has ensured the fuel requirements for the entire period and the expected performance was confirmed in terms of both the pre-treatment of waste and the production of electrical energy. Following the presentation of a new authorisation request by Acea Ambiente aimed at obtaining an expansion of the category of non-

**Paliano (UL2):** following the Conference of Decision Services for the issue of the Integrated Environmental Authorisation, Acea Ambiente sent the final project to the bodies involved. Procedures for the submission of building permits have been launched which, in any case, will merge into the AIA authorisation title of the Lazio Region.

On 18 October 2017 the City of Paliano, Office of Public Works, Maintenance and Spatial Planning

**San Vittore del Lazio (UL3):** the waste-to-energy plant is destined for the production of electricity from renewable sources, and in particular from RDF produced by the treatment of urban waste exclusively from the territory of the Lazio Region. During the

**Orvieto (UL4):** in compliance with that stated in the Integrated Environmental Authorisation and the contract signed with the ATI and municipalities in the reference area, the conferment of non-hazardous urban and special waste continued, starting recovery and disposal activities on time. As regards the project submitted in 2014 for the morphological adjustment of the site and optimisation of the volumes and capping of the landfill, it should be noted that after a EIA/IEP preliminary investigation process that continued until January 2016, the Umbria Region has interrupted the verification phase without reason: Acea Ambiente has initiated appropriate legal proceedings.

Furthermore, in May 2017, the Company again appealed the judicial procedures for the annulment, subject to suspension, of the effectiveness of the Regional Council's resolution of the Umbria Region and of all the prerequisites, with which the Body approved the resolution with which it considered insurmountable the dissent declared by the Municipality of Orvieto in the context of the EIA - IEP coordinated procedure related to the project "Morphological adaptation of the site and optimisation of volumes and top capping - Orvieto landfill, Pian del Vantaggio no. 35/A".

In the last months of June, July and September, a number of institutional discussions were held at the headquarters of the Umbria Region to verify every possible project evolution to enable the site to be

**Monterotondo Marittimo (UL5):** in 2017 the executive design and construction of the plant were awarded in the anaerobic/aerobic configuration with a total capacity of 70,000 t/year. During the month of May, construction activities began for the construction of the new plant by the entity that won the tender..

With reference to the composting activities carried out at the current plant, on 31 December 2017 the transfer

hazardous waste to be launched for energy recovery, the fifth Service Conference was held on 19 December 2017, which concluded the AIA verification phase and in fact initiated the verification phase of the Environmental Impact Assessment procedure at the pertinent offices of the Umbria Region. The relative process is still ongoing.

expressed an "unfavourable opinion" at the AIA Decision Conference regarding the compatibility of the RDF production plant located in the town of Castellaccio in the Municipality of Paliano. The Company therefore appealed to the Administrative Court having jurisdiction for the protection of its rights. petitions for obtaining the building permit were presented, which will allow the demolished buildings to be constructed with autonomous procedure.

period of reference the three lines of the plant ensured regular operations, both in terms of electricity produced and in terms of RDF used for energy recovery.

evaluated for the purposes of implementing the Regional Urban Waste Management Plan and in compliance with the indications contained in the Regional Deliberations approved up to now.

The discussions allowed verifying the solutions most suitable for overcoming the dissent expressed by some institutions with regard to the project in question. In this sense, the Company presented a design change that allowed the continuation of the environmental compatibility verification activities during the Environmental Impact Assessment. The work of the Services Conference was restarted and the conference was convened for the day 23 April 2018. Following the negative opinion issued by the Municipality of Orvieto, the Umbria Region convened the Coordination Committee on environmental assessments for 21 May 2018. Here the Regional Council, on the basis of the Committee's findings, expressed a favourable opinion on the issue of the EIA authorisation, thus overturning the dissent of the Municipality of Orvieto.

The Umbria Region therefore issued a positive opinion on the Environmental Impact Assessment of the project under discussion, issuing DD no. 5559 on 1 June 2018.

As part of the IEP proceeding, the Decisional Conference ended on 13 June 2018 with a successful outcome. Therefore, the Company is waiting for the Region to issue the new Integrated Environmental Authorisation of the UL4 site.

of waste was interrupted and the waste in the plant was completely treated. The plant suspended activities by the end of April.

This suspension is part of the current authorisation provisions and has become necessary also in relation to the operational needs that do not allow for the coexistence of operations with the construction of the new plant.

**Sabaudia (UL6):** during the period of reference, the plant underwent important redevelopment works that involved various areas.

The treatment activities were not restarted during the period of reference, also due to the requests made by the Lazio Region which, in the course of the review process, deemed it necessary to obtain some additional authorisations for water. In any case the Lazio Region has posited the resumption of composting activities pending the receipt of additional authorisations, excluding the restoration of liquid waste treatment activities until these permits are given.

**Aprilia (UL7):** an urgent preventive seizure of the entire composting plant took place on 14 December 2017 based on the results of an audit by the Control Authorities that found the presence of strong odours coming from the production cycle, creating and annoyance for the people who live in the immediate vicinity of the plant.

Subsequently, the Lazio Region notified a provision of formal notice to comply, prescribing the execution of several activities aimed at overcoming the critical issues encountered.

Acea Ambiente, while considering that it is able to prove that it has implemented correct management of the plant in compliance with the IEP guidelines, is fulfilling all the prescriptions given and trusts in a forthcoming resolution of the current problems. In this

In this regard, therefore, limited to the composting section of the plant under discussion, with resolution no. G06449 of 21 May 2018 the Lazio Region issued an update of the previous IEP which will be effective until the ruling by the competent authority on the review process of the IEP issued by DD no. A4099 of 1 December 2008 and above, with this provision allowing a partial resumption of plant activities.

The EIA procedure was completed in 2017 and it is therefore expected that the environmental compatibility assessment will be issued, after which the process for the issue of the IEP for the new plant configuration will take place.

In this regard, it should be noted that by provision dated 12 April 2018, the provisional use of the plant was permitted with the authorisation to restart the contributions.

In this regard, note that the works for the construction of the front part aimed at limiting the odour emissions in the waste discharge phase have been completed. The Company has already requested the inspection of the Lazio Region, so that the activities and conferments through the new structure can be carried out as soon as possible.

With respect to this same site, works are currently ongoing for the realisation of the new plant configuration, which will enable the current treatment capacity to be increased with the introduction of an energy recovery section.

## Commercial and Trading Operating Segment

### Operating figures, equity and financial results for the period

Operating figures	U.M.	30/06/18	30/06/2017	Variation	Var %
Electrical Energy sold - Free	GWh	1,852	2,092	(240)	(11.5%)
Electrical Energy sold - Protected	GWh	1,234	1,316	(82)	(6.2%)
Electrical Energy - No. Free Market Customers (P.O.D.)	N/000	325	315	10	3.1%
Electrical Energy - No. Protected Market Customers (P.O.D.)	N/000	865	914	(49)	(5.4%)
Gas Sold	Msm <sup>3</sup>	73	57	16	27.8%
Gas - No. Free Market Customers	N/000	169	166	3	1.6%

Equity and financial results (million euros)	30/06/18	30/06/2017	Variation	% Variation
Revenue	822.2	777.9	44.2	5.7%
Costs	778.0	737.3	40.7	5.5%
Gross operating profit (EBITDA)	44.1	40.6	3.5	8.6%
Operating profit/loss (EBIT)	18.3	9.3	9.0	96.3%
Average number of personnel	465	476	(11)	(2.2%)

Financial results (million euros)	30/06/18	31/12/2017	Var	Var %	30/06/2017	Var	Var %
Investments	5.5	19.4	(13.8)	(71.5%)	7.9	(2.4)	(30.1%)
Net financial debt	5.6	(4.9)	10.6	n.s.	63.1	(57.5)	(91.1%)

Gross operating profit (EBITDA) (million euros)	30/06/18	30/06/2017	Variation	% Variation
Gross operating profit (EBITDA) Commercial and Trading Segment	44.1	40.6	3.5	8.6%
Gross operating profit (EBITDA) GROUP	449.9	414.1	35.8	8.7%
Percentage weight	9.8%	9.8%	0.0 p.p.	

The Segment, responsible for the energy management policies of the Group and the management and development of the sale of electricity and gas and the related customer reporting activities, closed the first half of 2018 with an EBITDA of 44.1 million euros, an increase of 3.5 million euros compared to the same period in 2017.

The increase is almost entirely attributable to Acea Energia (+ 3.6 million euros compared to the first half of 2017). This change is due to the combined effects of lower energy margins (- 6.8 million euros) offset by lower operating costs (- 5.9 million euros) to which must be added the economic effects related to the first application of the new international standard IFRS15. This last effect mainly led to a reclassification of agents' costs.

With regard to the effects on the primary gross margin, the reduction recorded by **Acea Energia** is mainly due to the decrease in the **free market** margin (- 5.6 million euros) and the margin of the **gas market** (- 1.2 million euros due to higher procurement costs). The margin of the **protected market** is substantially in line with the first half of 2017 (- 0.1 million euros). The reduction in the free market margin is due to the contraction in volumes of electricity sold (- 11.5% mainly in the B2B segment), to the lower margins in the mass market segment and to the regulatory review of imbalances. However, we note an increase in the

number of customers, with particular reference to the small business and mass market segments.

The operating result shows an increase of 9.0 million euros and recovered about 13 million euros compared to the change in EBITDA mainly due to the reduction in impairments also following the better collection performance.

With reference to the workforce, the average number at 30 June 2018 was 465 units, down compared to the same period last year by 11 units. The primary contributors to this change are Acea8cento (- 7) and Acea Energia (- 3).

Investments in the Segment amount to 5.5 million euros and show a reduction of 2.4 million euros compared to the same period of the previous year, also as a result of the information systems relating to the Acea2.0 project going live.

Net financial debt at the end of the first half of 2018 stood at 5.6 million euros, down 57.5 million euros compared to 30 June 2017, while a deterioration of 10.6 million euros was recorded with reference to the end of 2017. This trend derives from the dynamics of operating cash flow, influenced by the improvement in collection performance and lower payables for volumes of energy purchased.

## Significant events in the first half of 2018

### Energy Management

**Acea Energia** is responsible for performing the "Energy Management" necessary to Group operations, particularly with regard to sales and production. The Company also liaises with the Energy Market Operators (GME) and with Terna. In relation to the institutional entity Terna, the Company is the input Dispatch User for Acea Produzione and other companies in the ACEA Group. It performed the following main activities in the period:

- the optimisation and assignment of electricity produced by the Tor di Valle and Montemartini thermoelectric plants and by the S. Angelo hydroelectric plant,

- the negotiation of fuel procurement contracts for the power generating plants,
- the procurement of natural gas and electricity for the sales company to sell to end customers,
- the optimisation of the supply portfolio for the procurement of electricity and management of the Energy segment companies' risk profile.

In the first six months of 2018, Acea Energia S.p.A. purchased a total 5,939 GWh of electricity from the market, of which 5,082 GWh through bilateral agreements and 857 GWh through the Power Exchange, for resale to free market end users and the optimisation of energy flows and purchases' portfolio.

### Electricity distribution

As regards the sales market, the refocusing of **Acea Energia's** sales strategy continued in the period with a more capillary and attentive selection of customers which tends to favour contracting small (residential and micro business) customers.

In the first half of 2018, Acea Energia sold a total of 1,234 GWh electricity on the Enhanced Protection market, a decrease of 6.2% on a trend basis. The number of withdrawal points totalled 864,619 (914,010 at 30 June 2017). Sale of electricity on the Free Market

amounted to 1,671 GWh for Acea Energia S.p.A. and 181 GWh for the sales Joint Venture, for a total 1,852 GWh, a decrease of 11.5% on the same period last year. The reduction mainly concerned the B2B segment and derives from a strategy of consolidation in the small business and mass market segments.

In addition, the Company sold 72.9 million Sm<sup>3</sup> of gas to end users and wholesalers in the first half of 2017, concerning 168,873 re-delivery points; these were 166,272 at 30 June 2017.

With regard to the proceedings started by the AGCM, the main updates are described below:

**Proceeding PS9815 of the AGCM antitrust authority for unsolicited activations:** at the end of the month of August, the Court of Justice suspended the discussion of the judgement in question, pending the definition of the preliminary questions raised by the

Council of State in a different ruling, with reference to the application of the Directive on unfair commercial practices in the electronic communications sector.

The Court of Justice has not accepted the request of the Lazio Regional Administrative Court to implement an "accelerated" procedure for the settlement of the preliminary question.

**Proceeding PS9354 of the AGCM antitrust authority for unfair trade practices:** during the month of February 2017 the Company paid the fine established by the AGCM, stating that the payment does not in any way constitute an admission of guilt or waive legal action.

On 4 July 2017 the Company sent a note to the Authority containing some clarifications requested by the AGCM specifically concerning the process for suspension of solicitation procedures and consequent starting of the activities aimed at recovering the credit in the event of complaints concerning billing adjustments.

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

With a note dated 15 September 2017, Acea Energia provided a timely response to the aforementioned additional requests by the AGCM, which on 7 December 2017 replied with an acknowledgement of Acea Energia's measures to comply with the Authority's sanctions, deeming them substantially adequate. In this regard, the Authority requested a report no later than 30 June 2018 regarding the measures definitively taken by that date to complete implementation of the Acea 2.0 System, for full compliance with the above-mentioned sanctions. Within the prescribed period, the company submitted the report requested by the Authority concerning the explanation of the definitive measures implemented by the Company in accordance with the measure in question.

**AGCM A513 procedure for abuse of a dominant position:**

in the month of July 2017, the first application for access to the documents having been accepted by the AGCM antitrust authority, Acea Energia was able to view the reports received by the AGCM and that led to the of the proceeding in question. In September the Company issued a second request to access the documents, which was accepted, allowing the Company to also view the documentation drawn up by the AGCM at the offices of some agencies that carry out telemarketing activities.

On 15 September 2017 at the AGCM headquarters, the hearing was held involving some representatives of the companies involved in the proceeding, Acea S.p.A. and Acea Energia, during which the AGCM officials requested clarification regarding some audit documents.

On 25 September 2017 Acea Energia and Acea S.p.A. together presented a proposal of commitments aimed at closing the proceedings for the alleged infringements.

On 4 October 2017, Acea Energia and Acea S.p.A. provided written responses to some of the requests for information made by the antitrust authority during the hearing held on 15 September 2017, which required further review.

On 16 November 2017 the antitrust authority notified Acea Energia of the formal rejection of the commitments presented jointly by it and Acea S.p.A. on 25 September 2017, as the Authority expressed its interest in proceeding with the assessment of any infringements of the regulations for the protection of competition put in place by a corporate Group integrated in the distribution and retail sale of electricity to low-voltage domestic and non-domestic

**Proceeding PS9974 of the AGCM antitrust authority for unfair trade practices:**

on 30 May 2018, the AGCM served a note (also called "Moral Suasion") concerning an invitation to eliminate any possible commercial misconduct pursuant to art. 4, paragraph 5 of the "Regulation on preliminary investigations concerning misleading and comparative advertising, unfair trade practices, violations of consumer rights in contracts, violation of the prohibition of discrimination and unfair terms". In fact, the Authority noted that it had received complaints from consumers and micro-enterprises regarding the conduct of certain operators in the sector that during transfer or takeover of the utilities would only activate the supply if the new party agreed to pay any outstanding amounts (so-called "past arrears") from the previous holder of the supply contract. Therefore the AGCM requested that within 30 days from receipt of

end users, in a market in transition towards the definitive elimination of the system of enhanced protection and therefore towards the definition of new competitive alignments.

On 18 January 2018 the AGCM carried out a further audit with the support of the Guardia di Finanza tax police.

During the inspection the Authority served a provision of objective and subjective extension of the A/513 procedure. Specifically, the antitrust authority deemed it necessary to extend the investigation both objectively with regard to the availability and exploitation by Acea Energia of inside information and subjectively to the electricity distribution company areti S.p.A., vertically integrated with Acea Energia, as a party that transfers this information to the sister.

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

On 9 February 2018, following the extension granted by the AGCM, Acea Energia filed an application for confidentiality pursuant to art. 13, paragraph 7 of Italian Presidential Decree no. 217/98 regarding the documents acquired during the audit. It should be noted that on 16 April 2018 the Company was able to examine further documents relating to the proceeding in question. Finally, it should be noted that the Authority announced that it had accepted the extension of the deadline for conclusion of the proceeding to 31 October 2018.

said note elements be produced demonstrating that the procedure implemented by the Company, in the event of request for transfer or takeover in the case of previous arrears, does not involve any request for payment by the new party or an unjustified delay in the fulfilment of the necessary obligations. The Authority also requested to explicitly specify in the Contractual Conditions, on the website and in the FAQs the procedure adopted and any documentation required to comply with the request for transfer or takeover.

On 2 July 2018, Acea Energia, as the company of the Acea Group that deals with the sale of electricity to end users with respect to which the activities of "Moral Suasion" seems to have been reported, submitted a timely acknowledgement to the AGCM regarding the requests made by the Authority.

## Overseas Operating Segment

### Operating figures, equity and financial results for the period

Operating figures	U.M.	30/06/18	30/06/2017	Variation	Var %
Water Volumes	Mm <sup>3</sup>	28.0	21.8	6.2	28.4%

Equity and financial results (million euros)	30/06/18	30/06/2017	Variation	% Variation
Revenue	17.8	18.2	(0.3)	(1.7%)
Costs	10.5	11.4	(0.9)	(8.1%)
Gross operating profit (EBITDA)	7.3	6.7	0.6	9.2%
Operating profit/loss (EBIT)	3.7	3.8	(0.2)	(4.0%)
Average number of personnel	606	590	16	2.7%

Financial results (million euros)	30/06/18	31/12/2017	Var	Var %	30/06/2017	Var	Var %
Investments	2.2	5.2	(3.0)	(57.3%)	2.5	(0.3)	(10.4%)
Net financial debt	6.5	7.4	(0.9)	(12.4%)	10.1	(3.6)	(35.9%)

Gross operating profit (EBITDA) (million euros)	30/06/18	30/06/2017	Variation	% Variation
Gross operating profit (EBITDA) Overseas Segment	7.3	6.7	0.6	9.2%
Gross operating profit (EBITDA) GROUP	449.9	414.1	35.8	8.7%
Percentage weight	1.6%	1.6%	0.0 p.p.	

The Segment, incorporated following the organisational changes in May 2017 (it was previously included in the Water Segment), currently includes the water companies managing the water service in Latin America. Specifically:

- Aguas de San Pedro (Honduras), 60.65% owned by the Group as of October 2016, when it was consolidated using the line-by-line method. The Company serves its customers in San Pedro Sula;
- Acea Dominicana (Dominican Republic) wholly owned by the Group, provides service to the local municipality named CAASD (Corporation Aque ducto Alcantariado Santo Domingo);
- AguaAzul Bogotá (Colombia), 51% owned by the Group and consolidated using the equity method as of the 2016 financial statements, due to a change in the composition of the Board of Directors

- Consorcio Agua Azul (Peru) is controlled by the Group which owns 25.5% of it and provides water and adduction services in the city of Lima.

This Segment closed the first half of 2018 with an EBITDA of 7.3 million euros, substantially in line with the same period of the previous year (6.7 million euros in 2017).

The average workforce at 30 June 2018 stood at 606 units and increased by 16 units compared to the same period of the previous year due to 8 units in Aguas de San Pedro and 8 units in Acea Dominicana.

Net debt at 30 June 2018 amounted to 6.5 million euros, an improvement of 3.6 million euros compared to the closure of 2017. This change is attributable to Aguas de San Pedro (+ 2.6 million euros) and to Acea International (+ 1.3 million euros).

### Significant events in the first half of 2018

The Overseas Operating Segment is affected by the reorganisation of investments abroad which should lead Acea International S.A. to play a management and coordination role. With this in mind, the transfer of the shareholdings that ACEA held in Acea Dominicana S.A.

The role of Acea International is increasingly directed to the execution of scouting and monitoring activities in Central and South America that have the purpose of presenting events of interest to various initiatives. It should be noted that during the month of July, the management of the corrective maintenance of the water and sewerage system

and Aguas de San Pedro to Acea International took place during the first half of 2017, to which is added the transfer of shareholdings that ACEA held in Consorcio Agua Azul S.A. This last transaction took place in February 2018.

in the south area of Lima was awarded to Acea International.

Acea Dominicana and Consorcio Agua Azul (CAA) are also included in this area.

The former carries out commercial management service in the northeast part of Santo Domingo, while



the latter has built and manages the water supply system in the northern part of Lima.

## **Water Operating Segment**

### Operating figures, equity and financial results for the period

Operating figures*	U.M.	30/06/18	30/06/2017	Variation	Var %
Water Volumes	Mm <sup>3</sup>	210	208	2	1.0%
Electrical Energy Consumed	GWh	198	217	(19)	(8.7%)
Sludge Disposed of	kTon	52	80	(28)	(34.7%)

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

Equity and financial results (million euros)	30/06/18	30/06/2017	Variation	% Variation
Revenue	382.0	354.5	27.6	7.8%
Costs	189.7	182.0	7.7	4.2%
Gross operating profit (EBITDA)	192.3	172.4	19.9	11.5%
Operating profit/loss (EBIT)	107.3	100.3	7.0	7.0%
Average number of personnel	1,794	1,774	20	1.1%

Financial results (million euros)	30/06/18	12/31/2017	Var	Var %	30/06/2017	Var	Var %
Investments	156.4	271.4	(115.0)	(42.4%)	121.9	34.6	28.4%
Net financial debt	986.4	921.2	65.2	7.1%	862.7	123.8	14.4%

Gross operating profit (EBITDA) (million euros)	30/06/18	30/06/2017	Variation	% Variation
Gross operating profit (EBITDA) Water Segment	192.3	172.4	19.9	11.5%
Gross operating profit (EBITDA) GROUP	449.9	414.1	35.8	8.7%
Percentage weight	42.8%	41.6%	1.1 p.p.	

EBITDA for the Segment stood at 192.3 million euros at 30 June 2018, an increase of 19.9 million euros compared to the first half of 2017 (+11.5%). Specifically, performance in the Segment is influenced by: (i) ACEA Ato2, ACEA Ato5, GORI and Water, which show increases of 6.7 million euros, 4.0 million euros, 4.0 million euros and 3.2 million euros respectively.

The period revenue was valorised on the basis of the determinations by the EGA and/or ARERA; as usual, it includes the estimate of the adjustment concerning the passing costs. As is known, as of the second regulatory period, the tariffs can also include the components concerning commercial quality. Under specific conditions, the Managers may be recognised, alternatively, the Opex<sub>qc</sub> component or the “contractual quality” award; the latter is recognised to

The operating profit is affected by the increase in amortisations (15.2 million euros) consistently with the trend in investments and the entry into operation of the new functions of the Acea2.0 programme and the greater impairments (+ 3.0 million euros). Provisions for the period (4.6 million euros) decreased by 4.6 million euros, mainly due to the effects deriving from the reduction in the provision for restoration charges made in the previous year.

Net debt of the Segment at 30 June 2018 was 986.4 million euros, an increase of 115.0 million euros compared to 31 December 2017 and a decrease of 34.6 million euros compared to 30 June 2017. The

the Manager if the indicators identified for metering and monitoring (as of 1 July 2016) exceed the thresholds established in ARERA resolution 655/2015. The ACEA Ato2 revenue includes the amount of 15.7 million euros, representing the best estimate of the quality award due for the first half of 2018. It should also be noted that the penalties for commercial quality amount to 0.6 million euros. Below is a table summarising the status of the tariff proposals.

The average workforce as at 30 June 2018 decreased by 20 units mainly due to the deconsolidation of the associate Gori Servizi, which reduced the number of employees in the segment by more than 60 resources.

decrease compared to 31 December 2017 is mainly related to: (i) ACEA Ato2, substantially due to the lower liquidity resulting from a reduction in the company's liquid assets primarily used to finance the investments made in the period; (ii) to ACEA Ato5 as a result of a worsening due to higher debt exposure.

Investments in the Segment were 156.4 million euros and were mainly attributable to ACEA Ato2 for over 138.0 million euros and 16.7 million euros to ACEA Ato5. The main investments during the period include those relating to the work carried out for the reclamation and expansion of the water and sewerage pipes of the various municipalities, the extraordinary

maintenance of the water stations and the work on the treatment plants and the application map of Acea2.0.

The contributions to the EBITDA of the **water companies** valued under the equity method are listed below:

(million euros)	30/06/18	30/06/2017	Variation	% Variation
Publiacqua	3.8	4.2	(0.4)	(9.5%)
Acque Group	7.5	4.1	3.4	82.9%
Acquedotto del Fiora	2.3	1.4	0.9	64.3%
Umbra Acque	0.2	0.3	(0.1)	(33.3%)
Gori	2.6	(1.4)	4.0	n.s.
Nuove Acque and Intesa Aretina	0.3	0.3	0.0	0.0%
Gori Servizi	0.0	(0.1)	0.1	n.s.
Ingegnerie Toscane	0.0	0.7	(0.7)	n.s.
GEAL	0.5	0.5	0.0	0.0%
<b>Total</b>	<b>17.2</b>	<b>10.0</b>	<b>7.2</b>	<b>72.0%</b>

## Significant events in the first half of 2018

### Lazio - Campania area

#### ACEA Ato2

The Integrated Water Service in ATO 2 Central Lazio - Rome started on 1 January 2003. The ATO gradually took over services from the Municipalities and 79 of

the total 112 municipalities in the ATO are currently managed. The overall situation of the managed area is shown below.

Acquisitions	No. of municipalities
Municipalities fully acquired into the Integrated Water Service:	79
Municipalities partially acquired, for which ACEA ATO 2 provides one or more services:	16
Municipalities with Protected Entity	1
Municipalities in which ACEA Ato2 provides no services	8
Municipalities that declared they do not wish to be part of the Integrated Water Service*	8

\* Municipalities with less than 1,000 inhabitants which had the right to express their will in accordance with paragraph 5 of Italian Legislative Decree 152/06.

The Company provides the full range of **drinking water distribution** services (collection, abstraction, retail and wholesale distribution). Water is abstracted from sources on the basis of long-term concessions. Water sources supply approximately 3,900,000 residents in Rome and Fiumicino and in more than 60 Municipalities in the Lazio region, via five aqueducts and a system of pressurised pipes. Three further sources of supply provide non-drinking water used in the sprinkler system of Rome.

As at 30 June 2018, ACEA Ato2 manages a total of approximately 6,749 kilometres of sewerage network, 600 sewerage pumping stations - of which 195 in the Roma Capitale area - and a total of 172 waste treatment plants - 32 of which in the Roma Capitale area - for a total quantity of treated water equal to 292

million m<sup>3</sup> (data referring to managed treatment plants only).

The company manages the waste treatment system and pumping stations that serve the network and sewage trunk lines.

During the year the main treatment plants treated a volume of water equal to about 292 million m<sup>3</sup>, with an increase of about 4% compared to the same period of the previous year - about 280 million m<sup>3</sup>, attributable to the greater rainfall that affected the area.

The sharp decrease is mainly due to the current crisis situation in the management of the placement of final waste, with particular reference to the sludge produced by the treatment of urban wastewater, whose production compared to the same period of the previous year has been halved, going from 59,000 tonnes in 2017 to about 34,000 tonnes. The decrease is also due to the start-up in June of the dryer in North



Rome which led, in this month alone, to a decrease of about 2,200 tonnes.

During 2017 there was an increase in the number of analyses performed by ACEA Elabori (certified external laboratory). The increase in the determinations and analyses is attributable to the greater presence of the managed treatment plants and the related sewerage systems. This specific choice results in a more specific control over the managed territory.

At 30 June 2018, the Company manages a total of 600 sewage pumping stations, including 195 in the municipality of Rome, and a total of 172 waste treatment plants, including 32 in the municipality of Rome.

With regard to the problem concerning the seizure of the treatment plants, the plants in Rome North, Marcellina Fonte Tonello and Colubro are still under seizure. The plant in Palestrina Carchitti was temporarily released from seizure when the plant was

#### **ACEA Ato5**

ACEA Ato5 provides integrated water services on the basis of a thirty-year agreement signed on 27 June 2003 by the company and the Frosinone Provincial Authority (representing the Authority for the ATO comprising 86 municipalities). In return for being awarded the concession, ACEA Ato5 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

With regard to the acquisition of the plants relating to the management of the Municipality of Paliano, following the hearing of 7 December 2017 the administrative court of Latina upheld the appeal brought by the Company against the Municipality of Paliano, which for more than 10 years has unlawfully opposed the transfer of the service to the Company in order to preserve the continuation of the management of its investee company AMEA S.p.A.

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

However, the Mayor of the City of Paliano has communicated the will of the City of Paliano to appeal to the Council of State against the ruling of the regional administrative court, and therefore has not proceeded with the transfer of the service, waiting for the Council of State to decide on the appeal.

The Operational Technical Secretariat of the Area Authority, following the warning issued by ACEA Ato5, convened the parties - on 23 January 2018 - to "undertake the activities related to the delivery of the infrastructure of the water service". At the aforementioned meeting, not being present either the Municipality of Paliano in the person of the Director of

made operational and the treatment process verified, while the "Botticelli" treatment plant was subject to a seizure order based on the assumption of the revocation of the disposal permit from part of the Metropolitan City of Rome Capital. The aforementioned seizure provides for the right to operate, conditional on the execution of certain activities that the Company has performed, while concurrently disputing the act of revocation of the disposal permit. In July 2017 the Public Prosecutor's Office of the General Court of Tivoli notified the defendants in the proceedings of the notice of completion of the preliminary investigations. During the first half of 2018 there were no further seizure orders. As regards the proceedings of the Antitrust Authority started against ACEA Ato2 in the spring of 2015 and ended with a monetary administrative sanction of 1.5 million euros being invoked, it should be noted that the legal action taken by the Company is currently pending.

involves a total of 86 municipalities (including the Municipalities of Conca Casale and Rocca D'Evandro, managed out of scope - the management in the Municipality of Paliano still remains to be acquired) for a total population of about 480,000 inhabitants, a population served of about 470,000 inhabitants, with a service coverage of approximately 97% of the territory. The number of users is 186,377.

the Integrated Water System, or the Company AMEA S.p.A. in the person of its Legal Representative, the Operational Technical Secretariat of ATO5 Southern Lazio-Frosinone and ACEA Ato5 decided to present a formal petition to the Lazio Regional Administrative Court - Latina section - to proceed with the appointment of the acting Commissioner who would act on behalf of the defaulting Municipality of Paliano and carry out the activities necessary to allow the delivery of the water service infrastructure in the Municipality of Paliano to ACEA Ato5. Furthermore, ACEA Ato5 immediately informed the Public Prosecutor of Frosinone and the Court of Auditors of what happened, inviting them to ascertain any responsibilities, also in relation to the evident violation - already noted by the regional administrative court in the above judgement - of art.153 of Italian Legislative Decree no.152/2006 and of the corresponding fiscal and criminal liability. At the same time, it invited all the Administrations and Supervisory Authorities to take any action necessary within their remit to restore the violated legality - repeating the request already made in previous communications to the Area Authority and the sector regulation Authority to initiate the appropriate checks on the legitimacy of the water tariffs applied until then in the Municipality of Paliano.

On 16 February 2018 the Municipality of Paliano filed an appeal to the Council of State, whose hearing in the council chamber was held on 5 April 2018. At the outcome of the aforementioned hearing, in response to the request for clarification by the President of the Panel of Judges regarding the danger in delay for the new regional regulatory framework and the establishment of ATO 6, to which the Municipality of Paliano belongs, it was suggested that the Company could wait for the ruling on the matter before proceeding with the execution of the regional administrative court's decision. Therefore, the hearing was set for 27 September 2018. Pending the definition of the judgement, the Operational Technical Secretariat has convened the interested parties - ACEA Ato5, the Municipality of Paliano and AMEA - for the day 4 June 2018 in order to comply with the requirements of the Ministry. However, given the absence of both the Municipality of Paliano and AMEA at the aforementioned meeting, the Operational Technical Secretariat sent its report to the Lazio Region, awaiting the measures that the Regional Administration intends to take.

Finally, on 2 July 2018, the Company was notified as a counterparty of the Municipality of Paliano's appeal of the Lazio Regional Administrative Court - Latina section's provision of 27 April 2018 with which AATO 5 rejected the safeguard petition presented by the aforementioned Municipality.

With regard to the transfer of the management of the IWS in the territory of the Municipality of Atina, at the beginning of the year several meetings took place at the Operational Technical Secretariat of ATO5, however since the Municipality of Atina had still failed to fulfil its obligation - as ascertained by the administrative judge with sentence no. 356/2013 confirmed by the Council of State with sentence no. 2742/2014 "for the physical delivery of the works and plants belonging to the IWS" - the Operational Technical Secretariat of ATO 5 Southern Lazio-Frosinone and ACEA Ato5 decided in the meeting of 23 January 2018 to urge the President of the Province of Frosinone, as acting Commissioner appointed by the Lazio Regional Administrative Court - Latina section with sentence no. 356/2013 of 21 March 2013, to implement all the appropriate initiatives, activities and all appropriate and/or necessary actions to allow the conclusion of the transfer of the water and sewerage plants and facilities pertaining to the IWS in the municipal territory of Atina to ACEA Ato5.

The Company immediately sent a formal request to the President of the Province of Frosinone, as acting Commissioner, to act on behalf of the defaulting Municipality of Atina to "proceed with the

The drinking water system comprises supply, abstraction and distribution plants and networks that use 7 main sources from which an equal number of aqueduct systems originate.

concession...and delivery of the works and plants pertaining to the IWS" to ACEA Ato5. It simultaneously requested ARERA to initiate a procedure aimed at verifying the legitimacy of the tariffs applied by the Municipality of Atina to its users and invited the competent Supervisory Authorities - including the Public Prosecutor of Cassino and the Court of Auditors - to ascertain any criminal and/or fiscal liability of the persons specified and to take any consequent necessary actions. Subsequent to this request, on 29 March 2018 a first meeting between the parties was held at the offices of the Operational Technical Secretariat of AATO5 in order to complete the process of transferring the IWS of the municipal territory of Atina.

Specifically, the parties agreed (i) to proceed with the updating of the reconnaissance report of the works of 28 September 2017 by 10 April 2018; (ii) to update the terms established by the parties with regard to their respective obligations, as agreed in the minutes of 9 January 2018, fully confirming the content; (iii) to send to the Acting Commissioner the documentation certifying the Municipality of Atina's transmission of the database relating to the users located in the municipal territory to the Manager, the Municipality agreeing to provide for the subsequent updating of the aforementioned users according to the procedures established in the report of 9 January 2018.

The next meeting was held on 19 April 2018 to proceed with the formalisation of the transfer of the works and plants pertaining to the IWS in the Municipality of Atina, as well as for the completion of the Acting Commissioner's work, in compliance with the Decree of the President of the Province no. 27 of 2 March 2018.

In the aforementioned meeting in the presence of the Operational Technical Secretariat of ATO5, the Municipality of Atina and ACEA Ato5, the Acting Commissioner - noting that the parties had carried out the obligations referred to in points 1), 2) and 3) of the report of 29 March 2018, in compliance with the sentence of the Latina administrative court no. 356 of 23 April 2013 - transferred the works, assets and facilities pertaining to the IWS in the municipal territory to ACEA Ato5.

In addition, with subsequent report signed on the same date by the Operational Technical Secretariat of ATO5, ACEA Ato5 and the Municipality of Atina, the parties - reaffirming to fully confirm the contents of the minutes of 9 January 2018 - agreed to adjust the deadlines provided for in the aforementioned minutes, updating them to that day's date and extending them for 100 days

The sewerage and treatment system comprised a network of sewers and collectors connected to waste water treatment terminals.

The Company manages 211 sewage pumping plants and 110 biological waste treatment plants, as well as 14 Imhoff tanks and 3 percolating filters.

As part of the process of aggregating the management of ATO 5 Southern Lazio - Frosinone, ACEA Ato5 took over the management of the Integrated Water Service also for the users of the Municipality of Atina as of 19 April 2018, as described above, according to the provisions of the Acting Commissioner appointed by the President of the Province of Frosinone.

With regard to the relevant events occurred in the year, it should be noted that:

- with regard to the merger project launched in 2015 between the ACEA Ato5 S.p.A. and ACEA Ato2 S.p.A., with ruling no. 638 published on 27 December 2017 the Latina administrative court upheld the appeal brought by the Company against the resolution of the Conference of Mayors which ordered the resolution, annulling the measure. To date there is no information regarding the scheduling of the hearing;
- on 9 February 2017, the Company appealed for the annulment of Resolution no. 6 of 13 December 2016 with which the Conference of Mayors of ATO 5 approved the tariff proposal for the IWS for the 2016-2019 regulatory period, providing for an amount of adjustments for the period lower than the Manager's proposal (77 million euros vs 35 million euros), as a consequence of the different quantification made by the Operational Technical Secretariat essentially on four regulatory items: i) amount of FNI (psi coefficient 0.4 instead of 0.8 proposed by the Company); ii) recognition of charges for arrears (3.8% of turnover instead of 7.1%); iii) recognition of the quality charges (Opex qc), effectively cancelled and not recognised by the Operational Technical Secretariat; 4) penalties for 11 million euros. On 8 March 2018, the public hearing was held and on 22 March 2018 sentence no. 135/2018 was published with which the Latina administrative court rejected the appeal brought by ACEA Ato5 against the aforementioned resolution of the Conference of the Mayors no. 6 of 13 December 2016. With this ruling, the administrative court did not enter into the merits of the complaints raised by the Company, but confined itself to stating the inadmissibility of the appeal, on the assumption that the resolution of the Conference of Mayors would be a mere end-procedural act because the pricing determination process should conclude *"with the definitive provision represented by the approval of the Authority for Electricity and Gas, as also reaffirmed in Resolution no. 664/2015 ARERA in point 7.4: 'Within the following 90 days, the Authority, without prejudice to the need to request further supplements, approves the tariff proposals pursuant to Article 154, paragraph 4 of Italian Legislative Decree no. 152/06'"*. Therefore the deliberation of the Conference of Mayors no. 6 of 13 December 2016 would not be the definitive measure for determining the tariff, but only a proposal of the Area Authority submitted

The service in the period was marked by weather conditions that allowed the gradual resolution of the water shortage, and, with the approach of the summer season, a repeat of the calamitous situation as occurred the previous year is not expected.

for the approval of ARERA: consequently, the resolution in question would not be open to challenge. The decision of the matter remains completely open and the Company will have to await the resolution of ARERA on the tariff proposal made by ATO5. In any case, it can certainly be confirmed that the rate currently applied by ACEA Ato5 remains valid and is not affected by the ruling in question. On the contrary, the acceptance of the appeal would have resulted in the obligation for the Area Authority to modify the tariff proposal by adding back the illegitimate reductions. Furthermore, as regards the topic of penalties, which resulted in a tariff reduction of over 10 million euros, the administrative court recalled the previous ruling no. 638/2017 which cancelled the imposition of penalties on ACEA Ato5.

On this specific matter, with the ruling in question no.135/2018 the administrative court noted that the previous judgement and the previous sentence preclude *"the Panel from deciding again on the same acts on the basis of the principle - referred to in art. 2929 of the Italian Civil Code and 324 of the Code of Civil Procedure - of ne bis in idem which is also applicable to the administrative process, which presupposes the identity in the two judgements of the parties involved and the identifying elements of the proposed action and therefore that in the aforementioned judgements cancellation is requested for the same provisions, or at the most for different rulings but linked by a strict link of consequentiality to the point of having the same relationship, on the basis of identical grounds of appeal (Council of State Section IV 23 June 2015 no. 3158)"*.

This leads us to believe that - even independently of the possible proposition of an appeal - for the purpose of approving the final 2016-2019 tariffs both the AATO and the ARERA will have to consider:

- the previous sentence of the Latina administrative court no.638/2017 which cancelled the penalties, with the consequence that the PEF must be increased by the amounts already reduced as penalties (over 10 million euros). This aspect was reiterated by the sentence in question which underscored how the issue has already been definitively resolved by the administrative court itself;
- as well as the further investigation carried out by the AATO - in the interest of the administrative judgement - in relation to the

charges incurred by ACEA Ato5 so-called Opex QC (equal to 1,970,082.00) and the increase in the default rate.

Further, regarding the appeal presented by the Company (additional reasons added to appeal no. 316/2016) before the Latina administrative court with a simultaneous claim for damages against resolution no. 7 of 13 December 2016, with which the Conference of Mayors resolved to terminate the contractual relationship with ACEA Ato5, with sentence no. 638 published on 27 December 2017 the Lazio Regional Administrative Court - Latina branch upheld the appeal brought by the Company against the aforementioned resolution, annulling the provision;

- on 28 February 2017 the sentence was handed down by the Court of Frosinone revoking the injunction issued in 2012 in favour of the Company for the recovery of its receivable (amounting to 10,700.00.00 euros) arising from the Transactive Act signed with the Area Authority on 27 February 2007, implementing the resolution of the Mayors' Conference no. 4 of 27 February 2007. The Court of Frosinone held that the 2007 settlement agreement was void, it rejected the ACEA Ato5 subordinated counterclaim request for the payment of the higher costs incurred (and originally requested) amounting to a total of 21.5 million euros and ordered the remission of the

Regarding the deliberations of the Regional Council no. 56 of 6 February 2018, no. 129 of 27 February 2018 and no. 152 of 2 March 2018 (published on BURL no. 20 of 8 March 2018), which modify the delimitation of the optimal territorial areas and against which the Company has filed an appeal before the Superior Court of Public Waters in the same Region of Lazio, last 8 May, resolved:

- "to suspend the effectiveness of Regional Council Decree no. 56 of 6 February 2018 bearing Regional Law no. 5/2014 and Regional Law no. 9/2017, art. 17, paragraphs 98 and 99 - Identification of Optimal Territorial Areas of Hydrographic Basin";
- "to confirm the current organisation of the regional IWS in five regional AATOs, as defined by Regional Law 6/1996 and the related management structure of the five regional

It is furthermore noted that on 21 May 2018 the DSAI/42/2018/IDR was notified by the ARERA concerning the start of the sanctioning procedure concerning the tariff regulation of the integrated water service.

In this regard, the Company is carefully analysing the findings raised by the ARERA in order to identify any

Lastly, it should be noted that on 5 July 2018, in implementation of the resolution adopted by the

case to be investigated with respect to the counterclaim request made by the Operational Technical Secretariat regarding the payment of the concession fees which in its final statement has in any case acknowledged the payment by the Manager of a large part of its debt, representing the existence of a residual balance of approximately 7.0 million euros. 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 Ato5 and AATO 5, granted a postponement to 4 May 2018, inviting the parties to clarify the reasons for these discrepancies and indicating that if they cannot then a court expert would be appointed. At this hearing there was a further postponement until 21 September 2018.

With regard to the appeal filed on 20 September 2017 before the Court of Appeals of Rome against the sentence of the Court of Frosinone which annulled the injunction decree of 10.7 million euros, initially issued by the same Court, the first hearing was postponed automatically until 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.

AATOs, as well as over time identified as signers of the specific Management Agreements, until their natural expiry";

- "in the following six months from the present date, delegate to the Regional Director of Water Resources and Land Defence to carry out any useful activity to arrive at a new governance model of the IWS, even through modification of the current rules that govern it, even based on qualified contributions to be found outside the regional structure in terms of: regulation system, environmental protection, consumer protection, industrial model, interregional comparison, enhancement of the participation of territories and widespread social interests.

impacts that the Authority's claim may have on the Company itself. From this preliminary analysis there are no elements that entail significant liabilities. See the description in the paragraph "Provision for Risks" for the allocation made.

Italian Competition Authority on 27 June 2018, an audit took place at the registered office of the

Company following the initiation of the proceeding pursuant to art. 27, para. 3 of Italian Legislative Decree no. 206 of 2005, as well as pursuant to art. 6 of the 'Regulation on preliminary investigations concerning misleading and comparative advertising, unfair trade practices, violations of consumer rights in contracts, unfair terms' (hereinafter Regulation).

The proceedings were opened in response to reports made to the Authority by the Consumer Associations CO.DI.CI. and Federconsumatori Frosinone regarding alleged incorrect and aggressive behaviour towards consumers and small businesses by the Company in the period January 2015 - June 2018.

The complaints mainly concern:

(i) inadequate management of consumer claims with respect to billed consumption, without suspension in the meantime of the procedures for the collection of disputed amounts, with consequent sending of

See also the additional information contained in the paragraph "*Information on services under concession*".

### **GORI**

The Company manages the Integrated Water Service throughout the entire territory of ATO No. 3 Sarnese Vesuviano in the Campania Region (76 municipalities) with a surface area of about 900 Km<sup>2</sup> and a population of approximately 1.42 million inhabitants.

A total of 4,502 km of water network is currently managed, consisting of 456 km of primary abstraction network and 4,046 km of distribution network, and a 2,417 km drainage system.

With regard to significant events that took place during the year, it should be noted that:

- on 3 March 2017 GORI was notified of the Decree by the Naples Law Courts with the injunction to pay about 19.5 million euros requested by Campania Region for the wholesale supply of waste water collection and treatment services for 2015 and the first quarter of 2016. The Company has appealed this decree. As a result of the requests of the Company and of the Area Authority and in consideration of the critical issues related to the disputes under way with the Region and with Acqua Campania S.p.A., the Campania Water Authority has convened a Service Conference, during which emerged the opportunity to postpone the hearings - scheduled for September and October 2017 - relating to the aforementioned pending judgements before the Court of Naples for the payment of the fees requested by the Region and by Acqua Campania S.p.A., "with a view to not frustrate the efforts already made" with a specific timetable prepared by the Campania Water Authority itself as part of the preliminary investigation initiated by ARERA in 2017, to align and harmonise the regulatory/tariff schemes of the various managers in Campania for the 2016-2019 regulatory period. Accordingly, in agreement between the parties, for the reasons

payment reminders with the threat of disconnection pending complaints or mediation procedures;

(ii) failed or late delivery of bills, with consequent impossibility to pay in instalments;

(iii) at the time of transfer/takeover of pre-existing service or in case of new activation, requirement of payment of arrears accrued by the previous holder of the service, even when there are clear and adequate ways to demonstrate that the successor has nothing to do with the previous user.

Upon completion of the audit, the Authority acquired most of the documentation specified in the communication initiating the procedure.

Furthermore, within 20 days of the audit in question (by 15 July 2018), the Company must provide the additional information specifically requested in the Notice initiating the procedure, pursuant to art. 12, para. 1 of the Regulation".

GORI currently manages 4 water sources, 90 wells, 169 tanks, 104 water pumping stations, 181 waste water pumping stations and 7 waste treatment plants.

The Company provides integrated water services on the basis of a thirty-year agreement signed on 30 September 2002 by the Company and the Sarnese Vesuviano Area Authority.

set out above the pending hearings were postponed to February 2019;

- On 17 March 2018, Gori acquired, as of 1 April and with legal, administrative and fiscal effects from 1 January 2018, the equity investments in AceaGori Servizi owned by ACEA (55%) and ASM Pomigliano (5%) for 1.9 million euros and 0.175 million euros respectively. The purpose of the purchase is to re-integrate the activities of AceaGori Servizi (now Gori Servizi) into GORI through merger by incorporation that took place at the beginning of 2018;
- on 29 May 2017, Regional Administrative Court sentence no. 2839/2017 was published, accepting the appeal by GORI for the annulment of Management Decree no. 4/2016 by Campania Region concerning the tariff preparation for the second regulatory period 2016-2019 for regional wholesale supplies of water. For this reason, the tariff for wholesale water services of the Campania Region for the year 2018 is the tariff determined ex officio by the Authority with Resolution 338/2015/R/idr;
- On 7 June 2017, the ARERA held a preliminary meeting with Campania Region, the Campania Water Authority ("EIC"), the Extraordinary Commissioners of the Naples-Volturno ("ATO 2") and Sarnese-Vesuviano ("ATO 3") districts and



the service managers “Azienda Speciale di Napoli ABC” (“ABC”), Acqua Campania and GORI, in order to conduct checks “on the basis of the criteria and procedures in resolutions 656/2015/R/idr and 664/2015/R/idr”, concerning:

- the general elements of the joint Campania Region / Acqua Campania tariff proposal and relevant impact on the regional management set-up;
- the failure to adopt the tariff proposal concerning the treatment service provided by Campania Region;
- the general elements of the specific regulatory schemes proposed for GORI and ABC;
- the transfer of the Regional Works as per Campania Regional Authority resolution 243/2016 to the operator GORI;
- the request for economic and financial equilibrium made by the Sarnese Vesuviano Framework Authority for GORI;
- the wholesale tariff applied by ABC.

The Campania Water Authority has prepared a schedule of activities to be carried out and completed by 31 December 2018 which has the dual purpose of firstly proceeding with the preliminary investigation and the subsequent approval of the tariffs relating to regional supplies of “wholesale water” and the service of “collecting and treating waste water” (so-called “wholesale tariffs”), as well as to agree on the suspension of judicial proceedings concerning the credit/debit entries between the Region and the managers of Campania (mainly GORI and ABC), awaiting the consequent critical issues that could potentially be raised by such proceedings.

Also note that:

- with Council of State sentence no. 5534/2017 of 27 November 2017 was restored the effectiveness of ARERA resolution 362/2015/R/idr for the determination ex officio of the wholesale tariffs of Acqua Campania S.p.A. 2012-2015, constituting a relevant precedent confirming the legitimacy of the similar ARERA resolution 338/2015/R/idr,

which the Region had appealed to the Administrative judge for its annulment.

On the basis of the discussions and activities carried out within the time schedule prepared by the Campania Water Authority for the purpose of the ARERA preliminary investigation procedure, on 12 March 2018 GORI submitted to the Campania Region, the Campania Water Authority and the Area Authority a proposal for an Industrial Agreement - also for the purposes of modifying and updating the Economic-Financial Rebalancing Petition presented in a communication having protocol no. 14231 of 23 March 2016 - aimed primarily at ensuring the final implementation of the IWS of ATO 3 through measures and actions shared by the parties concerned and aimed at making management more efficient within a framework of tariff and economic-financial sustainability. Therefore, the Company continues to pursue discussions aimed at defining the aforementioned Industrial Agreement, to be finalised in the process of updating the tariff for the two-year period 2018-2019 and in which they can find a definitive solution also through access to financial equalisation already requested of ARERA: **i)** the transfer of the Regional Works and of the relative personnel assigned according to the resolution of the Campania Region Council 243/2016 and of the subsequent Agreement to implement this resolution stipulated between the Region and the Area Authority on 3 August 2016; **ii)** the tariff reconciliation for wholesale supplies to ATO3 for the years 2012 ÷ 2019; **iii)** the regulation between the Campania Region and GORI of the respective credit and debit entries through an appropriate repayment plan also commensurate with the recovery of the tariff adjustments and **iv)** the regulation of the recovery of tariff adjustments.

The Company believes that the Industrial Agreement can be the tool for definitively solving the company's problems.

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.

## **Tuscany - Umbria Area**

### **Acque**

The management agreement, which came into force on 1 January 2002 with a twenty-year duration (expiry is now in 2026), was signed on 28 December 2001. 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 waste water. 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 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 euros 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

### **Publiacqua**

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 waste water. The Area includes 49 municipalities, of which 6 managed via agreements inherited from the previous operator, Fiorentinagas. In return for

### **Acquedotto del Fiora**

Based on the agreement signed on 28 December 2001, the operator (Acquedotto del Fiora) 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 waste water treatment. The concession term is twenty-five years from 1 January 2002.

With reference to the updating of the tariffs for the period 2018-2019, the tariff review process is under

### **Umbra Acque**

On 26 November 2007 ACEA was definitively awarded the tender called by the Area Authority of Perugia ATO 1 for selection of the minority private business partner of Umbra Acque S.p.A. (concession expiry 31 December 2027). A stake in the company (40% of the shares) was acquired on 1 January 2008.

The company performed its activities in all 38 Municipalities constituting ATOs 1 and 2.

On the tariff side, AURI has started updating the 2018-2019 tariffs by collecting information provided by 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 -

from the previous deadline of 31 December 2026 to the new deadline of 31 December 2031.

The new tariff proposal 2018-2019, as well as the update of the 2016-2017 tariff, approved by AIT with Resolution 6/2018, have already been sent by the AIT to ARERA for final approval.

awarding the concession, the Operator pays a fee to all the Municipalities, including accumulated liabilities incurred prior to the awarding of the related contracts. With regard to the new tariff structure envisaged by the TICS (Resolution ARERA 665/2017/R/idr) after sending the data required for the simulation, the Authority prepared a hypothesis of tariff structure that will be approved at the next Territorial Conference.

way following which the Area Authority (AIT), based on the final data collected referring to the years 2016 and 2017 and the Investment Plan, will revise the VRG and Teta of the years 2018-2019, thus redesigning the entire tariff structure until the end of the IWS concession.

With note dated 24 January 2018 Umbra Acque sent the required documentation relating to the reporting of investments made in 2016 and the accounting data (economic, financial, equity and tariff) by sending specific documents in addition to the completion of the calculation Tools. The data collection and analysis phase was essentially completed at the end of June.

Lastly, it is noted that on 27 June 2018, the Company presented to AURI an application to extend the duration of the assignment until 31 December 2032.

2019) of the IWS tariff provisions for the Group companies is shown below.

Company	Approval status (up to MT12 "2016 - 2019")	Biennial update status (2018 - 2019)
ACEA Ato2	On 27 July 2016, the EGA approved the tariff inclusive of the bonus as per art. 32.I, subsection a) of Resolution 664/2015/R/idr. <u>The ARERA then approved them in Resolution 674/2016/R/idr, with some changes compared to the EGA proposal; quality bonus confirmed.</u>	The Conference of Mayors has not yet been convened
ACEA Ato5	Tariff proposal submitted by the Operator on 30 May 2016, with request for recognition of the Opex <sub>qc</sub> . ARERA warned the EGA 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 <sub>qc</sub> . Approval by the ARERA is awaited.	The Conference of Mayors that should approve the 2018-2019 tariff update has been scheduled for 1 August 2018.



GORI	On 1 September 2016, the Extraordinary Commissioner of the EGA approved the tariff with Opex <sub>qc</sub> as of 2017. Approval by the ARERA is awaited.	On 17 July 2018 the Extraordinary Commissioner of the EGA approved the 2018-2019 tariff update.
Acque	On 05 October 2017, the AIT approved the tariff with recognition of the Opex <sub>qc</sub> . Approval by the ARERA is awaited.	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, without prejudice to the need for its approval by ARERA.
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. <u>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.</u>	The Territorial Conference called to review the Works Plan to contain the tariff increase was postponed to September.
Acquedotto del Fiora	On 05 October 2016, the AIT approved the tariff with recognition of the Opex <sub>qc</sub> . <u>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.</u>	The AIT Board of Directors approved the 2018-2019 tariff update in the session of 27 July 2018.
Geal	On 22 July 2016, the AIT approved the tariff with recognition of the Opex <sub>qc</sub> . <u>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.</u>	On 12 July 2018 the ARERA approved the 2018-2019 tariff update proposed by the AIT.
Crea Gestioni	Following Resolution 664/2015/R/idr, as neither the Municipalities where the service is provided nor the Area Authorities of reference had any tariff proposal for the 2016-2019 regulatory period, the Company submitted its own tariff proposals. Today approval by the ARERA is awaited.	The Company submitted the tariff update data to the competent/EGA parties, unless still in progress for the technical quality part. Given the substantial inertia of the parties responsible, the Company envisages the presentation of an autonomous proposal by the end of September 2018.
Gesesa	On 29 March 2017 with resolution no. 8 of the Extraordinary Commissioner the AATOI approved the tariffs for the years 2016-2019. Today approval by the ARERA is awaited.	The Company sent the documentation relating to the 2018-2019 tariff review to the Area Authority and the preliminary investigation was initiated by the EGA with the expectation of reaching the approval of the tariffs by October 2018.
Umbra Acque	On 30 June 2016, the AIT approved the tariff with recognition of the Opex <sub>qc</sub> . <u>The ARERA then approved them in Resolution 764/2016/R/idr.</u>	In its session of 27 July 2018, the AURI Meeting approved the 2018-2019 tariff update.

The tariff provisions subject to biennial update (2018-2019) being approved will have retroactive effect starting from 1 January 2018 once approved. 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 better represented above.

For more details on the subject, please refer to the section *Service Concession Arrangements*".

### **Revenue from the Integrated Water Service**

The table below indicates for each Company in the Water Segment the amount of revenue in the first half of 2018, valorised on the basis of the tariff decisions made by the respective EGAs or by the ARERA. The

data includes the adjustment of passing items, the Fo.NI component, the Opex<sub>qc</sub> or the award as per art. 32.1, subsection a) of resolution 664/2015/R/idr.

Company	Revenue from the IWS (amounts in million euros)	Details (amounts in million euros)
ACEA Ato2	291.1	FNI = 9.3 AMM <sub>FoNI</sub> = 2.8 Award = 15.7
ACEA Ato5	37.1	FNI = 2.3 AMM <sub>FoNI</sub> = 0.4
GORI*	30.3	
Acque*	35.6	AMM <sub>FoNI</sub> = 2,2
Publiacqua*	47.4	AMM <sub>FoNI</sub> = 3,3

Company	Revenue from the IWS (amounts in million euros)	Details (amounts in million euros)
Acquedotto del Fiora*	20.9	AMM <sub>FoNI</sub> = 1,7
Umbra Acque*	13.8	AMM <sub>FoNI</sub> = 0,8
* Pro quota values		

## Energy Infrastructures Operating Segment

### Operating figures, equity and financial results for the period

Operating figures	U.M.	30/06/18	30/06/2017	Variation	Var %
Energy Produced (hydro + thermal)	GWh	293	228	65	28.5%
Energy Produced (photovoltaic)	GWh	5	6	(1)	(16.7%)
Electrical Energy distributed	GWh	4,845	4,842	3	0.1%
Energy Efficiency Bonds sold/cancelled	No.	110,943	146,178	(35,235)	(24.1%)
No. Customers	N/000	1,627	1,628	(1)	(0.1%)
Km of Network	Km	30,555	30,251	304	1.0%

Equity and financial results (million euros)	30/06/18	30/06/2017	Variation	% Variation
Revenue	346.2	323.9	22.3	6.9%
Costs	167.6	163.9	3.7	2.2%
Gross operating profit (EBITDA)	178.6	160.0	18.6	11.6%
Operating profit/loss (EBIT)	114.6	85.8	28.8	33.5%
Average number of personnel	1,386	1,362	24	1.8%

Financial results (million euros)	30/06/18	31/12/2017	Var	Var %	30/06/2017	Var	Var %
Investments	105.5	209.4	(103.9)	(49.6%)	105.2	0.3	0.3%
Net financial debt	1,101.1	1,032.9	68.1	6.6%	991.1	110.0	11.1%

Gross operating profit (EBITDA) (million euros)	30/06/18	30/06/2017	Variation	% Variation
Gross operating profit Energy Infrastructures Segment	178.6	160.0	18.6	11.6%
Gross operating profit (EBITDA) GROUP	449.9	414.1	35.8	8.7%
Percentage weight	39.7%	38.6%	1.1 p.p.	

EBITDA at 30 June 2018 was 178.6 million euros, an increase of 18.6 million euros compared to 30 June 2017.

This change is mainly attributable to the company areti (+ 19.3 million euros) as a consequence of the annual tariff updates in the scope of the fifth regulatory cycle compared to the same period of the previous year. As regards the energy balance, at 30 June 2018 areti injected 4,845 GWh into the network with a 2.1% decrease compared to the same period of 2017.

The EBITDA for public lighting is negative for 1.7 million euros, an increase of 0.8 million euros compared to 30 June 2017. The change is due to the margins deriving from the LED Plan launched at the end of June 2016 related to an agreement with Roma Capitale. It should be noted that during the first half of 2018 approximately 6,383 lighting fixtures were replaced for a total revenue of 1.5 million euros.

Acea Produzione contributed to the increase in EBITDA totalling 3.4 million euros thanks to an increase in the energy margin of the hydroelectric generation sector, with an increase in production of approximately 28.5%, also due to the greater contribution from the plants of Castel Madama, Mandela and Orte (+11.8%), that of Sant'Angelo (+13.8%) and the thermoelectric generation sector which recorded a significant increase (+300% compared

to the same period last year) following completion of construction of the Tor di Valle plant.

Personnel costs increased by 1.7 million euros, in line with the increase in the average workforce, which at 30 June 2018 increased by 25 units, entirely attributable to areti.

The operating result was affected by the decrease in the receivable impairment component (- 9.6 million euros), also due to the effects produced by the application of the new international standard IFRS9.

Net financial debt stood at 1,101.1 million euros as at 30 June 2018, showing an increase of 110.0 million euros compared to 30 June 2017 and 68.1 million euros compared to 31 December 2017. The effects are mainly attributable to the increasing volume of investments, the increase in pay-outs and the dynamics of operating cash flow.

Investments amounted to 105.5 million euros and refer to the work on the HV, MV and LV network and a series of interventions for the expansion of the MV networks and extraordinary overhead lines maintenance. The investments made by Acea Produzione refer for the most part to the extension of the district heating network in the Mezzocammino area in the southern part of Rome.

## **Significant events in the first half of 2018**

### **GALA**

With Resolution 50/2018/R/eel of 1 February 2018, the Authority approved a mechanism for recognising charges otherwise not recoverable due to the failure to collect general system charges. This regulation provides for the recognition of receivables accrued from 1 January 2016, with the request for recognition to be submitted by July 2018, referring to bills that have expired for at least 12 months.

This regulation establishes that only distributors that have paid the amount of charges for which they are to be reimbursed to CSEA and the GSE can access the mechanism. In addition, some restrictions have been introduced like not allowing full recognition of the portion relating to general charges.

At 30 June 2018 the total receivable accrued by the company with respect to GALA amounted to 67.2 million euros.

Currently, also taking into account the changes in the regulatory framework deriving from the approval of the mechanism for reimbursing general expenses, the reduction in the value of the areti receivable from GALA was prudentially determined with reference to transport and works at 30 June 2018, as well as the share of general charges that would not be recognised (15.7 million euros). On this last aspect, discussions are under way with the Authority on the actual scope of general charges to be recognised.

### **Sanctions by the ARERA**

With regard to Resolution 62/2014/S/eel of ARERA, the results of the preliminary investigation are still awaited, while as regards Resolution 512/2013/S/eel of ARERA, the Authority gave a mandate to appeal the judgement of the Lombardy Regional Administrative Court to the Council of State. With a sentence of 22

February 2018, the Council of State completely voided the penalty on the grounds that, as with areti, the regulation then in force did not include any obligation to register the reminders following a first notification already recorded for the same customer.

### **Technological innovation projects**

#### **“New Digital Meters Plan” pilot project**

In order to begin the analysis and project activities to identify the best technology to be used in view of the end of the life cycle of the current digital meters (2019-2020), areti has continued detailed technical studies linked to the development and consolidation of the new standards being normalised in Europe, also taking into account ARERA resolution 87/2016/R/eel dated 8 March 2016 concerning the “Functional specifications for second generation intelligent meters”. During 2018 the technology adopted for the meters is expected to be consolidated, as regards both the communication protocol transmitted between the meter and the

concentrator and the communication protocol for the back-up communication channel.

The IT architecture to support the management of these devices will also be defined, obviously harmonising the solution within the entire areti application map.

During the period 2018-2020 the system will be developed that will be subjected to the first operational tests together with the installation of the first 2G meters between 2019 and 2020.

The launch of the mass installation project is subject to the approval of the Mass Replacement Plan by the Authority.

#### **Smart Grid Intelligence platform evolution (SGI - Electrical data)**

The development of the SGI platform is envisaged in the strategic plan, in accordance with the plans for the integration of data and systems dedicated to sensors in the field and with those relating to innovative central

system platforms, with particular attention to the implementation of algorithms that are specific for risk assessment.

#### **San Saba Project**

The project consists in the redevelopment of a portion of the LV network in a public and private metropolitan setting and in the simultaneous preparation of a fibre optic network to support the electricity service. These new systems allow the use of technologically advanced

equipment, above all aimed at guaranteeing greater flexibility in the manoeuvring and protection of the portions of the network supplying power to final customers, with the aim of improving the quality and continuity of the service provided.

#### **DRONES project**

With regard to the Drone Project, in 2017 the use of remote controlled aircraft (developed in 2016) was experimented with for inspections of overhead power lines to detect partial discharges on overhead lines, the

patent relating to the "Ultrasound Sound System" being filed on 6 June 2017, . Further developments are under way to define solutions that use passive drones for simplified mass inspections.

### Primary and Secondary Cabinet Project 2.0

The Primary Cabinet Project 2.0 (CP 2.0), to be developed in the period 2018 - 2019 with implementation in the field immediately following, provides for the definition of a new Architecture of the Command Protection System, Control of the Primary Cabinet (CP) which envisages an apparatus that has the function of integrated management of the underlying MV network within the primary cabin.

The design and prototyping part of the Secondary Cabinet Project 2.0 is expected to develop in 2018, and

the subsequent portion regarding product and architecture industrialisation will take place during the following period. In addition to what is already envisaged for the remote control and the automation of the MV components of the secondary cabin, the project calls for the definition of a secondary cabin apparatus that implements the integrated management of the entire underlying LV network.

### FIBRE OPTIC Project

The Company is planning and building a fibre optic network for connecting the primary substations of the distribution network, which is also the main telecommunications backbone that the underlying secondary network developed under the "secondary FO project" is connected to. This backbone will guarantee security and reliability in the transit of information between the centre and the periphery to ensure the correct operation of the Operation Technology systems and network management systems.

Parallel with this activity, together with the LV and MV Regulatory Plans, areti has planned the construction of a fibre optic network. In particular, this network will make it possible to reach each secondary substation for the remote control of the installed equipment and, where possible, the measurement points for the purpose of transmitting all the information acquired through sensors and field devices to the central systems.

### Public Lighting

During the first half of 2018, 6,383 transformations were carried out (in addition to the approximately 158,891 already carried out up to 2017), completing the transformation of functional light points provided for in the agreement. The Plan projected the end of the activities by the end of January 2018. However, following the revision of the colour temperature and the colour rendering index carried out by the working group that involved the SIMU, the Superintendency and the University of Rome La Sapienza, the transformations of the artistic and ornamental fixtures

were rescheduled, thus postponing the conclusion. The remaining approximately 17,000 lighting fixtures, mainly located in the city centre, will therefore be transformed during the second half of 2018. With regard to activities to restore original operating conditions, after numerous cables were stolen experiments using new copper-clad aluminium cables were carried out. These cables, combining a small quantity of copper with aluminium, has the first and main advantage of it being difficult to separate the two metals, except using industrial tools and processes.

### Electricity Production

The **Acea Produzione** production system is currently constituted by a group of generation plants, with an overall installed power of 251.8 MW, comprising five hydroelectric plants (three in Lazio, one in Umbria and one in Abruzzo), two so-called "mini hydro" plants in Cecchina and Madonna del Rosario, and two thermoelectric power plants in Montemartini and Tor di Valle, which as mentioned was the subject of an important repowering completed at the end of 2017. The latter now consists of a modern high-efficiency cogeneration plant, replacing the previous combined-cycle plant, with two motors powered by methane gas each with an electrical capacity of 9.5 MW, for a total of 19 MW, in addition to three integration boilers and six storage tanks to supply SEU electricity to all the utilities of the Roma Sud treatment plant and the thermal energy required for the district heating service to the districts of Torrino Sud, Mostacciano and Mezzocammino in the Municipality of Rome. In 2018 at the Tor di Valle site the old co-generation module will be disposed of, constituted by an open cycle gas

turbine of 19 MW electrical, operational since the early 1980s, in line with the provisions of the Integrated Environmental Authorisation issued.

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

In the first half of 2018, the Company achieved a production volume of 296.3 GWh through the plants owned directly. During the period, the Company's production was subdivided into the portion related to hydroelectric plant production of 257.7 GWh, the share of production from mini-hydro plants of 1.3 GWh, the share of thermoelectric production of 32.1 GWh and the portion related to photovoltaic production of 5.2 GWh.

In the district heating segment, through the Tor di Valle plant's co-generation unit, the Company supplied 2,852 end users (251 apartment buildings and 2,601 housing units) located in the Torrino Sud and Mostacciano

districts (located in the southern part of Rome) with a

#### **Co-generation**

**Ecogena** operations focused on two areas: the technical-economic monitoring of operating plants, and new projects under construction.

With regard to the latter and with reference to the Europarco plant, work has been completed for the provision of the service to the ENI 4 building, which was started up during the month of June. Work on the construction of the ENI2 building continues, with the start-up of the service scheduled for March 2019.

The activities envisaged by the August 2017 settlement act have also commenced, with particular reference to the work that the Upside Fund has undertaken to entrust to Ecogena. To this end, the contract for the contract between Ecogena and Upside is being defined for the construction of a 450-spot elevated parking lot.

total of 36.8 GWh of heat.

Lastly, following the signing of the new service contract for the full service management and maintenance of the Porta di Roma, Fin Ostia, Fin Pietralata, Aniene and Hotel Cappuccini plants, Torrino continues the transition, in the management of Acea Produzione, also of the Europarco, Alfasigma and Saxa Rubra contracts.

On the Energy Efficiency and Development front, it is worth mentioning that three of the four PPPMs relating to the LED plan of the Municipality of Rome have been definitively approved by the GSE. Furthermore, the first saving report was also presented for lot 0 and at the same time the preliminary activities for the reporting of lot 2 started.

## Engineering and Services Operating Segment

### Operating figures, equity and financial results for the period

Operating figures	U.M.	30/06/18	30/06/2017	Variation	Var %
Technical-professional verification	Number of firms	154	160	(6)	(3.8%)
Worksite inspections	Number of inspections	4,771	4,237	534	12.6%
Safety Coordination	CSE Number	117	257	(140)	(54.5%)

Equity and financial results (million euros)	30/06/18	30/06/2017	Variation	% Variation
Revenue	34.4	39.5	(5.0)	(12.7%)
Costs	26.9	30.6	(3.7)	(12.0%)
Gross operating profit (EBITDA)	7.5	8.8	(1.3)	(15.0%)
Operating profit/loss (EBIT)	6.7	7.7	(0.9)	(12.3%)
Average number of personnel	272	314	(42)	(13.3%)

Financial results (million euros)	30/06/18	31/12/2017	Var	Var %	30/06/2017	Var	Var %
Investments	0.5	0.8	(0.4)	(43.4%)	0.4	0.1	23.6%
Net financial debt	14.6	12.3	2.3	18.6%	7.0	7.5	106.8%

Gross operating profit (EBITDA) (million euros)	30/06/18	30/06/2017	Variation	% Variation
Gross operating profit (EBITDA) Engineering and Services Segment	7.5	8.8	(1.3)	(15.0%)
Gross operating profit (EBITDA) GROUP	449.9	414.1	35.8	8.7%
Percentage weight	1.7%	2.1%	(0.5 p.p.)	

The Segment - established as a result of the organisational changes in May 2017 - closed the first half of 2018 with an EBITDA of 7.5 million euros, a slight decrease compared to the same period last year of 1.3 million euros mainly attributable to Acea Elabiori. Also included in the Segment is Ingegneri Toscane which recorded an EBITDA of 0.9 million euros substantially in line with the same period of the previous year (+ 0.2 million euros).

The average workforce as at 30 June 2018 stands at 272 units and is down compared to 30 June 2017 (314 units) due to the effects deriving from the Facility Management branch transferred by ACEA at the end of

last year. This transaction involved the transfer of 55 resources from Acea Elabiori to ACEA S.p.A. Investments amounted to 0.5 million euros and refer mainly to IT developments concerning the Acea2.0 project.

Net financial debt at 30 June 2018 was equal to 14.6 million euros and showed a worsening compared to the closing of the 2017 financial year of 7.5 million euros, due partly to the increase in requirements generated by changes in working capital, with particular reference to intragroup relations.

### Significant events in the first half of 2018

#### Operating review

Acea Elabiori develops applied research projects aimed at technological innovation in the water, environmental and energy sectors.

The Company supplies engineering, laboratory, research and innovation activities in the water cycle, waste cycle and energy sectors and equity and facility management in a transversal manner in all areas of interest to the ACEA Group.

The activities carried out concerning various fields of technical and management interest, including analytical

checks of the integrated water and waste cycle, protecting and optimising the use of water resources, design and construction of works for the integrated water service and for the treatment and disposal of waste and waste-to-energy, and for the production of hydroelectric and thermoelectric energy.

The following are the main data for the various sectors of business of the company:



#### **Laboratory activities**

The laboratory provides analytical services on different environmental matrices linked to the prescriptions of the reference laws.

In the first half of 2018, in the framework of the analytical activities conducted on water for human consumption, analytical services were conducted on 5,882 samples and 192,497 analytical tests produced

against the 172,292 analytical determinations of the first half of 2017. With regard to the checks conducted on waste waters (sewage and treatment systems managed by the Acea Group), 5,123 samples were analysed for a total of 78,828 analytical tests (3,411 samples and 97,993 analytical tests in the first half of 2017).

#### **Engineering activities**

The Company supplies engineering services to the companies in the Water Segment, in particular ACEA Ato2 and ACEA Ato5.

In recent years, the company has consolidated the development of engineering activities in other Group Segments as well, with the design and direction of works for the valorisation of waste and the production of hydroelectric and thermoelectric energy and related "specialist and support" activities.

**Designing**, as envisaged by the laws in force (Italian Legislative Decree no. 50 dated 18/04/16 as amended), for subsequent in-depth levels: Technical-economic feasibility study (Preliminary) - Definitive - Executive.

During the first half of 2018, in terms of volume, design activities were developed for a total of 58 projects equivalent to the various levels of definition (18 technical-economic feasibility studies (preliminary), 25 definitive and 15 executive/integrated tenders) for design activities totalling about 64.2 million euros. The design activities for ACEA Ato2 concerned interventions in the field of treatment and sewerage, in

particular aimed at eliminating illegal landfills and upgrading existing treatment plants (aimed at improving efficiency and increasing treatment capacity), and interventions in the drinking water sector, aimed at improving the service and eliminating the source of supplies that are non-compliant in terms of water quality.

The **direction of works** carried out in the period concerned 54 tenders on behalf of ACEA Ato2, 5 tenders on behalf of ACEA Ato5 and 10 tenders on behalf of the Environment and Commercial and Trading Segments. The works carried out on behalf of ACEA Ato2 concerned the realisation of works on the water distribution system, such as connecting pipelines, feeder lines, water networks and collection tanks, etc., and works concerning the environment segment, such as collectors and sewerage networks, improved/enhanced or new treatment plants and technological revamping.

The direction of works also concerned archaeological excavations for the acquisition of the preventive authorisations needed during the planning of the works.

#### **Research and innovation activities**

The Company carries out Research and Innovation activities in the water, environment and energy segments and develops applied research projects for modelling, technological and digital innovation and optimisation of process management.

In the first half of 2018, in the face of the water emergency that involved the city of Rome in the summer of 2017, an intense search for leaks using

acoustic methods was coordinated and continued, which in 2017 envisaged a first phase of search for leaks throughout the entire network of the city of Rome, with further inspection campaigns in 2018.

The activities in the Environment and Energy Infrastructures Segments are aimed at environmental impact assessments and industrial treatment processes.

## Corporate

### Equity and financial results for the period

Financial results (million euros)	30/06/18	30/06/2017	Variation	% Variation
Revenue	59.9	58.9	1.1	1.8%
Costs	71.7	64.7	7.0	10.8%
Gross operating profit (EBITDA)	(11.7)	(5.8)	(5.9)	101.8%
Operating profit/loss (EBIT)	(16.4)	(28.8)	12.4	(43.1%)
Average number of personnel	662	583	79	13.5%

Financial results (million euros)	30/06/18	31/12/2017	Var	Var %	30/06/2017	Var	Var %
Investments	3.1	10.7	(7.5)	(70.5%)	5.9	(2.7)	(46.6%)
Net financial debt	251.3	257.3	(6.0)	(2.3%)	263.7	(12.4)	(4.7%)

Gross operating profit (EBITDA) (million euros)	30/06/18	30/06/2017	Variation	% Variation
Gross operating profit (EBITDA) Corporate Segment	(11.7)	(5.8)	(5.9)	101.8%
Gross operating profit (EBITDA) GROUP	449.9	414.1	35.8	8.7%
Percentage weight	(2.6%)	(1.4%)	(1.2 p.p.)	

ACEA closed the first half of 2018 with a negative EBITDA of 11.7 million euros (- 5.9 million euros compared to 30 June 2017) due to the reduction in margins on service contracts, offset in part by the contribution to results from the management of the Facility Management service acquired on 1 January 2018.

The average number of employees at 30 June 2018 was 662, a reduction compared to the same period in the previous year (583). This increase is mainly due to the acquisition of the Facility Management division, which involved the transfer of 55 resources from Acea Elabori to ACEA S.p.A.

### Significant events in the first half of 2018

As part of the project to transfer the foreign subsidiaries from Acea to Acea International, in February Acea sold all the shares held in Consorcio

Investments amounted to 3.1 million euros, a decrease of 2.7 million euros compared to the same period in 2017. The investments mainly refer to IT developments and investments in the buildings used for company activities. The reduction compared to the same period last year mainly refers to lower investments in technological infrastructure.

Net debt at 30 June 2018 amounted to 251.3 million euros, an improvement of 6.0 million euros compared to the closure of 2017. This change derives from the Group and ACEA needs generated by changes in working capital, including the disbursement of payables to suppliers.

Agua Azul to Acea International. This transaction involved the payment of capital gain taxes of 2.2 million euros to the SUNAT (revenue agency).

## Significant events during the period and afterwards

### **Acea S.p.A. and Open Fiber: agreement for the development of networks and innovative services for the city of Rome**

On 12 January 2018 the Chief Executive Officer of Acea S.p.A. Stefano Donnarumma and Elisabetta Ripa, CEO of Open Fiber, following the Memorandum of Understanding signed on 3 August 2017, signed an

agreement defining the terms and conditions of the overall industrial agreement for the development of an ultra-broadband communications network in the city of Rome.

### **Acea S.p.A. Placement of bond issues for 1 billion**

On 1 February 2018, Acea S.p.A. completed the placement of bond issues for an amount of 300 million euros with a five-year maturity at a variable rate (three-month Euribor +0.37%) and 700 million euros with a 9.5-year maturity at a fixed rate (1.5%), from the 3 billion euro Euro Medium Term Notes (EMTN)

programme. The issue of the bond loan, intended exclusively for institutional investors of the Euromarket, was successful, receiving requests equal to over 2.5 times the amount of the Bonds offered. Fitch Ratings and Moody's gave the issue a rating of BBB+ and Baa2 respectively, in line with that of ACEA.

### **Acea S.p.A. The Shareholders' Meeting approved the 2017 Financial Statements and the distribution of a dividend of 0.63 per share**

On 20 April 2018 the Shareholders' Meeting of Acea S.p.A. approved the 2017 Financial Statements and the distribution of dividends equal to 0.63 per share, to be

disbursed from 20 June 2018 (ex-coupon date June 18, record date 19 June).

### **Acea S.p.A. Appointment of director Michaela Castelli as Chairwoman of the Board of Directors**

On 21 June 2018, the Board of Directors of Acea S.p.A., confirming their appreciation for the work of the CEO and in the spirit of continuity of management

and business objectives, unanimously decided to appointment the director Michaela Castelli as Chairwoman of the Board of Directors.

## Main risks and uncertainties

Due to the nature of its business, the Group is exposed to various types of risks, in particular regulatory risks, operational and environmental risks, market risks, liquidity risk, credit risk and rating risks. In order to reduce these risks, the Group performs analyses and monitoring as described below.

### Regulatory and Legislative Risks

As is known, the ACEA Group operates mainly in regulated markets, and changes to the rules in these markets as well as regulations and obligations can have a significant effect on results and operating performance. Therefore, the Group has a structure that can consolidate its relations with local and national governments and regulatory bodies.

The nature of the business also exposes the Acea Group to the risk of non-compliance with consumer protection regulations pursuant to Italian Legislative Decree no. 206/2005, i.e. the risk mainly connected to the commission of consumer offences/unfair trade practices or misleading advertising (through activities like omission of relevant information, dissemination of untrue information/forms of undue influence, unfair terms in commercial relations with consumers, as well as risks of non-compliance with the regulations for the

The Integrated Water Service territorial and governance regulations continue to be affected by specific amendments, mainly with reference to the reorganisation of local public service regulations of economic relevance (MADIA Reform) and the

The regulatory risks include all non-conformities, with particular regard to the environmental impact of the ACEA Group (generated for example by the activities of production and/or treatment of urban waste and health and safety at work, mitigated through the implementation of certified management systems, respectively UNI EN ISO 14011: 2015 and BS OHSAS 18001:2007), which may result in the application of administrative and/or penal sanctions, including those of an interdicting nature.

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

Italian Law 199 of 2016 in force since 4 November 2016, amended art. 603-bis of the penal code, "*Illicit brokering and exploitation of labour*" and has included it among the predicate offences under art. 25-quinquies.

of Italian Legislative Decree 38 of 2017, effective from 14 April 2017, amended art. 2635 "*Corruption between private individuals*" of the Italian Civil Code and has introduced art. 2635 bis "*Instigation to corruption among*

Note that, on the date of preparation of the current Report on Operations, we do not expect the ACEA Group to be exposed to further risks and uncertainties that may have a significant impact on the results of the ACEA Group's operations, equity or financial position, other than those mentioned in this document.

This structure monitors regulatory developments in terms of providing support in the preparation of comments in the response to the Consultation Paper, in line with the interests of Group companies, and in the consistent application of regulations in corporate procedures and within the electricity, gas and water businesses.

protection of competition, i.e. the risk associated mainly with the prohibition of companies to establish restrictive agreements and to abuse their dominant position in the market (through activities like market allocation, manipulation of tenders, restrictive agreements and other types of anti-competitive agreements, exchange of commercial/competitive information that potentially constitutes the creation of a cartel).

environment with the so-called Green Economy. Further developments are expected as a result of the much quoted ex Daga government bill (S 2343), when the complex approval procedure has been concluded.

*private individuals*" by adding it to the catalogue of predicate offences of Italian Legislative Decree no. 231/2001 to art. 25-ter, paragraph 1, letter s-bis).

Italian Law no. 179 of 30 November 2017 in force since 29 December 2017 introduced in Italian Legislative Decree no. 231/2001 at paragraphs 2-bis, 2-ter and 2-quater of art. 6 the protection of the employee or contractor that reports illegal actions or violations related to the organisation and management model of the body that come to his or her attention while working (so-called. "whistleblowing").

Further crimes introduced during 2017 include:

- Italian Law no. 161 of 17 October 2017 in force since 19 November 2017, that at art. 30, para. 4 added paragraphs 1-bis, 1-ter and 1-quater in art. 25-duodecies "*Employment of foreigners without resident documentation*" of Italian Legislative Decree no. 231/01;
- the European Law 2017, definitively approved on 8 November 2017 and entered into force on 12 December 2017, which, in art. 5, paragraph 2 introduces into Italian Legislative Decree no. 231/01 art. 25-terdecies "*Racism and xenophobia*",

punishing the institution in case of commission of crimes pursuant to art. 3, paragraph 3-bis, of Italian law no. 654 of 13 October 1975; while these were taken into consideration, they were assessed as being difficult to commit in the context of company activities.

Law No. 68 of 22 May 2015 (published in Official Journal 28 No. 122 on May 2015) approved new regulations on environmental crimes. In particular, Law 68/2015 introduces the new Title VI-bis -“Crimes against the environment” into the Italian Criminal Code amending art. 152/2006.

It should be noted that some consolidated companies (mainly ACEA Ato5, ACEA Ato2 and Acea Ambiente), as more fully illustrated in the relative financial statements for the year, are subject to investigations or proceedings that relate to significant cases pursuant to Italian Legislative Decree no. 231/2001, mainly concerning safety and the environment. There is also a complaint for a corporate offence related to ACEA Ato5 alone. On the basis of the information currently

Other regulatory risks that may potentially be of particular importance for the ACEA Group include those deriving from the new Privacy Regulation (EU) 2016/679 GDPR; ACEA has already started a survey of the most exposed corporate processes, aimed at creating a model of Privacy Governance and the integration of the new principles required by the law.

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

available, taking into account the operational autonomy of the companies with respect to the parent company Acea, any responsibilities that may be ascertained upon the final outcome of the aforementioned proceedings are exclusively attributable to the companies themselves, without any repercussions on the Parent Company or other companies of the Group that are not involved.

## **Operating and environmental risks**

### **ACEA Ato2 – critical situations concerning irregular discharges**

The Operating Agreement signed officially ratified the obligation to transfer the integrated water services of Municipalities in ATO2 (except for protected services and, subsequently, on the basis of art. 148, paragraph 5 of Italian Legislative Decree no. 152 of 3 April 2006, also municipalities with up to 1,000 residents, which have the right to not subscribe to the I.W.S.) in accordance with the law. In reality the times and procedures for the implementation of said transfer were not observed both due to the unwillingness of some Municipal Authorities to transfer the Service, and as it was impossible for the Operator, in particular from 2007, to take over the management of water, sewerage and waste water treatment plants that did not comply with the provisions of the laws in force to avoid exposing both the Operator and its executives to

the consequent criminal charges applied by the magistracy.

The most critical situations in fact are discharges that are still not treated and/or existing waste treatment plants that must be re-qualified and/or upgraded to meet the new emissions limits set by the Supervisory and Control Authorities as a result of a different evaluation of the hydrological structure of receiving water courses, or even the nature of the receiving system (soil instead of water) as some waste water treatment plants discharged onto soil as the water course was dry when inspected. The uncertainty of this situation is due to the fact that the Lazio Region has not yet determined the classification of the regional surface hydrographic network.

The situation represents a real environmental emergency requiring administrative action. In fact, in 2008 the Regional Authority signed a “*Memorandum of understanding for the implementation of extraordinary reclamation of river, lake and sea resources to solve the discharge emergency in ATO2 – Central Lazio – Rome*” to allocate specific funds for the implementation of some plans of action to deal with the emergency.

Today, thanks to a noteworthy technical development and economic commitment, 182 discharges have been collected for water treatment. There are still 64 active discharges of which 36 included in the ACEA Ato2 action plan and 28 that the Municipal or Regional Authorities should eliminate using public funds.

At the beginning of 2016, in consideration of Resolution 644/15, the Plan of Action for the period 2016-2019 was updated with guidelines up to the end of the concession (2032). This Plan is part of the documentation on which the tariff request is based, which in accordance with art. 7.5 of Resolution 664/15 was sent to the ARERA for approval. The Plan of Action was approved by the Conference of Mayors on 27 July 2016 and subsequently by the ARERA, in resolution 674 dated 17 November 2016, in the framework of the approval of the specific regulatory scheme containing the tariffs for the period 2016-2019 proposed by the Conference of Mayors of ATO 2 Central Lazio Rome.

On 27 December 2017 the Resolution 918/2017/R/idr of the ARERA was also issued for the biennial update of the IWS tariff plans (years 2018 and 2019), also incorporating Resolution 917/2017/R/idr on the

In the first years, from 2003 on, investments were made which in the IWS implementation phase highlighted the lack of knowledge of the plants being acquired from the Municipal Authorities and the need to draw up a plan aimed at solving the most critical problems, especially in the hygienic-sanitary sector. The consequent times required for the planning and to obtain authorisation to set up construction sites for the works delayed investments in the territory.

In the following years, thanks to the investments made it was possible to make up the gap left by previous years, also by allocating higher investments than those that were planned in the previous 2014-2017 Plan.

Thanks to a process of technological renewal and the planning done in previous years, we were able to increase the level of investments in new major works. The difficulties related to the authorisation phase of the projects and the declaration of public utility by the Municipalities and in particular the Municipality of Rome and the consequent infrastructure procedures aimed at acquiring the areas necessary for the works, have recently been superseded by the Conference of Mayors resolution no. 2-17 of 20 December 2017 with which the power to declare a single opinion on the works in the works programme and to organise the Service Conferences necessary was delegated to the Operational Technical Secretariat.

It should be noted that during 2017 there was a situation of serious water emergency on the entire regional territory, in relation to which on 5 July 2017 the President of the Lazio Region signed a Decree declaring a state of natural disaster. There was a water deficit estimated at around 3 m<sup>3</sup>/s, only partially offset by the measures implemented up to then (closing of leaks and regulation of the distribution structure) which led to a recovery estimated at around 2.5 m<sup>3</sup>/s. To cope with this emergency situation, which continued to worsen given the persistence of the lack of precipitation, in addition to efforts to optimise operations and stop leaks in the water networks, some

Regulation of the technical quality of the IWS which provides for the updating of the works programme, of the economic and financial plan and of the management agreement, and it requires transmission to the Authority by 30 April 2018.

of which had already been done but was still ongoing, it was necessary to plan a series of structural interventions for the identification of new sources of supply. On 7 August 2017, with its own Deliberation, the President of the Council of Ministers declared a 180-day state of emergency related to the drinking water shortage in the Lazio region and established that works done during the emergency would be managed by special civil protection orders. With Ordinance no. 474 of 14 August 2017, the Head of the Civil Protection Department appointed the President of the Lazio Region as Commissioner for Water Emergency, providing directions on the implementation of the Emergency Response Plan. Decree M00003 issued subsequently by the Lazio Region on 15 December 2017 identified the President of ACEA Ato2il as the actuator of the emergency works for the water shortage included in annexes 1 and 2 of the Decree, approving the financing with public funds for the total amount of 5,192,500 euros for structural operations and 1,600,000 euros for supplying water with tankers. ACEA Ato2 therefore set up a special control room to manage the technical and accounting part of these operations, as well as a specific works management office.

Finally, with a decree issued by the President of the Council of Ministers on 9 November 2015, a special Extraordinary Commissioner was appointed to solve the critical situation caused by the Municipality of Rome failing to declare the public utility of some strategic projects to deal with the environmental emergency in the Municipality with particular reference to important action to be taken to upgrade untreated discharges such as: completion of the work on the Ponte Ladrone trunk line, the Crescenza III trunk line, the Magliana-Maglianella VI trunk line, the Acqua Traversa trunk line, the Rebibbia trunk line, and the Via Veientana trunk line.

### ACEA Ato2 – critical elements of the drinking water system

Two critical elements emerged following the acquisition of the Integrated Water Service:

- quality of the water flowing out of the source;
- water shortage mainly in the South of Rome.

As for the first point, the quali-quantitative crisis caused by the presence in the territory of water sources that do not comply with the chemical parameters such as those for arsenic and fluorine, which are naturally found in underground water sources of volcanic origin, with the consequent critical situation in terms of the quantity and quality of the water supplied (Municipalities in the district of Castell

Romani and in general those in the volcanic areas of the ATO with over 170,000 inhabitant in fourteen Municipalities), resulted in the Company having to draw up restoration plans to put into action to meet the parameters of Legislative Decree 31/2001 as implemented in subsequent investment plans of the Area Plan.

For this purpose the following main interventions were planned and put into action:

- ✓ replacement of the local qualitatively critical sources with sources characterised by better qualitative properties;



- ✓ mixing water sources free of undesired elements;

As for the second critical element, in other words the water shortage mainly affecting the Colli Albani area, which is supplied by the Simbrivio aqueduct, the Doganella aqueduct and over 140 local wells, over the years various interventions have attempted to mitigate this critical situation, such as taking a branch off the Pertuso spring, putting new plants, the Arcinazzo tank and the Ceraso “booster” plant into service. Lastly, it should be noted that during the first quarter of the year the acquisition of the water service of the

### Commercial and Trading Operating Segment

With regard to the Commercial and Trading Segment, the main operational risks linked to the activities of Acea Energia can be considered material damage (shortcomings of suppliers, negligence), damage to human resources and damage deriving from external systems and events. To mitigate these operational risks, the Company has taken out a series of insurance

### Energy Infrastructures Segment:

With regard to the Energy Infrastructures Segment, the main risks in this operating segment (which also includes Acea Produzione in addition to areti) may be classified as follows:

- risks relating to the effectiveness of the **investments** for the replacement/renewal of grids, in terms of expected effects on the improvement of service continuity indicators;
- risks relating to the **quality**, reliability and duration of works;
- risks relating to the ability to **meet the terms** for obtaining prescribed authorisations, regarding both the construction and start-up of plants (pursuant to Regional Law 42/90 and related regulations) and performing work (authorisations of municipalities and other similar authorisations), according to the need to develop and enhance the plants;
- risks related to **production failure**.

The risk relating to the effectiveness of **investments** basically stems from the increasingly stringent ARERA service continuity regulations. To deal with this risk, areti has strengthened the tools for analysing network performance in order to make increasingly better use of capital expenditure (e.g. ORBT project) and applied new technologies (automation of medium voltage network, smart grids, etc.).

As far as the risk linked to work **quality** is concerned, areti implemented operational, technical and quality control systems, including the creation of the Worksite Inspection Unit, which forms part of the Quality and Safety department. The results of the inspections, which are processed electronically and statistically analysed, give rise to rankings (reputational indicators) and a “vendor rating” system, developed in

- ✓ construction of drinking water plants using reverse osmosis filtration technology.

Municipality of Civitavecchia was completed, which resulted in the expansion of management to approximately 23,000 other water users and approximately 130 km of water network. It is also worth noting that during the first half of 2018 the water service activities were acquired in the Municipality of Morlupo, adding approximately 45 km of water network.

policies with leading insurance companies from the start of their operations, to cover Property Damage, Third Party Liability and employee injury insurance policies. Particular attention has been devoted by the Company to the training of their employees, as well as the definition of internal organisational procedures and the drafting of specific job descriptions.

collaboration with the University of Tor Vergata (Rome). This system ranks contractors according to their reputation, scored on the basis of their ability to meet the quality and safety standards for worksites.

During the year, the good level in the reputation indicator was confirmed for companies that worked for areti.

The risk relating to the ability to **meet deadlines** arises from the number of entities that have to be addressed in the authorisation procedures and from the considerable uncertainty linked to the response times of these entities; the risk lies in the possibility of refusals and/or in the technical conditions set by the above entities (such as the construction of underground rather than above-ground plants, with a subsequent increase in plant and operating costs). It should also be noted that lengthy proceedings result in higher operating costs, are difficult to deal with for operating structures (drafting and presentation of in-depth project examinations, environmental studies, etc.) and require participation in service conferences with technical meetings at the competent offices. However, the substantial risk is still essentially linked to the failure to obtain authorisations, with the result being the inability to upgrade plants and the subsequent greater risk linked to the technical performances of the service (at present there are delays in upgrading the HV network in the coastal area and the Terna procedure to construct a new Castel di Leva primary substation). Note that a particularly critical point is the long response times of a number of the administrations contacted.

As regards the risk of **production failure** of the plants, Acea Produzione at the start of the activities signed insurance policies with major insurance firms to limit any damage due to a lack of production.



### Environment segment:

The waste-to-energy plants, as well as, to a lesser extent, the waste treatment plants, are highly complex from a technical point of view, requiring the companies to employ qualified personnel and adopt organisational structures with a high level of know-how. The need to maintain the plants' technical performance levels and prevent personnel with specific management expertise (who are difficult to recruit) from leaving the companies, represent tangible risks.

These risks have been mitigated through the adoption and implementation of specific programmes and maintenance and management protocols as part of environmental management systems certified UNI EN ISO 14001:2015 and EMAS environmental registration,

### Market risk

The Group is exposed to various market risks with particular reference to the risk of price/volume oscillations for commodities being bought and sold, interest rate risks and foreign exchange risks to a lesser extent. To reduce exposure to within the defined limits, the Group enters into contracts drawn up on the basis of the typologies offered by the market.

The **Commodity Risk** is the risk concerning the unexpected effects on the value of the portfolio of assets due to changes to the market conditions.

### Commodity price risk

Through the activities carried out by the Commodities Risk Unit within the Risk & Compliance department, Acea S.p.A. ensures the analysis and measurement of exposure to market risks, interacting with Acea Energia S.p.A., 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 S.p.A.'s "Guidelines for the Internal Control and Risk Management System".

The analysis and management of risks is carried out according to a second-level control process that involves the execution of activities throughout the year with different frequency by type of limit (annual, monthly and daily), carried out by the Commodities Risk Unit and by risk owners.

Specifically:

Commodity risk management and mitigation are vital to the achievement of the economic and financial objectives of the ACEA Group as stated in the budget, and specifically:

- to protect the primary margin against unforeseen and unfavourable short-term shocks in the energy market which affect revenues or costs;
- to identify, measure manage and represent exposure to risks;

also drawn up on the basis of experience in plant engineering management.

Moreover, the plants and the related activities are designed to handle certain types of waste. The failure of incoming material to meet the necessary specifications could lead to concrete operational problems, sufficient to compromise the operational continuity of the plants and give rise to risks of a legal nature.

For this reason, specific procedures have been adopted for monitoring and controlling incoming materials via spot checks and the analysis of samples pursuant to legislation in force.

Reference is made in this context to the Price Risk and Volume Risk, defined as follows:

- **Price Risk:** risk linked to the change in commodities prices due to the difference in the price indices for purchases and sales of Electricity, Natural Gas and EUA Environmental Certificates;
- **Volume Risk:** the risk linked to changes in the volumes effectively consumed by clients compared to the volumes envisaged in the sales contracts (sale profile) or, in general, the balancing of positions in the portfolios.

- **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 Commodities Risk 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, Commodities Risk prepares the information requested and available to the system in the format appropriate to the procedures in force and sends it to Acea S.p.A.'s Internal Audit Unit.

- to reduce risks through the preparation and application of adequate internal controls, procedures, information systems and expertise.

The Group stipulates forward contracts (for physical transactions for the purchase and sale of commodities) to meet the expected requirements deriving from the contracts in the portfolio (own use). In addition, derivatives on commodities are subscribed for trading purposes (limited volumes); on the other hand, there

are currently no derivatives on commodities in hedge accounting.

The evaluation of risk exposure involves the following activities:

- recording all of the transactions related to physical quantities carried out in suitable books (called Commodity Books), differentiated by commodity (e.g. Electricity, Gas, CO<sub>2</sub>), purpose of the activity (Trading or purchase and sale on the wholesale market, Portfolio Management, Sale to internal clients inside and outside the ACEA Group) and nature of the operations (physical, financial);
- accurate analysis of the time profile of the purchases and sales containing the open positions, in other words exposure of the physical purchase

### 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 ACEA Group's approach to managing interest rate risk is, therefore, prudent and the methods used tend to be static in nature.

A static (as opposed to dynamic) approach means adopting a type of interest rate risk management that does not require daily activity in the markets, but

### 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.

### Liquidity risk

The Group policy for managing liquidity risk, for both ACEA and its subsidiaries, involves the adoption of a financial structure which, coherent with business objectives and within the limits defined by the Board of Directors, guarantees a suitable liquidity level that can meet financial requirements, while maintaining an appropriate balance between maturity and composition of debt.

### Credit risks

ACEA emanated some time ago the credit policy guidelines, currently being revised to make them more compliant with current organisational changes and the Credit Risk Profiling project, in which different credit management strategies have been identified. The Collection Strategy envisages that credit is managed taking into account both the type of customer (public and private) and the conduct of the individual customers (behaviour score). The credit check system, operating on non-regulated markets for more than 2

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 of the Commodities Risk Unit provides daily codified controls per "event" regarding compliance with risk procedures and limits (also for the purposes of compliance with Law 262/05) and reports to Management any discrepancies identified during oversight so that it can order the implementation of measures that return operations within the established limits.

periodic analysis and control of positions based on 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 S.p.A. 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.

As regards the 20 billion yen Private Placement, the exchange rate risk is hedged through a cross currency swap.

The liquidity risk management process, using financial instruments for planning suitable expenditure and income for optimal treasury management and to monitor the group debt trend, adopts a centralised treasury management system, which provides financial assistance to the subsidiaries and associates not covered by a centralised finance contract.

years, through which all new mass market and small business customers are checked using personalised scorecards. All new *mass-market and small business customers are being integrated with the SAS platform and the Siebel system*. The assessment of Large Business customers continues to be managed through an approval workflow with decision-making bodies consistent with the level of exposure expected from the supply.

The dynamic management of collection strategies is carried out in the billing system for active customers

and through a specific management system for former customers. 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 an organisation point of view, centralised management was further consolidated last year by setting up a new unit in the Parent Company, responsible for credit policies and debt collecting with customers who are no longer supplied or with

significant exposures. The structures of each single company responsible for managing credit refer to ACEA's Credit department, which guarantees end to end supervision of the entire process.

As in previous years, this year the Group assigned revolving and spot credit without recourse, to 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.

### **Risks relating to the rating**

Access to the capital market and other forms of funding and the related costs, depends amongst other things on the Group's credit rating. A reduction in the credit rating by rating agencies could

represent a limiting factor for access to the capital market and increase collecting costs with the consequent negative effects on the equity, economic and financial standing of the Group.

ACEA's current rating is shown in the following table.

Company	M/L Term	Short Term	Outlook	Date
Fitch	BBB+	F2	Stable	28/01/2018
Moody's	Baa2	Na	Stable	28/12/2017

## Operating (and financial) outlook

The results achieved by the ACEA Group at 30 June 2018 are higher than expected and therefore allow the confirmation of the guidance already communicated to the market.

The Group is determined to carry out significant investments in infrastructure that, without affecting the solidity of the consolidated financial structure, have an immediate positive impact on performance, EBITDA and billing and collection processes. The financial

structure of the ACEA Group is solid for coming years. At 30 June 2018, 73.3% of debt is fixed rate in order to ensure protection against any increases in interest rates as well as any financial or credit volatility. At 30 June 2018 the average duration of medium/long-term debt stood at 5.7 years. It should be noted that the reduction of its average cost went from 2.57% of 31 December 2017 to 2.22% of 30 June 2018.

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

- ✓ an increase in EBITDA of over 5% (guidance of March 2018 between +3% and +5%), based on the 2017 result (840 million euros);
- ✓ confirmation of guidance for planned investments, up compared to 532 million euros in 2017, in line with the Business Plan;
- ✓ a net financial debt of around 2.6 billion euros at the end of the year (guidance for March between 2.6 and 2.7 billion euros).

# **Interim Condensed Consolidated Financial Statements 2018**

## **Part Two Notes to the financial statements**

## Form and Structure

### General information

The Half-Year Condensed Consolidated Financial Statements at 30 June 2018 of the ACEA Group were approved by Board of Directors' resolution on 31 July 2018, which also 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 interim 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". In preparing these interim financial statements, in compliance with IAS 34, applicable to interim financial reporting, the same accounting principles were applied as those for the preparation of the Consolidated Financial Statements at 31 December 2017, which see for a complete description, and must therefore be read together with the latter.

### Basis of presentation

The half-year condensed 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 on the basis of the nature of expenses, the Statement Of Financial Position is based on the liquidity method by dividing between current and non-current

items, whilst the Statement Of Cash Flows is presented using the indirect method.

The Interim Condensed 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 Interim Condensed Consolidated Financial Statements are comparable with the figures for the comparison period.

### Alternative performance indicators

On 5 October 2015, ESMA (European Securities and Markets Authority) published its guidelines (ESMA/2015/1415) on criteria for the presentation of alternative performance indicators which replace, as of 3 July 2016, CESR/05-178b recommendations. This orientation was acknowledged in our system in CONSOB Communication no. 0092543 dated 3 December 2015. The content and meaning of the non-GAAP measures of performance and other alternative performance indicators used in these financial statements are illustrated below:

1. for the ACEA Group, the *gross operating profit* (or EBITDA) is an operating performance indicator and from 1 January 2014 also includes the condensed result of equity investments in jointly controlled entities for which the consolidation method changed when international accounting standards for financial reporting IFRS10 and IFRS11 came into force. The *gross operating profit* is calculated by adding the operating result to the item "Amortisation, depreciation, provisions and impairment charges" as these are the main non-cash items. Instead, it is specified that the 2017 adjusted economic data do not include the negative effect resulting from the re-

entry into ownership of the Autoparco property (following a ruling issued in June) and the effect of the assessment of areti's exposure to GALA;

2. the *net financial position* is an indicator of the ACEA Group's financial structure, obtained by adding together Non-current borrowings and financial liabilities net of Non-current financial assets (loans and receivables and securities other than equity investments), Current borrowings and other Current financial liabilities net of Current financial assets, Cash and cash equivalents; it is noted that the adjusted net financial position does not include the impact deriving from the GALA matter;
3. *net invested capital* is the sum of "Current assets", "Non-current assets" and "Assets and Liabilities" held for sale, less "Current liabilities" and "Non-current liabilities", excluding items taken into account when calculating the *net financial position*;
4. *net working capital* is the sum of the current receivables, inventories, the net balance of other current assets and liabilities and current debts, excluding the items considered in calculating the *net financial position*.

### Use of estimates

In application of IFRS, preparation of the half-year condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue, costs, assets and liabilities and the disclosure of contingent assets and liabilities at the reporting 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 original estimates and assumptions are periodically reviewed and the impact of each change is immediately recorded in the Income Statement.

### Effects of the seasonality of transactions

For the type of business in which it operates, the ACEA Group is not subject to significant seasonality.

The estimates also take into consideration assumptions based on market and regulatory parameters and information available on the date of the financial statements. 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 details on these methods, see the following reference paragraphs.

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 S.p.A. 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 condensed 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 IFRS3 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 IFRS5 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 IFRS9, 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 (IFRS5)

Non-current assets and liabilities are classified as held for sale, in accordance with IFRS5.

### Consolidation of foreign operations

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.

## Basis 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 IFRS10, 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. Entities that the Parent Company jointly controls with other parties are accounted for using the equity method.

### A) Changes in basis of consolidation

In relation to the scope of consolidation as at 30 June 2018, the merger by incorporation of Gori Servizi S.r.l. into Gori S.p.A. was effective from 1 January 2018.

### 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

The accounting standards and the recognition and measurement criteria adopted in the presentation of the Half-Year Condensed Consolidated Financial Statements are those used in preparation of the

Consolidated Financial Statements for the year 2017, to which reference should be made for a description of those most important, that specified hereafter holding firm.

### Accounting standards, amendments, interpretations and improvements applied as of 1 January 2018

The following documents have already been issued by the IASB and endorsed by the European Union as

amendments to international accounting standards in force from 1 January 2018.

#### IFRS 9 Financial Instruments

In July 2014, the IASB published IFRS 9 - Financial Instruments (IFRS 9) which deals with the new international accounting rules for the Classification & Measurement of financial instruments, Impairment of assets and Hedge Accounting.

IFRS 9 must be implemented by companies that apply International Accounting Standards as from 1 January 2017, replacing the previous accounting standard IAS 39.

The Acea Group has centrally managed the adoption of IFRS 9 and for this purpose an assessment was carried out of the financial instruments impacted by the requirements of the implementation of Classification & Measurement of IFRS 9 and developed appropriate methods of Impairment to support the calculation of expected losses. Given the option granted by the principle, the group decided for the 2017 financial year to avail itself of the choice to opt out, applying the current regulations to these Financial Statements and awaiting the final enactment of the Hedge Accounting legislation.

#### 1. Classification and measurement of financial assets and liabilities

The new standard provides for the classification of financial assets on the basis of the Business Model with which the Company manages the financial assets and the contractual characteristics of the cash flows of these instruments (*Solely payments of principal and interest on the principal amount outstanding Test*):

- i. The assessment of the Business Model determines the classification of the instrument based on the objective with which the instrument is held within the company's portfolio. Financial assets are measured at amortised cost if they are held with the aim of collecting contractual cash flows (Held to Collect). Financial assets are measured at fair value with changes in value charged to Other Comprehensive Income (OCI) if these are held with the aim of both collecting contractual cash flows and being sold (Held to Collect and Sell). Finally, they are measured at fair value with changes in value charged to the income statement if they are not held with the objectives typical of the other Business Models.
- ii. The assessment of the characteristics of the contractual cash flows requires that the financial

assets be valued at amortised cost if the characteristics of the contractual cash flows represent only expected cash flows that provide for the repayment of the principal and interest accrued on that capital. In the event that this condition is not respected, an assessment will be made by determining the fair value.

At present, the Acea Group does not hold any financial instruments for trading purposes or financial instruments that envisage contractual cash flows for reasons other than the repayment of capital and accrued interest.

Equity instruments are measured at the FVTPL unless the specific accounting option at FVOCI is exercised. The latter possibility may be exercised only if the Company does not hold such investments for trading purposes, and in this case the changes recorded in OCI are never charged to the Income Statement.

The equity investments held by the Acea Group that fall within the definition of Equity Instrument according to IFRS 9 have a minimum value within the Group's financial statements.

Financial liabilities are recorded at amortised cost unless they are held for trading purposes. IFRS 9 grants a specific option to account for the liabilities at fair value in the event that this option helps eliminate an accounting misalignment. At the time the option is exercised, all changes in fair value are recognised in the income statement, with the exception of changes in fair value attributable to the effect of their own credit risk, which are instead charged to OCI.

#### 2. Impairment of Financial Assets

IFRS 9 introduces a new framework related to the calculation of the impairment of financial assets and certain types of off-balance sheet financial instruments (loan commitment and financial guarantees). The new calculation method provides for the estimate of the devaluation of certain financial instruments on the basis of the concept of expected loss which differs from the methodology provided by IAS 39 which provides for the determination of losses based on a concept of incurred loss.

The adoption of the Expected Credit Loss model for the impairment of financial assets that involves the recognition of the write-down of financial assets on the

basis of a predictive approach, based on the forecast of the counterparty default (so-called probability of default) and the ability to recover if the default event occurs (so-called loss given default). IFRS 9 requires the Group to record expected credit losses on all portfolio obligations, loans and trade receivables, with reference to either a 12-month period or the entire contractual term of the instrument (e.g. lifetime expected loss) according to the adoption of the General or Simplified Model. Given the characteristics and duration of the exposures, the Group will apply the simplified approach for trade receivables and therefore record the expected losses based on their residual contractual duration.

In particular, during 2017 activities have been completed for the definition and the implementation of methods for the impairment of financial assets, through the identification of the following models and parameters:

The expected loss is a function of the probability of default (PD), exposure at default (EAD) and the loss given default (LGD) and this estimate must be made both by incorporating forward-looking information and through the use of ratings dictated by credit experience in order to reflect factors that are not captured by the models.

PD is the probability that an activity has not been paid for and will default, the dimension being determined to be in a period of 12 months (Stage 1) or over a lifetime (Stage 2). The PD for each instrument is constructed considering historical data and is estimated considering current market conditions through reasonable and supportable information on future economic conditions, and through the use of Internal Ratings already used for the purpose of assignment.

The EAD represents the credit exposure to the counterparty at the time the default event occurs. This parameter includes an estimate of any value that is not expected to be recovered at the time of default (like collateral, guarantees, insurance policies, countervailable debts, etc.).

LGD represents the amount that is not expected to be recovered at the time the default event occurs and is calculated both on a historical basis and via supportable and reasonable information regarding future market conditions.

As noted, IFRS 9 allows the use of the approach defined as "simplified". This method can be used only for the categories of financial instruments:

- i. Trade receivables;
- ii. Lease receivables according to IFRS 16;
- iii. Contract Assets according to IFRS 15.

This approach allows only the use of PD lifetime to calculate the expected losses, eliminating the need to

### IFRS 15 Revenue from contracts with customers

IFRS 15 was issued in May 2014 and amended in April 2016 and introduces a five-phase model that applies to revenues from contracts with customers. The objective is to create a complete and uniform framework of reference for revenue recognition, applicable to all

determine the PD at 12 months and to monitor the credit risk at each valuation date.

A further expedient envisaged by IFRS 9 within the simplified approach is the use of the so-called Provision Matrix. This model provides for the utilisation of impairment percentages determined by maturity date based on the historical losses recorded by the Company. These percentages must be subsequently supplemented with forward looking information in order to incorporate market and historical information in the percentages. This model was applied in particular to retail customers without internal ratings.

With regard to the effects encountered at the time of first application, the Group has determined the impact recorded in equity in relation to fully consolidated companies amounting to 164,901 thousand euros (with a tax effect of 39,576 thousand euros). These effects are shown in the explanatory notes in the item "Other reserves and retained earnings" in shareholders' equity.

The details of the effects on the provision for impairment of receivables relating to the first application of IFRS9 gross of the tax effect (in thousand euros) are shown below:

Provision for impairment of receivables of IAS 39 as at 31.12.2017	Provision for impairment of receivables of IFRS9 as at 01.01.2018	FTA change
404,326	569,227	164,901

It should also be noted that the effects of the introduction of IFRS 9 on companies consolidated using the equity method amount to 8,896 thousand euros (pro-rata Group) net of the tax effect, this translates into a downward adjustment of the carrying amount of the investments with a contra-entry to the initial balance of the equity reserves.

### 3. Hedge Accounting

IFRS 9 introduces a new hedge management model that identifies a broader spectrum of hedged instruments and hedged risks in order to create an accounting impact of risk management practices. The new rules also eliminate the need for quantitative efficacy tests and the simultaneous elimination of efficacy thresholds. IFRS 9 grants those applying International Accounting Standards the possibility of continuing to apply the Hedge Accounting rules established by IAS 39. This option is granted until IFRS 9 is updated with the rules relating to Macro Hedging. The decision to apply Hedge Accounting according to IFRS 9 is irrevocable, while the decision to continue applying IAS 39 will be carried out each year until the accounting rules for hedging transactions are finally issued.

commercial contracts (with the exception of lease contracts, insurance contracts and financial instruments). The new standard replaces all current requirements in the IFRS regarding revenue

recognition, in particular it replaces the following principles:

- ✓ **IAS 18** - Revenues from sales and services;
- ✓ **IAS 11** - Multi-year contracts and interpretations;
- ✓ **IFRIC 13** - Customer loyalty programmes;
- ✓ **IFRIC 15** - Agreements for the construction of buildings;
- ✓ **IFRIC 18** - Transfer of customer activities;
- ✓ **SIC 31** - Exchange transactions and advertising services.

IFRS 15 provides for the recognition of revenues for an amount that reflects the consideration that the entity deems to be entitled to in exchange for the transfer of goods or services to the customer. The fundamental parts for accounting purposes are:

- 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;
- identify the separately identifiable obligations to do something (also "performance obligations") contained in the contract;
- 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;
- allocate a price to each performance obligation;
- 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.

The Group undertook an analysis to understand the expected impact of adopting IFRS 15.

Based on the results of this work, the Group decided to use the modified method, i.e. retroactively accounting for the cumulative effect deriving from the adoption of IFRS 15 on the date of initial application.

#### **"Amendments to IAS 40 - Transfers of investment property"**

Issued in December 2016, the document clarifies that transfers to or from real estate investments must be justified by a change in use supported by evidence. The simple change of intention is not sufficient to support this transfer. The changes have expanded the examples

The provisions of IFRS 15 regarding presentation and required disclosure are more detailed than those of the current standards. The presentation provisions represent a significant change from practice and significantly increase the volume of disclosure required in the financial statements.

Furthermore, as required by IFRS 15, the Group disaggregated revenues from contracts with customers into categories that represent how the nature, amount, timing and uncertainties of revenues and cash flows are affected by economic factors. In 2017 the Group continued to test the systems, internal controls, policies and procedures necessary to collect and present the required information.

In the analysis process of IFRS 15 first application conducted by the Group for each of the four business areas (Environment, Energy, Water and Networks), all the contractual cases relevant for the purposes of the principle within its revenue streams were analysed.

The introduction of the new standard led to the change of accounting (i) in the recognition of connection fees (both in the water sector and in the electricity sector) that are recorded in the income statement over the useful life of the related asset (previously the contributions were recorded directly in the income statement) and (ii) in the recording of costs for agents that in line with the new requirements of IFRS 15 are recorded under intangible assets and amortised on the basis of the final users' churn rate (previously amortised over 3 years).

The effects deriving from the accounting changes described above had a negative impact on reserves, gross of the tax effect, of 35,537 thousand euros (the tax effect is 10,331 thousand euros). The impact on the consolidated companies using the equity method amounts to 4,992 thousand euros gross of the tax effect (the tax effect being 1,454 thousand euros). The amount specified refers to the portion attributable to the Group.

of change of use to include the activities under construction and development and not just the transfer of completed properties. The amendments will take effect, subject to prior endorsement, for annual periods beginning on or after 1 January 2018.

#### **"Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions"**

The document issued in June 2016:

- clarifies that the fair value of a transaction with share-based payment settled in cash on the date of valuation (i.e. the date of allocation, on closure of any reporting period and the settlement date) must be calculated in consideration of the market conditions (e.g.: a share price target) and conditions other than those of accrual, ignoring the conditions for remaining in service and the conditions for achieving results other than market ones;
- clarifies that share-based payments with liquidation net of a withholding at source must be classified entirely as operations settled by shares (if they would have been classified as such even without payment net of the withholding at source);
- provides provisions on the booking of changes to the terms and conditions determining the change in classification from share-based payments settled in cash to share-based payments settled by the issuing of shares.



The amendments will take effect, subject to prior endorsement, for annual periods beginning on or after 1 January 2018. The Group does not expect impacts

deriving from the future application of the new dispositions.

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

On 08 December 2016 the IASB published the document "Annual Improvements to IFRSs: 2014-2016 Cycle".

The document introduces amendments to the following standards:

- **IFRS 1 First – time Adoption of International Financial Reporting Standards:** the change removes the exemption envisaged for the transition of new users to IFRS 7, IAS 19 and IAS 10 standards.. These transitory dispositions were available for past reporting periods and are therefore no longer applicable.

- **IAS 28 Investments in Associates and Joint Ventures:** the change enables capital companies, joint investment funds, trust units and similar entities to choose whether to record their investments in associates or joint ventures classifying them as fair value through profit or loss (FVTPL). The Board has clarified that these valuations should be made separately for each partner of joint venture at the time of initial recording.

These changes must be applied retrospectively for reporting periods starting on 1 January 2018 or later. Earlier application is permitted.

#### "IFRIC 22 - Foreign currency transactions and advance consideration"

The interpretation issued by the IASB in December 2016 provides clarifications for the purpose of determining the exchange rate to be used at the time of initial recognition of an asset, costs or revenues (or part of them). The date of the transaction is when the

company records any non-monetary assets (liabilities) due to advances paid (received). The amendments will take effect, subject to prior endorsement, for annual periods beginning on or after 1 January 2018.

### Accounting standards, amendments and interpretations applicable after closure of the year and not adopted in advance by the Group

#### IFRS 16 Leases

Issued in January 2016, this standard replaces the previous standard on leases, IAS 17 and the related interpretations, identifies the criteria for the recognition, measurement, presentation and disclosures to be provided with reference to lease agreements for both the lessor and the lessee. IFRS 16 marks the end of the distinction in terms of classification and accounting treatment of operating leases (with off-balance sheet disclosures) and finance leases (recognised in the financial statements). The right to use the leased asset ("Right of Use") and the commitment made will result from financial data in the financial statements (IFRS 16 will apply to all transactions involving a right of use, regardless of the contractual form, i.e. lease, rental or hire purchase). The main novelty is the introduction of the concept of control within the definition. More specifically, to determine whether a contract is a lease, IFRS 16 requires a lessee to verify whether it has the right to control the use of a given asset for a specified period of time.

There will be no accounting symmetry with the lessor, which will continue to apply a separate accounting treatment depending on whether the contract is an

operating lease or a finance lease (on the basis of current guidelines). On the basis of this new model, the lessee shall recognise:

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

As regards the lessor, the new standard should have a lower impact on the financial statements (unless so-called "sub-leases" are implemented)) as the current accounting treatment will not change, except for a more comprehensive financial reporting in quantitative and qualitative terms. The standard, which ended its endorsement process in October 2017, applies from 1 January 2019, however early application is permitted if IFRS 15 - Revenue from contracts with customers is also adopted.

The Group has begun an analysis for a preliminary assessment of the impact. This assessment is still ongoing and may be subject to change following more detailed analyses that will be completed this year. Following this analysis the Group will select the method of initial application.

#### "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, and will be effective starting from the financial years starting on 1 January 2019, but early application is permitted.

### “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.

### “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”.

These changes must be applied retrospectively for reporting periods starting on 1 January 2019 or later. Earlier application is permitted.

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.

## Half-year Consolidated Income Statement

Notes Ref.		30/06/18	Of which related party transactions	30/06/2017	Of which related party transactions	Variation
1	Revenue from sales and services	1,390,040		1,333,002		57,039
2	Other income	64,238		39,482		24,756
	<b>Consolidated net revenue</b>	<b>1,454,278</b>	<b>61,355</b>	<b>1,372,483</b>	<b>73,756</b>	<b>81,795</b>
3	Personnel costs	109,927		109,105		822
4	Costs of materials and overheads	912,967		859,848		53,119
	<b>Consolidated Operating Costs</b>	<b>1,022,894</b>	<b>29,134</b>	<b>968,953</b>	<b>23,890</b>	<b>53,941</b>
5	<b>Net income/(costs) from commodity risk management</b>	<b>0</b>		<b>0</b>		<b>0</b>
6	<b>Income/(Costs) from equity investments of a non-financial nature</b>	<b>18,523</b>		<b>10,569</b>		<b>7,954</b>
	<b>Gross Operating Profit</b>	<b>449,908</b>	<b>32,221</b>	<b>414,100</b>	<b>49,865</b>	<b>35,808</b>
7	Amortisation, depreciation, provisions and impairment charges	199,186		219,231		(20,044)
	<b>Operating profit/(loss)</b>	<b>250,722</b>	<b>32,221</b>	<b>194,869</b>	<b>49,865</b>	<b>55,852</b>
8	Financial income	6,515	10,193	12,506	2,804	(5,992)
9	Financial costs	(48,896)	(4)	(43,669)	0	(5,227)
10	Income/(Costs) from equity investments	9,411		649		8,762
	<b>Profit/(loss) before tax</b>	<b>217,751</b>	<b>42,410</b>	<b>164,357</b>	<b>52,669</b>	<b>53,395</b>
11	Taxes	67,093		54,020		13,073
	<b>Net profit/(loss)</b>	<b>150,659</b>	<b>42,410</b>	<b>110,337</b>	<b>52,669</b>	<b>40,322</b>
	Net profit/(loss) from discontinued operations					
	<b>Net profit/(loss)</b>	<b>150,659</b>		<b>110,337</b>		<b>40,322</b>
	Profit/(loss) attributable to minority interests	7,983		6,844		1,139
	Net profit/(loss) attributable to the Group	142,675		103,492		39,183
12	Earnings (loss) per share attributable to Parent Company's shareholders					
	Basic	0.66995		0.48596		0.18399
	Diluted	0.66995		0.48596		0.18399
	Earnings (loss) per share attributable to Parent Company's shareholders, net of Treasury Shares					
	Basic	0.67126		0.48691		0.18435
	Diluted	0.67126		0.48691		0.18435

Amounts in thousand euros

## Quarterly Consolidated Income Statement (\*)

thousand euros	2nd quarter 2018	2nd quarter 2017	Variation	% Variation
Revenue from sales and services	662,308	625,880	36,428	5.8%
Other revenue and proceeds	46,471	21,042	25,429	120.8%
<b>Consolidated net revenue</b>	<b>708,779</b>	<b>646,922</b>	<b>61,857</b>	<b>9.6%</b>
Personnel costs	55,808	56,179	(371)	(0.7%)
Costs of materials and overheads	442,529	396,398	46,131	11.6%
<b>Consolidated Operating Costs</b>	<b>498,337</b>	<b>452,577</b>	<b>45,761</b>	<b>10.1%</b>
<b>Net income/(costs) from commodity risk management</b>	-	-	-	0.0%
<b>Income/(Costs) from equity investments of a non-financial nature</b>	<b>10,256</b>	<b>5,331</b>	<b>4,925</b>	<b>92.4%</b>
<b>Gross Operating Profit</b>	<b>220,697</b>	<b>199,676</b>	<b>21,021</b>	<b>10.5%</b>
Amortisation, depreciation, provisions and impairment charges	97,343	121,961	(24,617)	(20.2%)
<b>Operating profit/(loss)</b>	<b>123,354</b>	<b>77,716</b>	<b>45,638</b>	<b>58.7%</b>
Financial income	2,485	9,333	(6,848)	(73.4%)
Financial costs	(24,797)	(21,821)	(2,976)	13.6%
Income/(Costs) from equity investments	933	826	107	13.0%
<b>Profit/(loss) before tax</b>	<b>101,975</b>	<b>66,054</b>	<b>35,921</b>	<b>54.4%</b>
Taxes	31,907	24,179	7,728	32.0%
<b>Net profit/(loss)</b>	<b>70,069</b>	<b>41,875</b>	<b>28,194</b>	<b>67.3%</b>
Net profit/(loss) from discontinued operations	-	-	-	0.0%
<b>Net profit/(loss)</b>	<b>70,069</b>	<b>41,875</b>	<b>28,194</b>	<b>67.3%</b>
Profit/(loss) attributable to minority interests	4,791	4,117	673	16.4%
<b>Net profit/(loss) attributable to the Group</b>	<b>65,278</b>	<b>37,758</b>	<b>27,520</b>	<b>72.9%</b>

Amounts in thousand euros

(\*) Figures not subjected to limited review

## Half-year Consolidated Statement of Comprehensive Income

thousand euros	30/06/18	30/06/2017	Variation	% Variation
<b>Net income for the period</b>	<b>150,659</b>	<b>110,337</b>	<b>40,322</b>	<b>36.5%</b>
<b>Reclassifiable components in the income statement</b>				
<b>Profit/Loss from conversion of financial statements expressed in foreign currency</b>	<b>541</b>	<b>(2,673)</b>	<b>3,214</b>	<b>(120.2%)</b>
Reserve for exchange differences	(6,766)	6,878	(13,644)	(198.4%)
Tax reserve for exchange differences	1,624	(1,651)	3,275	(198.4%)
<b>Gains/losses from exchange rate difference</b>	<b>(5,142)</b>	<b>5,227</b>	<b>(10,369)</b>	<b>(198.4%)</b>
Effective portion of profits/(losses) on hedging instruments ("cash flow hedges")	14,427	(1,490)	15,917	(1,068.2%)
Tax effect of other gains/(losses) on hedging instruments ("cash flow hedges")	(3,496)	368	(3,864)	(1,050.1%)
<b>Profit/Loss From the Effective Portion on Hedging Instruments net of tax effect</b>	<b>10,931</b>	<b>(1,122)</b>	<b>12,053</b>	<b>(1,074.1%)</b>
Actuarial gains/(losses) on employee benefits recognised in equity	5,366	530	4,836	911.5%
<b>Non-reclassifiable components in the income statement</b>				
Tax effect of other actuarial gains/ (losses) on employee benefits	(1,561)	(153)	(1,408)	919.2%
<b>Actuarial Profit/(Loss) on defined benefit pension plans net of tax effect</b>	<b>3,805</b>	<b>377</b>	<b>3,428</b>	<b>908.4%</b>
<b>Total components of other comprehensive income, net of tax effect</b>	<b>10,135</b>	<b>1,810</b>	<b>8,325</b>	<b>460.0%</b>
<b>Total comprehensive income/loss</b>	<b>160,794</b>	<b>112,147</b>	<b>48,647</b>	<b>43.4%</b>
<b>Total comprehensive income (loss) attributable to:</b>				
Group	152,536	105,052	47,484	45.2%
Minority interests	8,257	7,094	1,163	16.4%

Amounts in thousand euros

## Quarterly Consolidated Statement of Comprehensive Income (\*)

thousand euros	2nd quarter 2018	2nd quarter 2017	Variation
<b>Net income for the period</b>	<b>70,069</b>	<b>41,875</b>	<b>28,194</b>
<b>Reclassifiable components in the income statement</b>			
<b>Profit/Loss from conversion of financial statements expressed in foreign currency</b>	<b>1,553</b>	<b>(2,335)</b>	<b>3,889</b>
Reserve for exchange differences	(1,901)	12,771	(14,672)
Tax reserve for exchange differences	456	(3,065)	3,521
<b>Gains/losses from exchange rate difference</b>	<b>(1,444)</b>	<b>9,706</b>	<b>(11,151)</b>
Effective portion of profits/(losses) on hedging instruments ("cash flow hedges")	8,055	(8,425)	16,480
Tax effect of other gains/(losses) on hedging instruments ("cash flow hedges")	(2,075)	2,029	(4,104)
<b>Profit/Loss From the Effective Portion on Hedging Instruments net of tax effect</b>	<b>5,980</b>	<b>(6,396)</b>	<b>12,376</b>
Actuarial gains/(losses) on employee benefits recognised in equity	4,327	(787)	5,114
<b>Non-reclassifiable components in the income statement</b>			
Tax effect of other actuarial gains/ (losses) on employee benefits	(1,259)	230	(1,489)
<b>Actuarial Profit/(Loss) on defined benefit pension plans net of tax effect</b>	<b>3,068</b>	<b>(557)</b>	<b>3,625</b>
<b>Total components of other comprehensive income, net of tax effect</b>	<b>9,157</b>	<b>418</b>	<b>8,739</b>
<b>Total comprehensive income/loss</b>	<b>79,226</b>	<b>42,294</b>	<b>36,932</b>
<b>Total comprehensive income (loss) attributable to:</b>			
Group	74,239	37,828	36,411
Minority interests	4,987	4,466	521

(\*) Figures not subjected to limited review

## Consolidated Statement of Financial Position

Ref. Note	ASSETS	30/06/18	of which with related parties	31/12/2017	of which with related parties	Variation
13	Tangible Fixed Assets	2,300,957		2,252,910		48,047
14	Real Estate Investments	2,518		2,547		(29)
15	Goodwill	149,921		149,978		(57)
16	Concessions	1,855,595		1,770,865		84,730
17	Other intangible fixed assets	150,223		144,121		6,102
18	Investments in associates	249,179		280,853		(31,674)
19	Other equity investments	2,614		2,614		0
20	Deferred tax assets	282,226		271,148		11,079
21	Financial assets	36,162	33,801	38,375	35,638	(2,212)
22	Other assets	250,067		234,154		15,913
	<b>NON-CURRENT ASSETS</b>	<b>5,279,463</b>	<b>33,801</b>	<b>5,147,563</b>	<b>35,638</b>	<b>131,899</b>
23.a	Inventories	49,199		40,201		8,997
23.b	Trade receivables	848,278	163,299	1,022,710	158,748	(174,433)
23.c	Other current assets	152,937		148,192		4,745
23.d	Current tax assets	35,764		61,893		(26,129)
23.e	Current financial assets	458,880	106,272	237,671	121,137	221,208
23.f	Cash and cash equivalents	1,200,547		680,641		519,906
	<b>CURRENT ASSETS</b>	<b>2,745,604</b>	<b>269,571</b>	<b>2,191,309</b>	<b>279,886</b>	<b>554,295</b>
24	Non-current assets held for sale 497	183		183		0
	<b>TOTAL ASSETS</b>	<b>8,025,250</b>	<b>303,372</b>	<b>7,339,055</b>	<b>315,523</b>	<b>686,195</b>

Amounts in thousand euros

Ref. Note	LIABILITIES	30/06/18	of which with related parties	31/12/2017	of which with related parties	Variation
	Shareholders' equity					
	Share capital	1,098,899		1,098,899		0
	Legal reserve	111,948		100,619		11,329
	Other reserves	(293,370)		(308,073)		14,703
	Retained earnings/(losses)	514,494		645,500		(131,006)
	Profit (loss) for the period	142,675		180,682		(38,007)
	<b>Total Group shareholders' equity</b>	<b>1,574,646</b>		<b>1,717,626</b>		<b>(142,980)</b>
	Non-controlling interests	91,665		93,580		(1,915)
25	<b>Total shareholders' equity</b>	<b>1,666,311</b>		<b>1,811,206</b>		<b>(144,895)</b>
26	Staff termination benefits and other defined-benefit plans	106,741		108,430		(1,689)
27	Provision for risks and charges	197,254		209,619		(12,365)
28	Borrowings and financial liabilities	3,395,892		2,745,035		650,857
29	Other liabilities	212,526		184,270		28,256
30	Deferred tax provision	74,187		92,835		(18,648)
	<b>NON-CURRENT LIABILITIES</b>	<b>3,986,601</b>		<b>3,340,189</b>		<b>646,411</b>
	Payables to suppliers	1,155,236	125,008	1,237,808	136,054	(82,572)
	Other current liabilities	308,773		277,819		30,954
	Financial debt	869,956	4,526	633,155	3,042	236,801
	Tax Payables	38,337		38,841		(504)
31	<b>CURRENT LIABILITIES</b>	<b>2,372,302</b>	<b>129,535</b>	<b>2,187,623</b>	<b>139,096</b>	<b>184,678</b>
24	Liabilities directly associated with assets held for sale	37		37		0
	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>8,025,250</b>	<b>129,535</b>	<b>7,339,055</b>	<b>139,096</b>	<b>686,195</b>

Amounts in thousand euros



## Consolidated Statement of Cash Flows

Ref. Note	thousand euros	30/06/18	Related parties	30/06/2017	Related parties	Variation
	<b>Cash flow from operating activities</b>					
	Profit before tax from continuing operations	217,751		164,357		53,395
7	Depreciation/amortisation	161,830		152,525		9,305
7	Revaluations/impairment charges	31,330		35,115		(46,572)
27	Change in provisions for risks	(37,948)		8,624		(46,572)
26	Change in employee severance indemnities	(997)		(181)		(816)
	Net financial interest expense	42,381		31,162		11,219
	<b>Cash flow generated by operating activities before changes in working capital</b>	<b>414,348</b>		<b>391,603</b>		<b>22,745</b>
23	Increases in current receivables included in the working capital	(110,189)	4,551	(101,028)	(11,969)	(9,161)
31	Increase/decrease in current payables included in the working capital	(55,832)	(51,390)	(141,860)	12,060	86,028
23.a	Increase/(decrease) in inventories	(8,997)		(6,506)		(2,491)
	<b>Change in working capital</b>	<b>(175,019)</b>		<b>(249,395)</b>		<b>74,376</b>
	<b>Change in other assets/liabilities during the period</b>	<b>8,268</b>		<b>11,920</b>		<b>(3,652)</b>
	<b>TOTAL CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>247,597</b>		<b>154,128</b>		<b>93,469</b>
	<b>Cash flow from investment activities</b>					
13-14	Purchase/sale of tangible fixed assets	(113,119)		(106,711)		(6,408)
15-17	Purchase/sale of intangible fixed assets	(174,033)		(145,421)		(28,613)
18-19	Equity investments			(7,692)		7,692
19	Proceeds/payments deriving from other financial investments	(218,996)	(16,702)	3,383	14,052	(222,379)
	Interest income received	8,018		8,217		(199)
	<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>(498,130)</b>		<b>(248,223)</b>		<b>(249,907)</b>
	<b>Cash flow from financing activities</b>					
	Non-controlling interests in subsidiaries' capital increase	0		(100)		100
28	Repayment of borrowings and long-term loans	661,216		67,746		593,470
31	Decrease/increase in other short-term borrowings	236,801	1,484	99,247	2,443	137,553
	Interest expense paid	(53,255)		(48,226)		(5,029)
	Dividends paid	(74,323)	74,323 (ed.)	(136,105)	(136,105)	61,782
	<b>TOTAL CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>770,439</b>		<b>(17,438)</b>		<b>787,877</b>
	<b>Cash flows for the period</b>	<b>519,906</b>		<b>(111,534)</b>		<b>631,440</b>
	<b>Net opening balance of cash and cash equivalents</b>	<b>680,641</b>		<b>665,533</b>		<b>15,108</b>
	<b>Net closing balance of cash and cash equivalents</b>	<b>1,200,547</b>		<b>553,999</b>		<b>646,548</b>

Amounts in thousand euros

## Consolidated Statement of Changes in Shareholders' equity

thousand euros	Share capital	Legal reserve	Other reserves	Profit for the period	Total	Non-controlling interests	Total shareholders' equity
Balances at 1 January 2017	1,098,899	95,188	218,040	259,009	1,671,136	86,807	1,757,943
Income statement profit	0	0	0	103,492	103,492	6,844	110,337
Other comprehensive income (losses)	0	0	0	1,560	1,560	250	1,810
Total comprehensive income (loss)	0	0	0	105,052	105,052	7,094	112,147
Allocation of result for 2016		5,433	253,576	(259,009)	0	0	0
Distribution of dividends	0	0	(131,780)	0	(131,780)	(4,326)	(136,105)
Change in basis of consolidation	0	0	10,918	0	10,918	(806)	10,112
Other Changes	0	0		0	0		0
Balances as at 30 June 2017	1,098,899	100,621	350,754	105,052	1,655,326	88,771	1,744,097
Income statement profit	0	0	0	77,190	77,190	4,677	81,866
Other comprehensive income (losses)	0	0	0	(1,569)	(1,569)	152	(1,417)
Total comprehensive income (loss)	0	0	0	75,621	75,621	4,828	80,450
Allocation of result for 2016	0	0	0	0	0	0	0
Distribution of dividends	0	0	0	0	0	0	0
Change in basis of consolidation	0	0	(13,413)	0	(13,413)	91	(13,322)
Other Changes	0	(2)	95	0	93	(111)	(18)
Balances as at 31 December 2017	1,098,899	100,619	337,436	180,673	1,717,626	93,580	1,811,206

thousand euros	Share capital	Legal reserve	Other reserves	Profit for the period	Total	Non-controlling interests	Total shareholders' equity
Balances as at 31 December 2017	1,098,899	100,619	337,436	180,673	1,717,626	93,580	1,811,206
FTA reserve			(150,531)		(150,531)		(150,531)
Balances at 1 January 2018	1,098,899	100,619	186,904	180,673	1,567,095	93,580	1,660,675
Income statement profit	0	0	0	142,675	142,675	7,983	150,659
Other comprehensive income (losses)	0	0	0	9,861	9,861	274	10,135
Total comprehensive income (loss)	0	0	0	152,536	152,536	8,257	160,794
Allocation of result for 2017	0	11,329	169,344	(180,673)	0	0	0
Distribution of dividends	0	0	(130,298)	0	(130,298)	(3,607)	(133,905)
Change in basis of consolidation	0	0	0	0	0	0	0
Other Changes*	0	0	(14,687)	0	(14,687)	(6,565)	(21,252)
Balances as at 30 June 2018	1,098,899	111,948	211,264	152,536	1,574,646	91,665	1,666,311

\* For further details see the section "Accounting principles, interpretations and improvements applied as of 1 January 2018"

Amounts in thousand euros

## Notes to the Consolidated Income Statement

### Consolidated net revenue

At 30 June 2018 these amounted to 1,454,278 thousand euros (1,372,483 thousand euros at 30 June 2017), recording an increase of 81,795 thousand euros (+6.0%) compared to the same period of the previous year and they are broken down as follows:

thousand euros	30/06/18	30/06/2017	Variation	Variation %
Revenue from sales and services	1,390,040	1,333,002	57,039	4.3%
Other revenue and proceeds	64,238	39,482	24,756	62.7%
<b>Consolidated net revenue</b>	<b>1,454,278</b>	<b>1,372,483</b>	<b>81,795</b>	<b>6.0%</b>

#### I. Revenue from sales and services – 1,390,040 thousand euros

The item recorded an overall increase of 57,039 thousand euros (+4.3%) compared to the first half of the previous year, which closed with the amount of 1,333,002 thousand euros. The composition of the item is shown below.

thousand euros	30/06/18	30/06/2017	Variation	% Variation
Revenue from electricity sales and services	896,677	837,874	58,803	7.0%
Revenue from gas sales	38,183	35,770	2,413	6.8%
Revenue from electricity incentives	12,879	12,348	530	4.3%
Revenue from the Integrated Water Service	330,877	326,718	4,159	1.3%
Revenue from Overseas Water Services	17,301	17,403	(102)	(0.6%)
Revenue from biomass transfer and landfill operations	30,187	29,290	897	3.1%
Revenue from services to customers	48,250	59,123	(10,873)	(18.4%)
Connection fees	15,688	14,477	1,211	8.4%
<b>Revenue from sales and services</b>	<b>1,390,040</b>	<b>1,333,002</b>	<b>57,039</b>	<b>4.3%</b>

#### Revenue from electricity sales and services

This item amounted to 896,677 thousand euros and, net of inter-company eliminations, include the following items:

thousand euros	30/06/18	30/06/2017	Variation	Variation %
Electricity and heat generation	5,636	6,551	(915)	(14.0%)
Electricity sales	722,145	676,646	45,500	6.7%
Transport and metering of energy	143,740	130,121	13,619	10.5%
Energy sales from WTE	22,465	22,086	379	1.7%
Energy from photovoltaic plants	325	367	(42)	(11.4%)
Co-generation	2,365	2,103	262	12.5%
<b>Revenue from electricity sales and services</b>	<b>896,677</b>	<b>837,874</b>	<b>58,803</b>	<b>7.0%</b>

The main changes concern:

- the increase in revenues from the sale of electricity for 45,500 thousand euros due to: i) the increase in prices only partially mitigated by the decrease in quantities sold in the protected market (-6.2%); ii) the reduction in volumes of electricity sold in the free market (-11.5%). The reduction mainly concerned the B2B segment in the industrial sector (-11.5%) and is mainly attributable to continuation of the customer portfolio diversification strategy, which has seen

an increase in the small business and mass market segments in terms of number of customers served; The reduction is also a consequence of the effects deriving from the revision regarding electrical imbalances;

- the increase in revenues from the transport and measurement of energy destined for the protected and free markets due to the combined effect of the increased energy fed into the network and the increase in tariff parameters.

#### Revenue from gas sales

Revenues equal 38,183 thousand euros and show an increase of 2,413 thousand euros compared to 30 June 2017 due to both the price effect and the quantity-sold

effect, to final customers and wholesalers by Acea Energia (+ 16 million m3 of gas compared to the first half of 2017).

### Revenue from electricity incentives

These revenues amount to 12,879 thousand euros and show an increase of 530 thousand euros compared to the same period of the previous year. The item includes the recognition of revenues from green certificates: **i)** those of Acea Energia (10,339 thousand euros) in relation to the energy produced by the

Salisano and Orte Station, **ii)** those of Acea Ambiente (2,335 thousand euros) from revenue for green certificates deriving from an incentive system from renewable sources of the WTE plants in Terni and San Vittore del Lazio.

### Revenue from the Integrated Water Service

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 to a lesser extent those in Campania. These

revenues amounted to a total of 330,877 thousand euros, up 4,159 thousand euros (+1.3%) compared with the first half of the previous year (326,718 thousand euros).

Details of the breakdown by company are given below.

thousand euros	30/06/18	30/06/2017	Variation	Variation %
ACEA Ato2	288,420	285,911	2,509	0.9%
ACEA Ato5	35,350	32,890	2,460	7.5%
Crea Gestioni	1,983	1,854	129	7.0%
Gesesa	5,123	6,063	(940)	(15.5%)
<b>Revenue from the Integrated Water Service</b>	<b>330,877</b>	<b>326,718</b>	<b>4,159</b>	<b>1.3%</b>

The change recorded by ACEA Ato2 (+ 2,509 thousand euros) derives mainly from the increase in the 2018 VRG approved in the session of 27 July 2016 compared to the previous year and the higher adjustments deriving from pass-through items (electricity, concession fees) totalling 1,336 thousand euros; to this is added the recognition of the premium (15,748 thousand euros at 30 June 2018, 14,253

thousand euros at 30 June 2017) recognised to ACEA Ato2 pursuant to art. 32, letter a), resolution 664/2015, gross of compensation due to users; at 30 June 2018 the latter amounted to 591 thousand euros. The decrease recorded by Gesesa (- 940 thousand euros) derives mainly from the recovery of effects linked to the tariff adjustments recorded in 2017.

### Revenue from international water services

These revenues are equal to 17,301 thousand euros and show an increase of 102 thousand euros compared to the previous year (17,403 thousand euros as at 30 June 2017).

### Revenue from biomass transfer and landfill operations

These amounted to 30,187 thousand euros, recording an increase of 897 thousand euros compared to the same period of previous year (29,290 thousand euros). The breakdown by company is provided below:

thousand euros	30/06/18	30/06/2017	Variation	Variation %
Acea Ambiente	23,038	22,817	222	1.0%
Aquaser	3,378	3,203	175	5.5%
ISECO	125	100	26	25.6%
Acque Industriali	3,645	3,171	474	15.0%
<b>Revenue from biomass transfer and landfill operations</b>	<b>30,187</b>	<b>29,290</b>	<b>897</b>	<b>3.1%</b>

The performance of the first half of 2018 is influenced by the following main events:

- ✓ Acea Ambiente + 222 thousand euros as a result of the greater contribution of pulp to WTE plants, as well as the tariff effect;

- ✓ Acque Industriali + 474 thousand euros due to the increased activities deriving from waste disposal and management of waste water treatment plants.

### Revenue from services to customers

These amounted to 48,250 thousand euros (59,123 thousand euros at 30 June 2017) and decreased by 10,873 thousand euros.

This type of revenue comprises:

thousand euros	30/06/18	30/06/2017	Variation	% Variation
Public Lighting - Rome	22,009	33,509	(11,500)	(34.3%)
Public Lighting - Naples	0	48	(48)	(100.0%)
Revenue from services requested by third parties	19,927	17,138	2,789	16.3%
Inter-company services	4,423	4,671	(248)	(5.3%)
Photovoltaic	99	88	11	12.3%
GIIP revenue	3,151	3,207	(56)	(1.8%)
Change in inventories	(1,358)	463	(1,821)	n.s.
<b>Revenue from services to customers</b>	<b>48,250</b>	<b>59,123</b>	<b>(10,873)</b>	<b>(18.4%)</b>

The main change is due to the decrease in revenues of the Parent Company from Roma Capitale (- 11,500 thousand euros) with reference to the LED Plan. It should be noted that the Acea Group is completing the

plan for the mass replacement of lighting fixtures with LEDs financed by Roma Capitale.

With reference to the breakdown of this item, the table for the Industrial Segment compared with the figures as at 30 June 2017 is shown below

thousand euros	30/06/18	30/06/2017	Variation	Variation %
Environment	3,464	2,177	1,287	59.1%
Commercial and Trading	103	503	(400)	(79.5%)
Overseas	89	23	66	n.s.
Water	12,613	8,367	4,246	50.8%
Energy Infrastructures	26,295	4,677	21,618	n.s.
Engineering and Services	1,653	5,878	(4,225)	(71.9%)
Parent Company	4,033	37,497	(33,464)	(89.2%)
<b>Revenue from services to customers</b>	<b>48,250</b>	<b>59,123</b>	<b>(10,873)</b>	<b>(18.4%)</b>

### Connection fees

These amounted to 15,688 thousand euros, recording an increase of 1,211 thousand euros compared to 30 June 2017. These revenues were achieved as follows:

- Commercial and Trading Segment: 8,448 thousand euros (+ 2,059 thousand euros);

- Water Segment: 1,575 thousand euros (+ 35 thousand euros);
- Energy Infrastructures Segment: 5,674 thousand euros (- 873 thousand euros).

### 2. Other proceeds – 64,238 thousand euros

This item increased by 24,756 thousand euros (+62.7%) compared to 30 June 2017, which closed with a total of 39,482 thousand euros.

The change was mainly due to the following opposing effects:

- a 14,049 thousand euros increase due to the cancellation fees accrued on energy efficiency certificates due to the increased quantity purchased during the year,
- higher contingencies for 6,532 thousand euros originating mainly in the companies of the Water Segment (+ 3,823 thousand euros in ACEA Ato2

and + 3,114 thousand euros in ACEA Ato5) partly offset by lower contingencies at areti (- 1,168 thousand euros) due to the assessment of entries from previous years; in particular, note the positive conclusion of the settlement agreement (2,347 thousand euros) which took place on 15 May 2018 underwritten with the Consortium for Industrial Development for the period 2005-2011 for the management of water treatment and supply systems for some municipalities of the Province of Frosinone;

A breakdown of said item is shown in the table below:

thousand euros	30/06/18	30/06/2017	Variation	% Variation
Contributions from Entities for Energy Efficiency Certificates	31,621	18,616	13,005	69.9%
Non-recurring gains	13,679	7,147	6,532	91.4%
Other revenues	6,118	4,477	1,642	36.7%
Reimbursement for damages, penalties, compensation	4,515	2,849	1,666	58.5%
Feed-in-tariff	2,388	2,542	(155)	(6.1%)
Government grant (Prime Ministerial Decree of 23/04/04)	2,000	1,079	921	85.4%
Regional grants	1,096	0	1,096	n.s.
Income from end users	(125)	154	(279)	(180.8%)
Seconded staff	525	503	22	4.3%
Property income	894	924	(30)	(3.3%)
IFRIC 12 margin	1,110	712	398	55.8%
Gains on asset disposals	8	8	(1)	(6.4%)
Recharged cost for company officers	409	469	(61)	(12.9%)
<b>Other revenue and proceeds</b>	<b>64,238</b>	<b>39,482</b>	<b>24,756</b>	<b>62.7%</b>

The main change refers to the higher contributions recorded as a result of the increase in the cancellation of energy efficiency certificates that occurred during the first half of 2018 compared to

what was achieved during the first half of 2017. This increase in revenues is offset by an equal increase on the cost side.

### Consolidated operating costs

As at 30 June 2018 these amounted to 1,022,894 thousand euros (968,953 thousand euros at 30 June

2017), recording an increase of 53,941 thousand euros (+5.6%) from the previous year.

The breakdown is as follows:

thousand euros	30/06/18	30/06/2017	Variation	Variation %
Personnel costs	109,927	109,105	822	0.8%
Costs of materials and overheads	912,967	859,848	53,119	6.2%
<b>Consolidated operating costs</b>	<b>1,022,894</b>	<b>968,953</b>	<b>53,941</b>	<b>5.6%</b>

### 3. Personnel costs – 109,927 thousand euros

thousand euros	30/06/18	30/06/2017	Variation	% Variation
Staff costs including capitalised costs	173,704	169,391	4,313	2.6%
Capitalised costs	(63,777)	(60,287)	(3,491)	5.8%
<b>Personnel costs</b>	<b>109,927</b>	<b>109,105</b>	<b>822</b>	<b>0.8%</b>

The increase in staff costs, including capitalised costs, amounted to 4,313 thousand euros and is mainly influenced by the significant increases in personnel costs in the Energy Infrastructures Segment (+ 1,737 thousand euros) and Water Segment (+ 1,323 thousand euros).

(+ 5,106 thousand euros) partially offset by the decrease recorded by the Energy Infrastructures Segment (- 1,662 thousand euros). 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.

With regard to capitalised costs, there was an increase of 3,491 thousand euros primarily driven by the growth of capitalised costs recorded in the Water Segment

The following tables show the average and actual number of staff by operating segment compared to the first half of the previous year.

	Average number of employees			
	30/06/18	30/06/2017	Variation	% Variation
Environment	360	350	11	3.1%
Commercial and Trading	465	476	-11	(2.2%)
Overseas	606	651	-45	(7.0%)
Water	1,794	1,774	20	1.1%
Lazio-Campania	1,749	1,729	20	1.2%
Other	45	45	0	0
Energy Infrastructures	1,386	1,362	24	1.8%
Distribution	1,308	1,284	25	1.9%
Electricity generation	78	79	-1	(0.6%)
Public Lighting	0	0	0	n.s.
Engineering and Services	272	314	-42	(13.3%)
Parent Company	662	583	79	13.5%
<b>Total</b>	<b>5,546</b>	<b>5,511</b>	<b>36</b>	<b>0.7%</b>

	End-of-period number of employees			
	30/06/18	30/06/2017	Variation	% Variation
Environment	357	352	5	1.4%
Commercial and Trading	464	473	-9	(1.9%)
Overseas	608	594	14	2.4%
Water	1,789	1,762	27	1.5%
Lazio-Campania	1,744	1,717	27	1.6%
Other	45	45	0	0
Energy Infrastructures	1,392	1,369	23	1.7%
Distribution	1,314	1,290	24	1.9%
Electricity generation	78	79	-1	(1.3%)
Public Lighting	0	0	0	n.s.
Engineering and Services	275	315	-40	(12.7%)
Parent Company	660	590	70	11.9%
<b>Total</b>	<b>5,545</b>	<b>5,455</b>	<b>90</b>	<b>1.7%</b>



#### 4. Costs of materials and overheads – 912,967 thousand euros

This item shows an overall increase of 53,119 thousand euros (+6.2%) compared to 30 June 2017 which closed with a total amount of 859,848 thousand euros.

thousand euros	30/06/18	30/06/2017	Variation	% Variation
Electricity, gas and fuel	702,635	652,027	50,609	7.8%
Materials	18,551	26,715	(8,164)	(30.6%)
Services	127,762	124,623	3,139	2.5%
Concession fees	27,130	22,720	4,410	19.4%
Cost of leased assets	11,945	12,142	(197)	(1.6%)
Other operating costs	24,942	21,621	3,322	15.4%
<b>Costs of materials and overheads</b>	<b>912,967</b>	<b>859,848</b>	<b>53,119</b>	<b>6.2%</b>

#### Electricity, gas and fuel costs

This item includes:

thousand euros	30/06/18	30/06/2017	Variation	% Variation
Purchase of electricity	520,731	441,392	79,339	18.0%
Gas purchase	31,245	8,642	22,602	n.s.
Transport of electricity and gas	119,182	182,511	(63,329)	(34.7%)
White certificates	30,647	19,382	11,265	58.1%
Green certificates and Co2 rights	831	99	732	n.s.
<b>Electricity, gas and fuel costs</b>	<b>702,635</b>	<b>652,027</b>	<b>50,609</b>	<b>7.8%</b>

The change is mainly due to: **i)** higher transport costs and energy metering for the protected and free markets due to the combined effect of the increased energy fed into the network and the increase in tariff parameters; **ii)** the increase in the purchase costs of white certificates by *areti* for the fulfilment of the

regulatory energy efficiency obligation as a result of the greater quantities purchased; **iii)** higher costs associated with the procurement of electricity; **iv)** higher costs incurred for the supply of gas due both to a price effect and a quantity effect.

#### Materials

The cost of materials amounted to 18,551 thousand euros and represents the cost of materials used during

the period net of capital expenditure, as shown in the table below.

thousand euros	30/06/18	30/06/2017	Variation	% Variation
Purchase of materials	39,113	44,959	(5,846)	(13.0%)
Change in inventories	(11,291)	(6,513)	(4,779)	73.4%
<b>Purchases net of inventories</b>	<b>27,821</b>	<b>38,446</b>	<b>(10,625)</b>	<b>(27.6%)</b>
Capitalised costs	(9,270)	(11,731)	2,461	(21.0%)
<b>Materials</b>	<b>18,551</b>	<b>26,715</b>	<b>(8,164)</b>	<b>(30.6%)</b>

The purchases of materials, net of inventories, recorded a 10,625 thousand euros decrease, essentially attributable to the Energy Infrastructures Segment (-7,650 thousand euros) mainly related to lower

purchases of lamps for the LED Plan contract with Roma Capitale. The costs for materials incurred by the operating segments are detailed below.

thousand euros	30/06/18	30/06/2017	Variation	Variation %
Environment	3,356	2,455	901	36.7%
Commercial and Trading	33	48	(15)	(31.2%)
Overseas	798	853	(55)	(6.4%)
Water	7,020	6,752	268	4.0%
Energy Infrastructures	5,171	12,822	(7,650)	(59.7%)
Engineering and Services	1,791	3,116	(1,325)	(42.5%)
Parent Company	382	670	(288)	(43.0%)
<b>Costs for Materials</b>	<b>18,551</b>	<b>26,715</b>	<b>(8,164)</b>	<b>(30.6%)</b>

### Services and contract work

This item amounted to 127,762 thousand euros, an overall increase of 3,139 thousand euros compared to 124,623 thousand euros at 30 June 2017. For an

analysis of the breakdown, please see the following table:

thousand euros	30/06/18	30/06/2017	Variation	% Variation
Technical and Administrative Services (including consulting and collaborations)	22,697	29,269	(6,572)	(22.5%)
Contract work	25,090	21,039	4,051	19.3%
Disposal and transport of sludge, slag, ash and waste	19,447	17,375	2,073	11.9%
Other services	17,271	15,236	2,035	13.4%
Payroll services	6,854	7,441	(587)	(7.9%)
Insurance costs	3,945	5,223	(1,277)	(24.5%)
Electricity, water and gas consumption	6,601	4,413	2,188	49.6%
Internal use of electricity	3,404	3,404	0	0
Intragroup services and otherwise	148	156	(8)	(4.9%)
Telephone and data transmission costs	2,499	3,228	(728)	(22.6%)
Postal expenses	2,206	1,913	292	15.3%
Maintenance fees	7,858	5,384	2,474	45.9%
Cleaning, transport and portage costs	1,422	479	943	196.7%
Advertising and sponsorship costs	2,975	4,201	(1,226)	(29.2%)
Corporate bodies	1,037	1,115	(78)	(7.0%)
Meter readings	2,194	2,154	39	1.8%
Bank charges	1,169	1,379	(210)	(15.3%)
Travel and accommodation expenses	754	813	(59)	(7.2%)
Seconded staff	96	303	(208)	(68.4%)
Printing costs	93	97	(4)	(3.7%)
<b>Costs for services</b>	<b>127,762</b>	<b>124,623</b>	<b>3,139</b>	<b>2.5%</b>

The main changes relate to the works carried out in areti (+ 2,345 thousand euros) and the costs for sludge disposal and transport services in Aquaser (+ 1,825

thousand euros), offset in part by the lower costs of Acea Energia.

### Concession fees

Concession fees totalled 27,130 thousand euros (-4,410 thousand euros compared to the first half of 2017) and referred to companies that manage Area Authorities under concession in Lazio and Campania.

The following table shows a breakdown by Company, compared to the semester in 2017.

thousand euros	30/06/18	30/06/2017	Variation	Variation %
ACEA Ato2	23,711	19,176	4,535	23.7%
ACEA Ato5	3,223	3,315	(93)	(2.8%)
Gesesa	171	203	(32)	(15.9%)
Crea Gestioni	26	26	0	0
<b>Concession fees</b>	<b>27,130</b>	<b>22,720</b>	<b>4,410</b>	<b>19.4%</b>

It should be noted that the increase recorded in ACEA Ato2 refers to the charges related to the mandatory Convention for the management of the Peschiera - Le Capore aqueduct system, signed on 2 February 2018, which provides for an annual charge to ATO3 of 7 million euros (3,500 thousand euros as at 30 June

2018). It is also specified that these costs are passed in order to determine the manager's VRG.

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 11,945 thousand euros, a decrease of 197 thousand euros compared to the same period last year (12,142 thousand euros at 30 June 2017).

The following table illustrates the changes by operating segment:

thousand euros	30/06/18	30/06/2017	Variation	Variation %
Environment	601	565	36	6.5%
Commercial and Trading	441	407	34	8.5%
Overseas	1,099	1,138	(39)	(3.4%)
Water	2,409	3,059	(650)	(21.3%)
Energy Infrastructures	3,651	3,231	420	13.0%
Engineering and Services	300	470	(170)	(36.1%)
Parent Company	3,444	3,273	171	5.2%
<b>Cost of leased assets</b>	<b>11,945</b>	<b>12,142</b>	<b>(197)</b>	<b>(1.6%)</b>

This item includes lease payments of 4,248 thousand euros (4,312 thousand euros at 30 June 2017) and charges relating to other lease payments and rentals for

7,697 thousand euros (7,831 thousand euros at 30 June 2017).

### Other operating costs

These amounted to 24,943 thousand euros as at 30 June 2018 and increased by 3,322 thousand euros. The table below provides details of this item by type:

thousand euros	30/06/18	30/06/2017	Variation	% Variation
Taxes and duties	5,618	6,388	(771)	(12.1%)
Damages and outlays for legal disputes	5,817	4,239	1,578	37.2%
Contributions paid and membership fees	1,485	1,057	428	40.5%
General expenses	4,050	4,110	(61)	(1.5%)
Non-recurring losses	7,973	5,826	2,147	37.0%
<b>Other operating costs</b>	<b>24,943</b>	<b>21,621</b>	<b>3,322</b>	<b>15.4%</b>

This increase is mainly due to the higher contingencies deriving from the ascertainment of energy items coming from previous years (partially covered by

contingent assets of the same) as well as from greater indemnities mainly associated with areti (+ 2,329 thousand euros).

### 5. Net income/(Costs) from commodity risk management - 0 thousand euros

As at 30 June 2018 there are no transactions of the type specified.

Please note that the assessment of counterparty risk carried out in accordance with IFRS does not affect the

effectiveness test carried out on the instruments measured under Hedge Accounting rules.

### 6. Income/(Costs) from equity investments of a non-financial nature - 18,523 thousand euros

This item represents the consolidated result according to the equity method that is included among the

EBITDA components of companies with joint control. The breakdown of this item is detailed below:

thousand euros	30/06/18	30/06/2017	Variation	% Variation
GROSS OPERATING PROFIT	80,936	71,399	9,537	13.4%
Amortisation, depreciation, impairment charges and provisions	(50,749)	(51,283)	534	(1.0%)
Total profit/(loss) on equity investments	(39)	4	(42)	n.s.
Financial items	(2,649)	(4,183)	1,535	(36.7%)
Taxes	(8,976)	(5,367)	(3,609)	64.3%
<b>Income from equity investments of a non-financial nature</b>	<b>18,523</b>	<b>10,569</b>	<b>7,954</b>	<b>75.3%</b>

The EBITDA of these companies increased by 9,537 thousand euros mainly due to changes in the EBITDA of Acque (+ 2,610 thousand euros), Gori (+ 2,509

thousand euros) and Acquedotto del Fiora (+ 1,764 thousand euros) compared to 30 June 2017. The companies' valuation is detailed below:

thousand euros	30/06/18	30/06/2017	Variation	% Variation
Publiacqua	3,825	4,156	(331)	(7.9%)
Acque Group	7,520	4,146	3,374	81.4%
Acquedotto del Fiora	2,270	1,399	871	62.2%
Umbra Acque	163	276	(113)	(40.9%)
Gori	2,571	(1,356)	3,927	n.s.
Nuove Acque and Intesa Aretina	255	313	(58)	(18.5%)
Agua Azul	538	562	(24)	(4.3%)
Ingegnerie Toscane	904	692	212	30.6%
Ecomed in liquidation	(4)	(31)	27	(87.1%)
Gori Servizi	0	(103)	103	n.s.
GEAL	480	515	(35)	(6.8%)
<b>Total</b>	<b>18,523</b>	<b>10,569</b>	<b>7,954</b>	<b>75.3%</b>

### 7. Amortisation, depreciation, impairment charges and provisions - 199,186 thousand euros

Compared to the first half of 2017, there was a decrease of 20,044 thousand euros.

The breakdown is as follows:

thousand euros	30/06/18	30/06/2017	Variation	% Variation
Amortisation and depreciation	161,830	152,525	9,305	6.1%
Provision for impairment of receivables	31,877	46,334	(14,457)	(31.2%)
Provision for risks and charges	5,479	20,371	(14,892)	(73.1%)
<b>Total</b>	<b>199,186</b>	<b>219,230</b>	<b>(20,044)</b>	<b>(9.1%)</b>

#### Amortisation and depreciation

thousand euros	30/06/18	30/06/2017	Variation	% Variation
Depreciation	65,101	65,276	(176)	(0.3%)
Amortisation	95,207	77,763	17,443	22.4%
Impairment charges	1,523	9,486	(7,962)	(83.9%)
<b>Depreciation/amortisation</b>	<b>161,830</b>	<b>152,525</b>	<b>9,305</b>	<b>6.1%</b>

The 9,305 thousand euros increase in depreciation and amortisation breaks down as follows:

- + decrease in depreciation of tangible fixed assets of 176 thousand euros;
- + increase in the amortisation of intangible fixed assets of 17,443 thousand euros, mainly due to the increase in investments in all business areas

#### Impairment charges and losses on receivables

This item shows a decrease of 14,457 thousand euros mainly referring to areti (- 9,576 thousand euros) and to Acea Energia (- 8,581 thousand euros). With regard to areti, the change is entirely attributable to the impairment made at 30 June 2017 with reference to the Gala matter. In this regard, it is recalled that the seller Gala, which represents one of the main parties operating in the concession area of areti as a wholesaler for the transport service, has

related to technological developments. To this is added the effects related to the application of the new IFRS15 standard with reference to the contract costs of Acea Energia.

The losses in value refer to the impairment of a further portion of the Acea Ambiente plant (in particular Monterotondo - ref IAS36).

interrupted payments to the Company, speciously using administrative court judgements having to do with general system charges. For more information on the Gala case, refer to the section "Updates on major disputes and litigation" and to the section "Energy Infrastructures Operating Segment".

The breakdown by operating segment is provided below:

thousand euros	30/06/18	30/06/2017	Variation	Variation %
Environment	15	(49)	64	(130.7%)
Commercial and Trading	12,838	21,744	(8,906)	(41.0%)
Overseas	1,323	610	712	116.7%
Water	13,039	10,026	3,013	30.1%
Energy Infrastructures	1,479	11,598	(10,119)	(87.3%)
Engineering and Services	20	55	(35)	(63.3%)
Parent Company	3,163	2,348	815	34.7%
<b>Impairment charges and losses on receivables</b>	<b>31,877</b>	<b>46,334</b>	<b>(14,457)</b>	<b>(31.2%)</b>

### Provisions

At 30 June 2018 the provisions, net of releases of provisions in excess of expected liabilities, amounted

to 5,479 thousand euros. Their breakdown by type is as follows: and they are distinguished by their nature:

thousand euros	30/06/18	30/06/2017	Variation	% Variation
Legal	1,112	1,760	(648)	(36.9%)
Tax Office	483	843	(360)	(42.7%)
Regulatory risks	1,889	917	973	106.1%
Investees	1,186	442	745	168.6%
Contributory risks	196	95	101	105.4%
Contracts and supplies	100	95	5	5.3%
Other risks and charges	2,009	315	1,694	n.s.
Total Provision for Risks	6,975	4,467	2,509	56.2%
<b>Early retirements and redundancies</b>	<b>2,155</b>	<b>11,712</b>	<b>(9,557)</b>	<b>(81.6%)</b>
Charges towards Others	1,437	0	1,437	n.s.
Ifric 12 restoration charges	1,578	5,842	(4,264)	(73.0%)
Total Provisions	12,145	22,021	(9,876)	(44.9%)
<b>Release of Provisions</b>	<b>(6,666)</b>	<b>(1,649)</b>	<b>(5,016)</b>	<b>n.s.</b>
<b>Total</b>	<b>5,479</b>	<b>20,371</b>	<b>(14,892)</b>	<b>(73.1%)</b>

The composition of provisions by Industrial

Segment is shown in the following table:

thousand euros	30/06/18	30/06/2017	Variation	Variation %
Environment	58	(19)	77	0.0%
Commercial and Trading	1,791	1,485	306	20.6%
Overseas	56	39	17	42.8%
Water	4,569	9,175	(4,605)	(50.2%)
Energy Infrastructures	3,488	3,310	178	5.4%
Engineering and Services	0	425	(425)	(100.0%)
Parent Company	(4,483)	5,956	(10,439)	(175.3%)
<b>Provisions</b>	<b>5,479</b>	<b>20,371</b>	<b>(14,892)</b>	<b>(73.1%)</b>

The most significant provisions made during the year comprised:

- ✓ the provision for voluntary redundancies and early retirements (2,155 thousand euros) which represents the amounts necessary to cover the staff reduction plan through the adoption of voluntary redundancy and early retirement measures for the Group staff; this item represents the largest difference between the two half-years compared (- 9,557 thousand euros);
- ✓ other risks for 2,009 thousand euros (+ 1,694 thousand euros) due to the provision recorded

in Acea Energia (1,718 thousand euros) to cover the risks associated with the management of agents and representatives;

- ✓ other charges (1,416 thousand euros) to cover the differential between costs and revenues linked to the obligation of the EECs for areti falling under 2018;

Lastly, there was a reduction in Ifric 12 recovery charges following the reduction in the restoration charge fund at the end of the 2017 financial year.

Further information is provided in note 27 and in the section "Update on major disputes and litigation".

## 8. Financial income - 6,515 thousand euros

thousand euros	30/06/18	30/06/2017	Variation	% Variation
Interest on financial receivables	2,726	2,502	224	8.9%
Bank interest income	98	15	84	n.s.
Interest on trade receivables	3,041	2,524	517	20.5%
Interest on other receivables	364	566	(203)	(35.8%)
Financial income from discounting to present value	320	6,728	(6,408)	(95.2%)
Financial income from measurement of fair value hedges	(172)	(169)	(3)	1.8%
Other income	138	340	(202)	(59.4%)
<b>Financial income</b>	<b>6,515</b>	<b>12,506</b>	<b>(5,992)</b>	<b>(47.9%)</b>

Financial income amounted to 6,515 thousand euros, a decrease of 5,992 thousand euros compared to the same period of the previous year. The change

derives mainly from the recognition of non-recurring income recorded in the same period of the previous year.

## 9. Financial costs - 48,896 thousand euros

thousand euros	30/06/18	30/06/2017	Variation	% Variation
Costs (Income) on Interest Rate Swaps	262	524	(262)	(50.1%)
Interest on bonds	34,282	29,457	4,825	16.4%
Interest on medium/long-term borrowings	7,876	9,027	(1,152)	(12.8%)
Interest on short-term borrowings	252	180	73	40.4%
Default interest and interest on deferred payments	635	743	(108)	(14.6%)
Interest cost net of actuarial gains and losses	692	489	203	41.5%
Factoring fees	3,224	2,569	655	25.5%
Interest on payments by instalment	22	93	(72)	(76.7%)
Discounting charges	228	0	228	n.s.
Other financial charges	846	184	662	n.s.
Interest payable to end users	593	445	148	33.2%
Foreign exchange gains (losses)	(15)	(43)	28	(64.4%)
<b>Financial costs</b>	<b>48,896</b>	<b>43,669</b>	<b>5,227</b>	<b>12.0%</b>

Financial costs amounted to 48,896 thousand euros, up 5,227 thousand euros compared to 30 June 2017. The average overall "All in" cost of the ACEA Group's debt at 30 June 2018 stood at 2.22% against 2.65% of the first semester 2017.

With regard to financial costs related to borrowings, the following changes should be noted:

- compared to 30 June 2017 the interest on bonds increased by 4,825 thousand euros due to the interest accrued on the two new bonds issued on 1 February of this year;
- on short and medium to long-term debt due to the reduction in the interest rate thanks to the

asset and liability management operation of October 2016;

- compared to 30 June 2017 default interest and interest on deferred payments decreased by 108 thousand euros due to Acea Energia;
- interest on medium/long-term indebtedness decreased by 1,152 thousand euros mainly due to the repayment of two loans by ACEA S.p.A.;
- commissions on receivables transferred, compared to 30 June 2017, increased by 655 thousand euros;
- net foreign exchange gains and losses increased by 28 thousand euros compared to 30 June 2017.

## 10. Income and costs from Equity Investments – 9,411 thousand euros

thousand euros	30/06/18	30/06/2017	Variation	% Variation
Income from equity investments in associates	9,717	901	8,816	n.s.
(Costs) from equity investments in associates	(306)	(252)	(54)	21.6%
<b>(Costs)/Income from equity investments</b>	<b>9,411</b>	<b>649</b>	<b>8,762</b>	<b>n.s.</b>

The income from equity investments refers to the consolidation using the equity method of some group companies, mainly S.I.I. S.c.p.a. which manages the water service in the province of Terni and is 25%

owned by Umbridae (+ 302 thousand euros). It should also be noted that, after the acquisition of the TWS Group, the accounting was carried out according to the provisional acquisition method of a

fund to be used at the time of the closing of the Business Combination. That closure confirmed what was already determined in the 2017 financial

statements. The income registered as at 30 June 2018 amounted to 8,902 thousand euros.

## II. Income Tax - 67,093 thousand euros

Estimated tax expenses for the period were 67,093 thousand euros compared to 54,020 thousand euros in the first half of the previous year.

The breakdown is essentially as follows:

- ✓ Current taxes: 67,652 thousand euros (53,331 thousand euros at 30 June 2017),

- ✓ Net deferred/(prepaid) taxes: 5,148 thousand euros (- 7,163 thousand euros at 30 June 2017). The increase in absolute value of taxes recorded in the period is a direct result of higher pre-tax profit. The table below shows the breakdown of taxes and the correlated percentage weight calculated on consolidated profit before tax

thousand euros	30/06/18	%	30/06/2017	%
Profit before tax from continuing and discontinued operations	217,751		164,357	
Expected tax charge on profit before tax	52,260	24.0%	39,446	24.0%
Net deferred taxation	1,633	0.7%	(10,678)	(6.5%)
Permanent differences*	(5,708)	(2.6%)	7,852	4.8%
IRES for the period	48,815	22.1%	36,620	22.3%
Tax Assets	3,515	1.6%	3,515	2.1%
IRAP	15,391	7.1%	13,885	8.4%
<b>Total taxes</b>	<b>67,093</b>	<b>30.8%</b>	<b>54,020</b>	<b>32.9%</b>

\* Mainly include the untaxed portion of dividends

The tax rate for the year was 30.8% (32.9% in the first half of 2017).



## 12. 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 212,547,907 as at 30 June 2018. Earnings per diluted 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,

increased by the number of shares that could potentially be put into circulation. At 31 December 2017 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 euros	30/06/18	30/06/2017	Variation
Net profit attributable to the Group (€/000)	142,675	103,492	39,183
Net profit attributable to ordinary equity holders of the Group (€/000) (A)	142,675	103,492	39,183
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
<b>Earnings per share (€)</b>			
basic (A/B)	0.670	0.490	0.180
diluted (A/C)	0.670	0.490	0.180

thousand euros	30/06/18	30/06/2017	Variation
Net profit attributable to the Group (€/000)	142,675	103,492	39,183
Net profit attributable to ordinary equity holders of the Group (€/000) (A)	142,675	103,492	39,183
Weighted average number of ordinary shares outstanding for the purpose of determining earnings per share			
- basic (B)	212,547,907	212,547,907	0
- basic (C)	212,547,907	212,547,907	0
<b>Earnings per share (€)</b>			
basic (A/B)	0.670	0.490	0.180
diluted (A/C)	0.670	0.490	0.180

## Notes to the Consolidated Statement of Financial Position

### Assets

At 30 June 2018 these amounted to 8,025,250 thousand euros (7,339,055 thousand euros at 31 December 2017), recording an increase of 686,195

thousand euros or 9.40% from the previous year; they are broken down as follows.

thousand euros	30/06/18	31/12/2017	Variation	Variation %
Non-current assets	5,279,463	5,147,563	131,899	2.6%
Current assets	2,745,604	2,191,309	554,295	25.3%
Non-current assets held for sale 497	183	183	0	0
<b>Total Assets</b>	<b>8,025,250</b>	<b>7,339,055</b>	<b>686,195</b>	<b>9.4%</b>

### 13. Tangible fixed assets - 2,300,957 thousand euros

82% of the tangible fixed assets comprise the net booking value of the infrastructures used for the distribution and generation of electricity (1,881,260 thousand euros).

The remaining 20% refer to:

- facilities belonging to the Environment Segment companies for 224,009 thousand euros;

- infrastructures related to the Parent Company for 95,817 thousand euros;
- infrastructures related to the Energy Segment for 56,625 thousand euros;
- infrastructures related to the Overseas Segment for 32,366 thousand euros.

The following table shows the breakdown and changes in tangible assets in the first quarter of 2018.

thousand euros	Land and buildings	Plant and machinery	Industrial equipment	Other assets	Fixed assets in progress	Assets to be relinquished	Total tangible fixed assets
<b>Historical cost 31.12.2017</b>	<b>512,849</b>	<b>2,801,245</b>	<b>805,815</b>	<b>141,937</b>	<b>30,391</b>	<b>6,878</b>	<b>4,299,114</b>
Assets held for sale	-	-	-	-	-	-	-
Investments/ Acquisitions	8,304	56,384	24,693	2,663	15,629	373	108,046
Disinvestments	-	(3,362)	(67)	(1,222)	(1,171)	-	(5,822)
Change in basis of consolidation	-	-	-	-	-	-	-
Other changes	(29)	10,820	(8,509)	573	674	(337)	3,192
<b>Historical cost 30.06.2018</b>	<b>521,124</b>	<b>2,865,088</b>	<b>821,932</b>	<b>143,950</b>	<b>45,522</b>	<b>6,914</b>	<b>4,404,529</b>
<b>Accumulated depreciation at 31.12.2017</b>	<b>(155,045)</b>	<b>(1,536,192)</b>	<b>(248,193)</b>	<b>(100,576)</b>	<b>(2,091)</b>	<b>(4,107)</b>	<b>(2,046,204)</b>
Assets held for sale	-	-	-	-	-	-	-
Depreciation/amortisation and impairment charges	(7,182)	(38,522)	(15,553)	(5,138)	(203)	4	(66,595)
Disinvestments	-	227	18	872	-	-	1,116
Change in basis of consolidation	-	-	-	-	-	-	-
Other changes	(4,098)	4,994	6,926	287	-	1	8,110
<b>Accumulated depreciation at 30.06.2018</b>	<b>(166,325)</b>	<b>(1,569,494)</b>	<b>(256,802)</b>	<b>(104,555)</b>	<b>(2,294)</b>	<b>(4,102)</b>	<b>(2,103,572)</b>
<b>Net value 30.06.2018</b>	<b>354,799</b>	<b>1,295,594</b>	<b>565,130</b>	<b>39,395</b>	<b>43,228</b>	<b>2,812</b>	<b>2,300,957</b>

Capex during the period was up compared to the same period last year (100,474 thousand euros at 30 June 2017) and amounted to 108,046 thousand euros. They refer mainly to those made by:

- ✓ **areti** for 88,961 thousand euros in relation to the construction and maintenance of HV lines, scheduled maintenance and expansion of primary cabins and reconstruction of secondary cabins and renewal, expansion and ordinary and extraordinary maintenance of MV and LV lines;
- ✓ **Acea Ambiente** for 8,053 thousand euros for investments concerning: (i) the works to expand the Monterotondo Marittimo plant, (ii) the works carried out in the WTE plants in Terni and San Vittore, (iii) the works on the waste treatment plant and biogas production located in Orvieto and, (iv) works to upgrade and further develop the composting plants in Aprilia and Sabaudia.

- ✓ **Acea Produzione** for 4,651 thousand euros mainly for the revamping works of the Mandela hydroelectric plant and for the extension and renovation works of the district heating network in the Mezzocammino area in the south of Rome;
- ✓ **Acea** for 1,544 thousand euros for extraordinary maintenance works on the premises used for company activities and for hardware-related investments within the Acea2.0 project.

The item depreciation/amortisation and impairment charges includes the 1,523 thousand euro reductions in: (i) Acea Ambiente for 1,320 thousand euros for the impairment of the Monterotondo Marittimo plant and (ii) Ecogena for 203 thousand euros for the total impairment of the trigeneration plant in the Laurentino area.

Other changes refer to reclassifications due to the commissioning of assets under construction and disposals and disinvestments of assets.

#### 14. Investment property - 2,518 thousand euros

Investment property primarily includes land and buildings not used in operations and held for rental.

The decrease of 29 thousand euros compared to last year derives from the amortisations and depreciations.

#### 15. Goodwill - 149,921 thousand euros

At 30 June 2018 goodwill amounted to 149,921 thousand euros (149,978 thousand euros at 31 December 2017). The change compared to last year refers to the goodwill recorded in the TWS

(Technologies for Water Services) accounts, consolidated on a line-by-line basis following the acquisition in February 2017. The following table shows the single CGY by Operating Segment.

	31.12.2017	Acquisitions	Impairments/ Revaluations	Other changes	30.06.2018
<b>Environment segment:</b>	<b>11,232</b>	-	-	-	<b>11,232</b>
Waste-to-energy and Composting plants	11,232	-	-	-	11,232
<b>Commercial and Trading Operating Segment</b>	<b>46,982</b>	-	-	-	<b>46,982</b>
Energy sales	46,982	-	-	-	46,982
<b>Energy Infrastructures Segment</b>	<b>91,618</b>	-	-	-	<b>91,618</b>
Renewable energy plants	91,618	-	-	-	91,618
Other	147	-	-	(58)	90
<b>Goodwill</b>	<b>149,978</b>	-	-	<b>(58)</b>	<b>149,921</b>

It should be noted that during the period of reference, there were no impairment indicators also as regards to the updated estimates and forecasts in the 2018-2022 Industrial Plan approved by the Board of Directors. For

further information regarding the cash generating units and the corresponding goodwill values, please refer to the Notes to the Consolidated Financial Statements as at 31 December 2017.

#### Intangible Fixed Assets

thousand euros	Patent rights	Other intangible fixed assets	Fixed assets in progress	Concessions	Total Intangible fixed assets
<b>31.12.2017</b>	<b>137,077</b>	<b>2,880</b>	<b>4,163</b>	<b>1,770,865</b>	<b>1,914,985</b>
Depreciation/amortisation and impairment charges	(25,539)	(4,588)	-	(65,045)	(95,172)
Investments/ Acquisitions	17,759	572	1,659	153,929	173,919
Disinvestments	(7)	-	-	-	(7)
Change in basis of consolidation	-	-	-	-	-
Other changes	(6,903)	23,180	(31)	(4,154)	12,092
<b>Net value at 30.06.2018</b>	<b>122,387</b>	<b>22,044</b>	<b>5,792</b>	<b>1,855,595</b>	<b>2,005,818</b>

Intangible fixed assets amounted to 2,005,818 thousand euros, an increase of 90,833 thousand euros compared to 31 December 2017, as a result of the net balance between investments, 173,919 thousand euros, depreciations/amortisations and impairments, 95,172 thousand euros, and other changes for 12,092 thousand euros. Investments

in the first half of 2018 for internal development, referred to Acea 2.0, amount to approximately 10,600 thousand euros. The change in other intangible assets is related to the effects on the accounting of costs for agents due to the introduction of IFRS 15.

#### 16. Concessions and Rights on Infrastructure - 1,855,595 thousand euros

This item mainly refers to the Water Services and essentially includes:

- ✦ the values of concessions received from the municipalities (127,564 thousand euros),
- ✦ the overall amount of all tangible infrastructures for the management of water services (1,728,031 thousand euros), in accordance with IFRIC 12.

Concessions refer for 117,594 thousand euros 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 ATO2. The balance is completed by the thirty-year concession for the management of the integrated water service in San Pedro Sula in Honduras, totalling 10,677 thousand euros.

Capital expenditure for the period relating to **Infrastructure rights** amounted to 153,929 thousand euros and mainly refers to:

- ✓ ACEA Ato2 for 137,586 thousand euros for extraordinary maintenance operations; the reconstruction, modernisation, expansion and

reclamation of water and sewerage pipes; works on the transport systems (connectors and feeders), on the water stations and on the treatment plants;

- ✓ Acea Ato5 for 16,328 thousand euros for the replacement, maintenance and expansion of water supplies and sewerage pipes and of water treatment plants.

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

### 17. Other intangible fixed assets - 150,223 thousand euros

The increase over the previous year, amounting to 6,103 thousand euros, arises from capital expenditure incurred during the period (19,990 thousand euros), net of amortisation (30,127 thousand euros) and reclassifications.

Capital expenditures carried out in the first half of 2018 totalled 19,990 thousand euros and are mainly attributable to:

- ✚ aret for 11,532 thousand euros 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 related to the Acea 2.0 project;

- ✚ Acea Energia for 5,391 thousand euros for software related to the Acea 2.0 programme, the Credit Scoring project and the CRM and DMS systems;

- ✚ the Parent Company for 1,601 thousand euros in relation to the purchase and implementation of software to support corporate information systems.

The item "other intangible assets" includes the effects of the first application of IFRS15 in relation to agents' costs (9,836 thousand euros).

### 18. Equity investments in associates - 249,179 thousand euros

thousand euros	31/12/2017	Impact on income statement	Impact on equity	Change in basis of consolidation	Other changes	30/06/18
Investments in associates	280,853	19,339	(11,731)	0	(39,281)	249,179

The main changes occurring during the first half of 2018 mainly refer to:

- ✓ valuations of companies consolidated using the equity method, having a positive impact on the income statement totalled 19,339 thousand euros; these valuations are booked mainly under "Income/costs from equity investments of a non-financial nature" (18,523 thousand euros) and under "Income/costs from equity investments" (815 thousand euros);
- ✓ the impact on equity deriving from the first application of international standards *IFRS15* and

*IFRS9* for 12,435 thousand euros and from the effect of the valuations of companies consolidated at equity in the shareholders' equity items for 703 thousand euros.

- ✓ the reclassification of the regulatory risk fund relating to Gori for 38,055 thousand euros. This reclassification was performed for a better comparability of the assets;

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

Half year 2018 thousand euros	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Net profit/(loss)	NFP
AZUL	5,019	1,913	(112)	(366)	1,532	538	1,348
INTESA ARETINA	10,232	396	-	(506)	266	(267)	223
NUOVE ACQUE	18,212	5,022	(8,898)	(4,144)	4,689	522	(5,429)
ECOMED	3	376	(4)	(419)	-	(4)	165
FIORA	99,613	27,736	(73,634)	(22,705)	22,490	2,271	(43,076)
GEAL	14,820	5,118	(7,425)	(5,137)	4,108	480	(1,779)
GORI	100,819	166,061	(84,688)	(144,793)	32,293	2,571	10,765
INGEGNERIE TOSCANE	3,004	14,501	(546)	(11,439)	4,753	904	(5,500)
ACQUE SER	926	10,183	(1,280)	(6,483)	5,603	297	(2,698)
ACQUE	186,682	46,627	(117,715)	(55,542)	37,764	7,223	(84,452)
PUBLIACQUA	186,823	58,400	(87,188)	(61,879)	49,843	3,825	(41,935)
UMBRA	61,365	17,197	(34,495)	(32,932)	15,677	163	(15,334)

2018 thousand euros	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Net profit/(loss)	NFP
GORI SERVIZI	528	1,871	(81)	(1,003)	2,175	122	9
AZUL	5,162	1,859	(110)	(163)	3,285	1,002	1,533
INTESA ARETINA	9,403	249	0	(633)	133	(463)	80
NUOVE ACQUE	18,614	5,408	(11,538)	(2,503)	9,300	964	(5,619)
ECOMED	3	376	(4)	(417)	0	(32)	165
FIORA	100,661	24,313	(75,510)	(20,340)	40,997	2,303	(47,336)
GEAL	14,376	5,399	(7,444)	(4,928)	7,992	1,253	(1,881)
GORI	97,367	164,432	(71,451)	(147,244)	63,825	1,796	1,712
INGEGNERIE TOSCANE	3,078	13,590	(457)	(10,008)	12,042	1,786	(3,403)
ACQUE SERVIZI	985	10,644	(1,196)	(6,880)	10,954	425	(779)
ACQUE	183,311	45,535	(120,504)	(54,743)	73,286	8,228	(83,292)
PUBBLIACQUA	182,839	58,969	(92,354)	(50,093)	104,770	9,201	(48,884)
UMBRA ACQUE	58,984	15,052	(34,655)	(28,785)	30,683	279	(13,699)

### 19. Other equity investments - 2,614 thousand euros

This item, totalling 2,614 thousand euros (2,614 thousand euros also at the end of 2017), consists of

equity interests that do not qualify as subsidiaries, associates or joint ventures.

### 20. Deferred tax assets - 282,226 thousand euros

At 30 June 2018, deferred tax assets, net of deferred tax liabilities, amounted to 208,039 thousand euros (271,148 thousand euros at 31 December 2017).

The balance in deferred tax assets breaks down as follows: (i) 18,370 thousand euros relating to the provision for tax risks (18,016 thousand euros as at 31 December 2017), (ii) 123,443 thousand euros to the amortisation/depreciation of tangible and intangible assets (129,842 thousand euros as at 31 December 2017), (iii) 83,056 thousand euros for the impairment of receivables (56,648 thousand euros as at 31 December 2017) (iv) for 13,724 thousand euros to defined benefit and defined contribution plans (14,027

thousand euros at 31 December 2017), (v) 11,247 thousand euros to fair value of commodities and other financial instruments (11,247 thousand euros as at 31 December 2017).

The deferred tax liabilities mainly reflect the difference between the economic and technical depreciation rates applied to the depreciable assets and the tax-related rates. Uses in the period totalling 4,534 thousand euros and allocations amounting to 3,232 thousand euros contributed to this item.

The following table details the changes in this item:

thousand euros	2017		Changes in 2018					Balance
	Balance	Variation Basis of consolidation	Adjustment/Reclassification	Changes in shareholders' equity	Uses	Rate adjustment	IRES/IRAP provisions	
<b>Deferred tax assets</b>								
Tax losses	132	0	0	0	0	0	381	514
Remuneration of BoD members	110	0	(52)	0	(10)	0	5	53
Provisions for risks and charges	18,016	0	0	0	(1,880)	0	2,234	18,370
Impairments of receivables and equity investments	56,648	0	(13,120)	39,576	(5,063)	0	5,014	83,056
Depreciation/amortisation	129,842	0	(1,901)	(2,316)	(4,610)	0	2,428	123,443
Defined benefit and defined contribution plans	14,027	0	(4)	(71)	(336)	0	108	13,724
Tax assets on consolidation adjustments	20,726	0	(15,782)	0	0	0	(3,515)	1,429
Fair value commodities and other financial instruments	11,247	0	0	0	0	0	0	11,247
Others	20,400	0	675	10,506	(5,172)	0	3,982	30,392
<b>Total</b>	<b>271,148</b>	<b>0</b>	<b>(30,184)</b>	<b>47,695</b>	<b>(17,072)</b>	<b>0</b>	<b>10,637</b>	<b>282,226</b>
<b>Deferred taxes</b>								
Depreciation/amortisation	79,625	0	(25,358)	0	(2,433)	0	20	51,854
Defined benefit and defined contribution plans	(1,667)	0	0	532	(139)	0	36	(1,238)
Fair value commodities and other financial instruments	8,807	0	0	(977)	0	0	22	7,853
Others	6,069	0	(93)	8,552	(1,963)	0	3,154	15,719
<b>Total</b>	<b>92,834</b>	<b>0</b>	<b>(25,451)</b>	<b>8,107</b>	<b>(4,534)</b>	<b>0</b>	<b>3,232</b>	<b>74,187</b>
<b>Net</b>	<b>178,314</b>	<b>0</b>	<b>(4,733)</b>	<b>39,588</b>	<b>(12,537)</b>	<b>0</b>	<b>7,405</b>	<b>208,039</b>

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.

### 21. Non-current financial assets - 36,162 thousand euros

These amount to 36,162 thousand euros (38,375 thousand euros at 31 December 2017) and show a decrease of 2,212 thousand euros due mainly to the change in receivables due from Roma Capitale for 20,433 thousand euros, 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 2015, in compliance with the terms of the Supplementary Agreement to the service contract signed on 15 March 2011.

### 22. Other non-current assets - 250,067 thousand euros

At 30 June 2018, the break-down was as follows:

thousand euros	30/06/18	31/12/2017	Variation	% Variation
Amounts due from the State	92	92	0	0
Advances and deposits	823	897	(74)	(8.3%)
Other receivables	25,837	28,019	(2,182)	(7.8%)
Long-term receivables for tariff adjustments	133,711	135,920	(2,208)	(1.6%)
Long-term receivables for Regulatory Lag	89,329	68,938	20,391	29.6%
Accrued income and prepayments	275	288	(13)	(4.6%)
<b>Other non-current assets</b>	<b>250,067</b>	<b>234,154</b>	<b>15,913</b>	<b>6.8%</b>

Other receivables totalled 25,837 thousand euros (they were 28,019 thousand euros at 31 December 2017) and refer to long-term receivables generated by the public lighting service agreement in the city of Rome, which represent the total investments made at 31 December 2010 for this service, now due following adoption of the financial method according to IFRIC 12 as a result of the additional agreements between ACEA

and Roma Capitale on the service agreement in question. This item also includes long-term receivables for tariff adjustments for 133,711 thousand euros (135,920 thousand euros at 31 December 2017) of the water companies while 89,329 thousand euros (68,938 thousand euros at 31 December 2017) are the receivables registered in areti for the regulatory lag.

### 23. Current assets - 2,745,604 thousand euros

thousand euros	30/06/18	31/12/2017	Variation	% Variation
<b>Inventories</b>	<b>49,199</b>	<b>40,201</b>	<b>8,997</b>	<b>22.4%</b>
<b>Trade receivables:</b>				
Receivables from customers	750,874	933,709	(182,835)	(19.6%)
Receivables from Parent Company	55,098	52,498	2,600	5.0%
Receivables from subsidiaries and associates	42,306	36,503	5,802	15.9%
<b>TOTAL TRADE RECEIVABLES</b>	<b>848,278</b>	<b>1,022,710</b>	<b>(174,433)</b>	<b>(17.1%)</b>
Other current receivables and assets	152,937	148,192	4,745	3.2%
Current financial assets	458,880	237,671	221,208	93.1%
Tax receivables	35,764	61,893	(26,129)	(42.2%)
Cash and cash equivalents	1,200,547	680,641	519,906	76.4%
<b>Current assets</b>	<b>2,745,604</b>	<b>2,191,309</b>	<b>554,295</b>	<b>25.3%</b>

#### 23.a - Inventories

These amounted to 49,199 thousand euros (40,201 thousand euros at 31 December 2017); the breakdown by operating segment is as follows:

thousand euros	30/06/18	31/12/2017	Variation	Variation %
Environment	5,536	5,639	(103)	(1.8%)
Commercial and Trading	0	0	0	n.s.
Overseas	919	777	142	18.3%
Water	7,295	7,016	279	4.0%
Energy Infrastructures	32,187	22,022	10,165	46.2%
Engineering and Services	3,262	4,747	(1,485)	(31.3%)
Parent Company	0	0	0	0
<b>Total</b>	<b>49,199</b>	<b>40,201</b>	<b>8,997</b>	<b>22.4%</b>

The increase is essentially due to the increase in arrears (+ 11,306 thousand euros).

### 23.b - Trade receivables

These amounted to 848,278 thousand euros, recording a decrease of 174,433 thousand euros compared to the previous year, when the figure was 1,022,710 thousand euros.

It should be noted that the change in the period is primarily attributable to the effects of the introduction

of the new IFRS 9 international accounting standard which led to the increase in the provision for impairment of receivables for an amount of 164,901 thousand euros.

### Trade receivables

These amounted to 750,874 thousand euros, recording a decrease of 182,835 thousand euros compared to 31 December 2017.

thousand euros	30/06/18	31/12/2017	Variation	% Variation
Receivables due from end users for bills issued	291,641	482,147	(190,506)	(39.5%)
Receivables due from end users for bills to be issued	337,705	301,480	36,225	12.0%
<b>Total receivables due from end users</b>	<b>629,346</b>	<b>783,627</b>	<b>(154,281)</b>	<b>(19.7%)</b>
Receivables from other customers	121,468	150,022	(28,554)	(19.0%)
Other current receivables and assets	60	60	0	0.0%
<b>Total receivables</b>	<b>750,874</b>	<b>933,709</b>	<b>(182,835)</b>	<b>(19.6%)</b>

Receivables are stated net of the Provision for Impairment of Receivables which at 30 June 2018 amounted to 592,102 thousand euros, an increase over the previous year of 188,499 thousand euros.

It should be noted that, as shown in the notes to the Acea Group 2017 Consolidated Financial Statements and in the criteria and principles of these Explanatory

Notes, starting from 1 January 2018 IFRS9 replaced the previous accounting standard IAS39, resulting in an increase in the provision for impairment of receivables.

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

million euros	30/06/18			31/12/2017			Variation		
	Gross receivables	Impairment provision	Net receivables	Gross receivables	Impairment provision	Net receivables	Gross receivables	Impairment provision	Net receivables
	(a)	(b)	(c)	(c)	(d)	(e)	(a) - (c)	(b) - (d)	(c) - (e)
Environment	55,341	(4,564)	50,777	54,016	(3,611)	50,405	1,325	(953)	372
Commercial and Trading	617,384	(343,072)	274,312	622,047	(270,661)	351,386	(4,664)	(72,411)	(77,075)
Overseas	16,259	(7,617)	8,642	14,209	(6,248)	7,961	2,050	(1,369)	681
Water	451,175	(170,246)	280,929	454,681	(81,521)	373,160	(3,506)	(88,725)	(92,231)
Energy Infrastructures	195,711	(62,356)	133,355	182,529	(37,336)	145,194	13,181	(25,020)	(11,839)
Engineering and Services	3,597	(880)	2,717	5,741	(859)	4,882	(2,144)	(20)	(2,164)
Parent Company	3,510	(3,368)	142	4,090	(3,368)	722	(580)	0	(580)
<b>Total</b>	<b>1,342,976</b>	<b>(592,102)</b>	<b>750,874</b>	<b>1,337,313</b>	<b>(403,604)</b>	<b>933,709</b>	<b>5,663</b>	<b>(188,499)</b>	<b>(182,835)</b>

It should be noted that the change in the provision for impairment of receivables above (equal to 188,499 thousand euros) is attributable (i) for 164,901 thousand euros to the revision of the model for calculating this item related to the introduction of IFRS 9, (ii) for

26,719 thousand euros to the reclassification of the fund for changes in VAT previously recorded in the item "Provisions for risks and charges" and (iii) for 3,121 thousand euros for changes in the period.

### Environment segment receivables

These totalled 50,777 thousand euros and increased by 372 thousand euros compared to 31 December 2017; the increase is due to the combined effect of the increase in Acque Industriali (+ 1,344 thousand euros) and in Iseco (+ 786 thousand euros) mitigated by the

reduction recorded in Aquaser (- 2,103 thousand euros).

During the first half of 2018, Acea Ambiente receivables were transferred without recourse for a total amount of 3,679 thousand euros, all due from the Public Administration.



#### **Commercial and Trading segment receivables**

Receivables in this segment amounted to 274,312 thousand euros and are primarily generated by the sale of electricity to the protected and free markets and by gas sales. The decrease compared to 2017 was 77,075 thousand euros. The provision for impairment of receivables at 30 June 2018 amounted to 343,072 thousand euros, with an increase net of uses of 72,411 thousand euros compared to 31 December 2017. As

#### **Overseas segment receivables**

These totalled 8,642 thousand euros and did not change significantly compared to 31 December 2017.

#### **Water segment receivables**

These total 280,929 thousand euros and show a decrease of 92,231 thousand euros compared to 31 December 2017. The decrease is attributable for 73,504 to ACEA Ato2, 10,599 thousand euros to ACEA Ato5 and 6,909 thousand euros to Umbriadue. The provision for impairment of receivables at 30 June 2018 amounted to 170,246 thousand euros, with an increase net of uses of 88,725 thousand euros compared to 31 December 2017. As also reported in the Commercial and Trading Segment receivables, the increase in the provision for impairment of receivables is attributable to the first application of the new international standard.

The receivables for bills to be issued include the adjustments accrued by ACEA Ato2 and ACEA Ato5 totalling 188,628 thousand euros (including ACEA Ato2

#### **Energy Infrastructures segment receivables**

These amount to 133,355 thousand euros with a decrease of (11,839) thousand euros compared to 31 December 2017, which refers to *areti* for 9,579 thousand euros. The increase in gross receivables, amounting to 13,181 thousand euros, refers to 11,239 thousand euros for the effects to *areti* deriving from the regulatory changes contained in Resolution no. 654/2015/R/eel of ARERA, which led to the registration of income deriving from the elimination of regulatory

#### **Engineering and Services segment receivables**

These totalled 2,717 thousand euros, and the reduction of 2,164 thousand euros compared to 31 December 2017 refers to Technologies for Water Services.

#### **Parent Company receivables**

These totalled 142 thousand euros, recording a decrease of 580 thousand euros compared to 31 December 2017. The Provision for impairment of

widely reported in the other sections of the financial statements, this increase is attributable to the first application of the new IFRS9 standard.

In the first half of 2018, Acea Energia receivables totalling 230,629 thousand euros were transferred pro-soluto, 4,784 thousand euros to the Public Administration.

contractual quality award), concerning the following tariff periods:

- pre-2012 (so-called backdated adjustments) for 2,403 thousand euros;
- first regulatory period (2012-2015) for 91,484 thousand euros;
- second regulatory period (2016 and 2017) for 79,258 thousand euros;
- the premium equal to 15,482 thousand euros net of indemnities, for the first half of 2018.

The Group recognised part of the adjustments in non-current assets for 133,711 thousand euros (135,920 thousand euros as at 31 December 2017).

In the first half of 2018, Acea Ato2 receivables totalling 168,249 thousand euros were transferred pro-soluto, 21,617 thousand euros to the Public Administration.

lag. For more detail, please see the comments on the performance of the business segments.

The provision for impairment of receivables at 30 June 2018 totalled 62,356 thousand euros and recorded an increase of 25,020 thousand euros, also due to the first application of the new IFRS9 standard.

In the first half of 2018, *areti* receivables totalling 271,928 thousand euros were transferred pro-soluto, 95,218 thousand euros to the Public Administration.

receivables amounted to 3,368 thousand euros, unchanged compared to the previous year.

### Receivables from the Parent Company Roma Capitale

Trade receivables due from Roma Capitale totalled 61,616 thousand euros at 30 June 2018 (52,672 thousand euros at 31 December 2017).

The total amount of receivables (including short-term and medium/long term financial receivables resulting from the public lighting contract) was 181,285 thousand

euros compared to 188,214 thousand euros at the end of the previous year.

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 credit exposure and debt exposure, including financial items..

thousand euros	30/06/18	31/12/2017	Variation	% Variation
RECEIVABLES	174,642	192,137	(17,496)	(9.1%)
PAYABLES (including dividends)	(162,986)	(129,064)	(33,922)	26.3%
<b>Balance (Receivables - Payables)</b>	<b>11,656</b>	<b>63,074</b>	<b>(51,418)</b>	<b>(81.5%)</b>

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

Amounts due from Roma Capitale	30/06/18	31/12/2017	Variation
Utility receivables	51,777	43,089	8,688
Contract work and services	5,785	5,673	112
Other receivables: seconded staff	138	158	(20)
<b>Total services billed</b>	<b>57,700</b>	<b>48,920</b>	<b>0</b>
Grants receivable	2,402	2,402	0
<b>Total services requested</b>	<b>60,102</b>	<b>51,321</b>	<b>8,780</b>
Receivables for bills to be issued: Public Lighting	0	0	0
Receivables for bills to be issued: other	1,514	1,351	163
<b>Total services to be billed</b>	<b>1,514</b>	<b>1,351</b>	<b>163</b>
<b>Total trade receivables</b>	<b>61,616</b>	<b>52,672</b>	<b>8,944</b>
<b>Financial receivables for Public lighting services</b>	<b>119,669</b>	<b>135,542</b>	<b>(15,873)</b>
Financial receivables for Public lighting services billed	88,310	118,228	(29,918)
Financial receivables for Public lighting services to be billed	31,359	17,314	14,045
<b>Total receivables due within one year (A)</b>	<b>181,285</b>	<b>188,214</b>	<b>(6,929)</b>

Payables due to Roma Capitale	30/06/18	31/12/2017	Variation
Electricity surtax payable	(15,254)	(15,257)	3
Concession fees payable	(93,136)	(100,235)	7,099
<b>Total trade payables</b>	<b>(108,390)</b>	<b>(115,492)</b>	<b>7,102</b>
<b>Total payables due within one year (B)</b>	<b>(108,390)</b>	<b>(115,492)</b>	<b>7,102</b>
<b>Total (A) - (B)</b>	<b>72,896</b>	<b>72,722</b>	<b>173</b>
Other receivables/(payables) of a financial nature	(44,903)	1,162	(46,065)
Other trade receivables/(payables)	(16,337)	(10,810)	(5,526)
<b>Net balance</b>	<b>11,656</b>	<b>63,074</b>	<b>(51,418)</b>

The change in receivables and payables results from items accrued in the period and consequent to adjustments and amounts received.

The stock of receivables as at 30 June 2018 shows an increase of 8,944 thousand euros due mainly to the increase in receivables for water users (+ 8,799 thousand euros).

For financial receivables, there was a reduction of 15,873 thousand euros compared to the previous year due to the combined effect of collections and offsets and the accrual of receivables related to the public lighting service contract, the agreement for the LED Plan and Public Lighting works.

Receipts and compensation totalling 54,930 thousand euros were recorded in the period. The receivables involved are the following:

- ✓ 21,356 thousand euros for receivables relating to consideration for the public lighting contract from April to December 2017;

For areti, note the inclusion of the receivable deriving from the repetition of the overpayment as a formal notice to fulfil towards Roma Capital for amounts paid in advance to Equitalia and for which there was the recognition of a positive sentence (2,006 thousand euros).

As regards payables, there was an overall increase of 33,922 thousand euros. The main changes are listed below:

- ✚ 40,344 thousand euros for dividends accrued in 2017 and not yet paid as at 30 June 2018;

- ✓ 20,010 thousand euros relating to public lighting contract receivables recognised as off-balance sheet debt by the Capitoline Assembly in December 2016;
- ✓ 2,223 thousand euros for receivables from the new LED Plan agreement;
- ✓ 936 thousand euros for reimbursements relating to cable theft;
- ✓ 9,915 thousand euros for receivables for water users and 417 thousand euros for electricity user receivables.

- ✚ registration of the portion accrued in the period for the concession fee of ACEA Ato2 for 12,911 thousand euros;
- ✚ inclusion of the debt for ACEA Ato2 dividends accrued in 2017 equal to 1,668 thousand euros;
- ✚ areti's COSAP registration for 707 thousand euros;
- ✚ decrease in the debt relating to the concession fee of ACEA Ato2 following the payment of 20,010 thousand euros;
- ✚ decrease in the COSAP debt following the payment of the 2014 share of 1,412 thousand euros.

### Trade receivables from associates and joint ventures

thousand euros	30/06/18	31/12/2017	Variation	Variation %
Receivables from Associates	13,227	2,807	10,419	n.s.
Receivables from jointly controlled entities	29,079	33,696	(4,617)	(13.7%)
<b>Total</b>	<b>42,306</b>	<b>36,503</b>	<b>5,802</b>	<b>15.9%</b>

#### Receivables from associates

These amount to 13,227 thousand euros (2,807 thousand euros at 31 December 2017) and mainly refer

to receivables from S.I.I. for 8,724 thousand euros and from Marco Polo for 1,236 thousand euros.

#### Receivables from joint ventures

These amounted to 29,079 thousand euros (33,696 thousand euros at 31 December 2017), down by 4,617 thousand euros, and they refer to amounts due from companies consolidated using the equity method. In particular, the balance consists of 17,531 thousand euros in receivables recognised in ACEA due from its subsidiaries and 11,144 thousand euros in Sarnese

Vesuviano due from its subsidiary Gori. 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 reflects the allocation of the investment in the joint venture.

### 23.c Other current assets

thousand euros	30/06/18	31/12/2017	Variation	Variation %
Receivables from others	109,685	132,273	(22,588)	(17.1%)
Accrued income and prepayments	37,536	13,678	23,858	174.4%
Payables arising from commodity derivatives	5,716	2,241	3,475	155.1%
<b>Total</b>	<b>152,937</b>	<b>148,192</b>	<b>4,745</b>	<b>3.2%</b>

#### Receivables from others

These totalled 109,685 thousand euros, with breakdown of the main contributing items as follows:

thousand euros	30/06/18	31/12/2017	Variation	Variation %
Receivables due from the Equalisation Fund	41,405	47,842	(6,437)	(13.5%)
Receivables from Equalisation Fund for Tariff Contribution from cancellation	18	12,809	(12,792)	(99.9%)
Other receivables from Equalisation Fund	1,570	(55)	1,626	n.s.
Financial receivables from Trifoglio Immobiliare	-	500	(500)	(100.0%)
Regional grants receivable	6,841	6,841	-	0
Receivables for INPS payments pursuant to article 41, paragraph 2, subsection A of Law 488/1999	3,328	3,744	(416)	(11.1%)
Receivables from Equitalia	2,286	4,293	(2,006)	(46.7%)
Security deposits	3,083	10,803	(7,720)	(71.5%)
Receivables from social security institutions	1,660	3,160	(1,499)	(47.5%)
Receivables from individual transfers	2,197	2,200	(3)	(0.2%)
Suppliers' advances	2,635	5,387	(2,752)	(51.1%)
Receivables due from Municipal Authorities	2,133	1,085	1,048	96.6%
Receivables from Factor from the sale	62	62	-	0
Receivables for accrued Green Certificates	21,781	12,657	9,124	72.1%
Receivables from staff	3	5	(2)	(34.4%)
Other receivables for Naples public lighting services	-	647	(647)	(100.0%)
Advances to employees	(41)	(38)	(4)	9.9%
Other receivables	20,723	20,331	392	1.9%
<b>Total</b>	<b>109,685</b>	<b>132,273</b>	<b>(22,588)</b>	<b>(17.1%)</b>

#### Accrued income and prepayments

These amounted to 37,536 thousand euros (13,678 thousand euros at 31 December 2017) and refer mainly

to rent on public land, lease payments and insurance. The change was a positive 23,858 thousand euros.

#### 23.d - Current tax assets

These amounted to 35,764 thousand euros (61,893 thousand euros at 31 December 2017) and include:

thousand euros	30/06/18	31/12/2017	Variation	Variation %
VAT receivables	5,341	26,329	(20,988)	(79.7%)
IRAP and IRES receivables	22,195	24,739	(2,544)	(10.3%)
Municipal and provincial surcharge, revenue tax	4,654	6,396	(1,742)	(27.2%)
Other tax receivables	3,574	4,428	(854)	(19.3%)
<b>Total</b>	<b>35,764</b>	<b>61,893</b>	<b>(26,128)</b>	<b>(42.2%)</b>

#### 23.e - Other current financial assets

thousand euros	30/06/18	31/12/2017	Variation	Variation %
Financial receivables from the Parent Company	99,111	117,472	(18,360)	(15.6%)
Financial receivables from subsidiaries and associates	8,613	2,309	6,305	n.s.
Financial receivables from third parties	351,155	117,891	233,264	197.9%
<b>Total</b>	<b>458,880</b>	<b>237,671</b>	<b>221,208</b>	<b>93.1%</b>

#### Financial receivables from the Parent Company Roma Capitale

These totalled 99,111 thousand euros, recording a decrease of 18,360 thousand euros compared to 31 December 2017. 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 8,613 thousand euros (2,309 thousand euros as at 31 December 2017) and refer for 7,200 thousand euros to the Acque Blu Fiorentina receivable for 2017 dividends resolved and not paid by

Publiacqua and 1,262 thousand euros to the short-term portion of the loan for financing members registered in Umbriade Servizi provided to the associated company S.I.I.

### **Financial receivables from third parties**

These amounted to 351,155 thousand euros (117,891 thousand euros at 31 December 2017) and are mainly broken down as follows:

- 330,000 thousand euros registered in ACEA for the activation of three short-term deposits expiring within the year;

- 5,302 thousand euros accrued for the management of the public lighting service.

### **23.f Cash and cash equivalents**

The balance at 30 June 2018 of bank current accounts and postal accounts, opened with the various banks and Post Offices by the consolidated companies, except by

companies held for sale, amounted to 1,200,547 thousand euros. A breakdown and changes in this item by operating segment are shown in the table below:

thousand euros	30/06/18	31/12/2017	Variation	Variation %
Environment	1,726	1,875	(149)	(7.9%)
Commercial and Trading	25,972	27,118	(1,146)	(4.2%)
Overseas	2,988	2,785	203	7.3%
Water	63,175	65,089	(1,914)	(2.9%)
Energy Infrastructures	52,049	55,019	(2,969)	(5.4%)
Engineering and Services	4,879	1,332	3,547	n.s.
Parent Company	1,049,757	527,423	522,334	99.0%
<b>Total</b>	<b>1,200,547</b>	<b>680,641</b>	<b>519,906</b>	<b>76.4%</b>

### **24. Non-current assets held for sale/Liabilities directly associated with assets held for sale - 146 thousand euros**

The balance at 30 June 2018 amounted to 146 thousand euros, unchanged from 31 December 2017. It includes the recognition of 183 thousand euros as the fair value of the repurchase commitment, if certain contractual conditions are not satisfied, as a result of the possible

exercise of the put option granted to the buyer of the PV business unit, and the recognition of 37 thousand euros for the amount due to the buyer for the repayment of equity corresponding to the plants subject to the put.

### Liabilities

At 30 June 2018 these amounted to 8,025,250 thousand euros (7,339,055 thousand euros at 31 December 2017), recording an increase of 686,195 thousand euros (9.40%) over the first half of the previous year, and are broken down as follows.

thousand euros	30/06/18	31/12/2017	Variation	Variation %
Shareholders' equity	1,666,311	1,811,206	(144,895)	(8.0%)
Non-current liabilities	3,986,601	3,340,189	646,411	19.4%
Current liabilities	2,372,301	2,187,623	184,678	8.4%
Liabilities directly associated with assets held for sale	37	37	0	0.0%
<b>Total Liabilities</b>	<b>8,025,250</b>	<b>7,339,055</b>	<b>686,195</b>	<b>9.4%</b>

### 25. Shareholders' equity - 1,666,311 thousand euros

At 30 June 2018, shareholders' equity amounted to 1,666,311 thousand euros (1,811,206 thousand euros at 31 December 2017). Changes in shareholders' equity during the period are shown in the appropriate statement.

#### Share capital

This amounts to 1,098,899 thousand euros, represented by 212,964,900 ordinary shares with a par value of 5.16 euros 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 euros;

#### 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

- ✚ **Market: 103,936,757** shares for a total par value of 536,309 thousand euros;
- ✚ **Treasury shares: 416,993** ordinary shares for a total par value of 2,151 thousand euros.
- ✚ **AMA: 1,000** shares for a total par value of 5 thousand euros.

the parent company amounting to 111,948 thousand euros.

#### Other reserves and retained earnings

At 30 June 2018 this item amounted to 221,124 thousand euros against 337,427 thousand euros at 31 December 2017.

The change of 116,303 thousand euros is mainly due, in addition to the allocation of the profit from the previous year, to the: **i)** distribution of dividends of the parent company for 111,059 thousand euros and **ii)** decrease in cash flow hedges of financial instruments and commodities for 5,671 thousand euros **iii)** increase of 1,563 thousand euros in actuarial gains and losses

reserves **iv)** increase in the exchange rate reserve for 452 thousand euros. The registration of the FTA following the first application of the new IFRS9 and IFRS15 international standards should also be noted. This entry, regarding the fully consolidated companies, amounts to 164,901 thousand euros and 35,537 thousand euros respectively. The related tax effects amount to 39,576 thousand euros and 10,331 thousand euros respectively.

At 30 June 2018 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.

#### Non-controlling interests

These amounted to 91,665 thousand euros, a decrease of 1,915 thousand euros. The difference between the two periods under comparison mainly reflects the combined effect of the portion of net profit attributable

to minority interests, the decrease in shareholders' equity as a result of the distribution of dividends from net profit for 2017.

## 26. Staff termination benefits and other defined benefit plans - 106,741 thousand euros

At 30 June 2018, this item amounted to 106,741 thousand euros (108,430 thousand euros as at 31 December 2017) 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 euros	30/06/18	31/12/2017	Variation	Variation %
Benefits payable upon termination of employment				
- Employee severance indemnity	66,655	67,002	(347)	(0.5%)
- Extra months	10,429	10,989	(559)	(5.1%)
- Long-Term Incentive Plans (LTIP)	1,571	1,219	351	28.8%
Post-employment benefits				
- Tariff subsidies	28,087	29,220	(1,133)	(3.9%)
<b>Total</b>	<b>106,741</b>	<b>108,430</b>	<b>(1,689)</b>	<b>(1.6%)</b>

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.

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 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

evaluation.

	June 2018	December 2017
Discount Rate	1.50%	1.30%
Revenue growth rate (average)	1.59%	1.59%
Long-term inflation 1.5%	1.50%	1.50%

With regard to the measurement of the Group Employee Benefits (Staff termination benefits (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	+0.5%	-0.5%
	million euros	million euros
Employee severance indemnity (TFR)	-3.5	+3.8
Tariff subsidies	-0.9	+0.4
Extra months	-0.4	+0.2

In addition, a sensitivity analysis was carried out in relation to the age of the workforce, assuming one year less than the actual age. No sensitivity analyses were

conducted on other variables such as, for example, the inflation rate.

Type of plan	-1 Year of age
	million euros
Employee severance indemnity (TFR)	-0.1
Tariff subsidies	-1.0
Extra months	+0.4

## 27. Provision for risks and charges - 197,254 thousand euros

At 30 June 2018, the provision for risks and charges amounted to 197,254 thousand euros (209,619 thousand euros at 31 December 2017) 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 period:



thousand euros	31/12/2017	Uses	Provisions	Payment of Redundancy Funds	Reclassifications/Other changes	30/06/18
Legal	11,739	(819)	1,112	(77)	(114)	11,840
Tax Office	9,344	0	483	(14)	(242)	9,571
Regulatory risks	60,994	0	1,889	0	(38,055)	24,829
Investees	10,799	0	1,186	(6,379)	(3,314)	2,291
Contributory risks	2,594	(72)	196	(2)	(126)	2,590
Insurance excess	2,111	(204)	0	(172)	(39)	1,695
Other risks and charges	19,597	(1,170)	2,109	(22)	112	20,627
Provisions for risks and charges	0	0	0	0	0	0
<b>Total Provision for Risks</b>	<b>117,178</b>	<b>(2,265)</b>	<b>6,975</b>	<b>(6,666)</b>	<b>(41,779)</b>	<b>73,443</b>
Early retirements and redundancies	18,155	(5,558)	2,155	0	0	14,752
VAT Variation Notes	26,719	0	0	0	(26,719)	0
Post mortem	17,303	0	0	0	228	17,531
Provision for Settlement Charges	222	(102)	0	0	(25)	96
Provision for Charges of others	361	4	59,808	0	0	60,173
Provisions for restoration charges	29,681	0	1,578	0	0	31,259
<b>Total Provision for Charges</b>	<b>92,441</b>	<b>(5,656)</b>	<b>63,541</b>	<b>0</b>	<b>(26,516)</b>	<b>123,811</b>
<b>Total Provisions for Risks and Charges</b>	<b>209,619</b>	<b>(7,921)</b>	<b>70,516</b>	<b>(6,666)</b>	<b>(68,295)</b>	<b>197,254</b>

The main changes refer to:

- to the regulatory risk fund, which recorded a decrease of 38,055 thousand euros referring to the provision recorded in the consolidated financial statements for Gori and reclassified under the item "Equity investments". This reclassification was made net of the issue of a portion of the same provision for 6,161 thousand euros, necessary to realign the value of the fund to that of the equity investment;
- the fund for investee risks, which underwent a total decrease of 9,694 thousand euros, mainly due to the closing of the TWS Group's Business Combination, which led to the release of 8,902 thousand euros in the income statement;
- the provision for early retirements and redundancies to cover the charges deriving from the mobility plan which decreased, net of uses, by 3,403 thousand euros compared to 31 December 2017;
- the provisions for the change in VAT expense of Acea Energia, areti, ACEA Ato2 and ACEA Ato5 to cover the possible restitution of VAT to the tax

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

authorities in the event of payment by the defaulting customer subsequent to the issue of the variation note as a consequence of modification of the regulation introduced by Italian Law no. 208/2015 regarding variation notes for VAT purposes following termination of contracts for the supply of electricity, gas and water due to default; at 30 June 2018 the entire amount was reclassified to the provision for impairment of receivables for a more suitable classification of the item;

- the provision for charges to others that contains the entry of the estimate of taxes for the period.

It should also be noted that the provision also includes the post-mortem fund which refers to (i) charges related to the management of the Orvieto landfill and (ii) the fund set up in Acea Produzione for the decommissioning of the Tor di Valle plant which entered service in 2017.

For more details about the nature of the allocations please refer to note 7.

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".

## 28. Non-current borrowings and financial liabilities - 3,395,892 thousand euros

thousand euros	30/06/18	31/12/2017	Variation	Variation %
Bonds	2,678,969	1,695,028	983,940	58.1%
Medium/long-term borrowings	716,923	1,050,007	(333,084)	(31.7%)
<b>Total</b>	<b>3,395,892</b>	<b>2,745,035</b>	<b>650,857</b>	<b>23.7%</b>

The figures in the table include the fair value, at 30 June 2018, of hedging instruments entered into by ACEA and certain Group companies which are shown

separately from the hedged instrument in the table below.

thousand euros	Hedged instrument	Fair value of derivative	30.06.2018	Hedged instrument	Fair value of derivative	31.12.2017
Bonds	2,650,272	28,696	2,678,969	1,656,682	38,347	1,695,028
Medium/long-term borrowings	709,100	2,723	716,923	1,041,131	3,432	1,050,007
<b>Non-current borrowings and financial liabilities</b>	<b>3,359,372</b>	<b>31,419</b>	<b>3,395,892</b>	<b>2,697,813</b>	<b>41,778</b>	<b>2,745,035</b>

### Bonds

On 1 February 2018, Acea S.p.A. completed the placement of bond issues for an amount of 300,000 thousand euros for a period of 5 years at a variable rate (3-month Euribor +0.37%) and 700,000 thousand euros with a maturity of 9.5 years at a fixed rate (1.5%) from the 3 billion Euro Medium Term Notes (EMTN) programme, as last amended on 17 July 2017 and subsequently supplemented on 19 January 2018. 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.

Bonds amounted to 2,678,969 thousand euros (1,695,028 thousand euros at 31 December 2017) and refer to the following:

- 595,361 thousand euros (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 euros. Interest accrued during the period amounted to 7,810 thousand euros;
- 492,255 thousand euros (including the long portion of the costs associated with the stipulation) relating to the bond loan issued by ACEA in October 2016 under the EMTN programme. Interest accrued during the period amounted to 2,479 thousand euros;
- 422,455 thousand euros (including the long portion of the costs associated with the stipulation) relating to the bond loan issued by

ACEA in March 2010, with a maturity of 10 years due on 16 March 2020. Interest accrued during the period amounted to 9,434 thousand euros;

- 154,501 thousand euros relating to the Private Placement which, net of the Fair Value of the hedge, a negative 28,696 thousand euros, amounted to 183,198 thousand euros. This Fair Value, being the effective hedging, is allocated to a specific equity reserve. A suitable exchange reserve includes the exchange rate difference, a negative 10,545 thousand euros, of the hedged instrument calculated on 30 June 2018. The exchange rate at 30 June 2018 amounted to 129.36 euros against 135.28 euros at 31 December 2017. Interest accrued during the period amounted to 1,974 thousand euros;
- 299,141 thousand euros (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by ACEA on 1 February with a maturity of 5 years at a variable rate (Euribor 3 months + 0.37%) under the EMTN programme. Interest accrued during the period amounted to 50 thousand euros;
- 686,559 thousand euros (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 1 February, with a fixed rate of 1.5% for the duration of 9.5 years under the EMTN programme. Interest accrued during the period amounted to 4,113 thousand euros;

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

thousand euros	Gross Payables(*)	FV hedging instrument	Interest accrued(**)	Total
<b>Bonds:</b>				
Issued in 2010	422,059	0	5,577	427,636
Issued in 2013	330,212	(747)	2,697	332,163
Issued in 2014	594,561	0	15,146	609,707
Private Placement issued in 2014	154,486	28,696	610	183,793
Issued in 2016	491,275	0	3,425	494,700
Issued in 2018	983,901	0	681	984,582

<b>Total</b>	<b>2,976,495</b>	<b>27,950</b>	<b>28,135</b>	<b>3,032,580</b>
(*) including amortised cost				
(**) including rates on hedging instruments				

### Medium/long-term borrowings (including short-term portions)

These totalled 1,026,446 thousand euros (1,201,462 thousand euros at 31 December 2017) and include: (i) principal outstanding falling due beyond twelve months amounting to 711,823 thousand (1,044,563 thousand euros at 31 December 2017), (ii) the portions of the same borrowings falling due in the twelve months thereafter, totalling 314,623 thousand euros (156,899 thousand euros at 31 December 2017) including the fair

value portion, negative for 2,723 thousand euros, of derivative instruments opened to hedge interest and exchange rate risks.

The change is attributable to the Parent Company for 162,400 thousand euros in relation to the repayment of two EIB loans of 100 million euros and 50 million euros, the latter in advance of the natural expiry date.

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

Bank Loans:	Total Residual Debt	By 30.06.2019	from 30.06.2019 to 30.06.2023	After 30.06.2023
fixed rate	507,608	272,677	101,473	133,458
floating rate	486,956	33,614	134,280	319,063
floating rate to fixed rate	31,882	8,333	23,549	0
<b>Total</b>	<b>1,026,446</b>	<b>314,623</b>	<b>259,302</b>	<b>452,521</b>

The fair value of ACEA hedging derivatives was a negative 2,723 thousand euros, decreasing by 709

thousand euros compared to 31 December 2017 (negative 3,432 thousand euros).

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 the first half of 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" of the 2017 Consolidated Financial Statements.

The table below shows the fair value of borrowings broken down by type of loan and interest rate as at 30 June 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. 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:	Amortised cost	RISK-FREE FV	Delta	RISK ADJUSTED FV	Change
	(A)	(B)	(A)-(B)	(C)	(A)-(C)
Bonds	2,678,969	3,241,511	(562,543)	3,140,245	(461,276)
fixed rate	507,608	570,190	(62,582)	559,680	(52,071)
floating rate	486,956	497,406	(10,449)	495,729	(8,772)

floating rate to fixed rate	31,882	32,321	(439)	31,949	(67)
<b>Total</b>	<b>3,705,415</b>	<b>4,341,428</b>	<b>(636,013)</b>	<b>4,227,602</b>	<b>(522,187)</b>

## 29. Other non-current liabilities - 212,526 thousand euros

thousand euros	30/06/18	31/12/2017	Variation	% Variation
Advances received	118,426	116,045	2,380	2.1%
Water and electrical connection fees	44,840	19,364	25,475	131.6%
Capital grants	19,170	19,119	52	0.3%
Accrued liabilities and deferred income	30,090	29,741	349	1.2%
<b>Total other liabilities</b>	<b>212,526</b>	<b>184,270</b>	<b>28,256</b>	<b>15.3%</b>

### Advances from end users and customers

Advances include: (i) the amount of security deposits and consumption advance for water companies and (ii) the amount of advances related to liabilities for advances on electricity consumption, paid by Enhanced Protection customers,

interest earning under the conditions established by the guidelines issued by ARERA (Resolution No. 204/99). The following table provides the breakdown by operating segments:

thousand euros	30/06/18	31/12/2017	Variation	Variation %
Environment	2	2	0	n.s.
Commercial and Trading	41,466	42,442	(977)	(2.3%)
Water	72,689	70,351	2,339	3.3%
Energy Infrastructures	3,262	2,782	481	17.3%
Engineering and Services	929	446	483	108.5%
Parent Company	77	23	55	n.s.
<b>Total</b>	<b>118,426</b>	<b>116,045</b>	<b>2,380</b>	<b>2.1%</b>

### Capital grants and water connection fees

This item amounted to 44,840 thousand euros (19,364 thousand euros at 31 December 2017) and mainly refer to connection fees in Acea Ato2 for 24,960 thousand euros and ACEA Ato5 for 4,759 thousand euros. The item also includes 19,170 thousand euros (19,119 thousand at 31 December 2017) for grants accounted for in liabilities and progressively recognised in the income statement of each year over the term of the underlying investment. The amount recognised as

income is determined on the basis of the useful life of the asset to which it refers.

As at 30 June 2018, the connection fees of Acea Energia appear as a consequence of the application of the new IFRS15 international accounting standard starting from 1 January 2018, as often specified in the notes to the Consolidated Financial Statements as at 31 December 2017.

### Accrued liabilities and deferred income

These amounted to 30,090 thousand euros (29,741 thousand euros at 31 December 2017), and mainly refer to grants received, recognised in the income statement by an amount equal to the depreciation generated by the associated capital expenditure. In

particular, this item includes the residual contribution received by areti for the replacement of electromechanical meters with electronic meters (ARERA Resolution No. 292/06).

### 30. Provision for deferred taxes - 74,187 thousand euros

At 30 June 2018 the provisions totalled 74,187 thousand euros (92,835 thousand euros at 31 December 2017).

These provisions above all regard the difference between economic and technical rates of depreciation

applied to depreciable assets and tax-related rates. Uses in the period totalling 4,534 thousand euros and allocations amounting to 3,232 thousand euros contributed to this item. Please see note 20 for details.

### 31. Current liabilities - € 2,372,301 thousand

thousand euros	30/06/18	31/12/2017	Variation	% Variation
Financial debt	869,956	633,155	236,801	37.4%
Trade payables	1,155,236	1,237,808	(82,572)	(6.7%)
Tax Payables	38,337	38,841	(504)	(1.3%)
Other current liabilities	308,773	277,819	30,954	11.1%
<b>Current liabilities</b>	<b>2,372,301</b>	<b>2,187,623</b>	<b>184,678</b>	<b>8.4%</b>

### Borrowings

thousand euros	30/06/18	31/12/2017	Variation	Variation %
Payables for short-term bank credit lines	114,678	34,813	79,865	n.s.
Payables for bank loans	314,623	156,899	157,724	100.5%
Short-term bonds	353,612	352,846	765	0.2%
Payables to the parent company Municipality of Rome	44,778	2,936	41,842	n.s.
Payables to subsidiaries and associates	596	663	(68)	(10.2%)
Payables to third parties	41,670	84,997	(43,327)	(51.0%)
<b>Total</b>	<b>869,956</b>	<b>633,155</b>	<b>236,801</b>	<b>37.4%</b>

#### Payables for short-term bank credit lines

These amount to 114,678 thousand euros (34,813 thousand euros at 31 December 2017) and show an

increase of 79,865 thousand euros, mainly attributable to the Parent Company.

#### Payables for bank loans

These amounted to 314,623 thousand euros (156,899 thousand euros at 31 December 2017), and refer to the current portion of bank loans falling due within twelve months. The increase is mainly attributable to the Parent Company, in particular due to the

reclassification of the two financing lines for a total of 250,000 thousand euros due to expire in the first half of 2019, offset by the repayment of an EIB loan of 100,000 thousand euros in March 2018. Further details are provided in note 28 of these notes.

#### Short-term bonds

These amounted to 353,612 thousand euros (352,846 thousand euros at 31 December 2017).

The increase is attributable to the bond loan issued by ACEA at the beginning of September 2013 and maturing

on 12 September 2018 for the total value of 332,909 thousand euros.

#### Payables to the Parent Company Roma Capitale

These amount to 44,778 thousand euros (2,936 thousand euros at 31 December 2017) and are essentially composed of the debt for dividends of the Parent Company and ACEA Ato2, respectively 40,344

thousand euros and 3,837 thousand euros, and a residual amount of 597 thousand euros paid for the LED Plan.

### Payables to subsidiaries and associates

These amounted to 596 thousand euros and decreased by 68 thousand euros. This can be attributed to the Parent Company.

### Payables to third parties

These amounted to 41,670 thousand euros (84,997 thousand euros at 31 December 2017). The composition of this item is as follows:

thousand euros	30/06/18	31/12/2017	Variation	Variation %
<b>Dividends payable to shareholders</b>	<b>1,934</b>	<b>65</b>	<b>1,869</b>	<b>n.s.</b>
Environment	97	(72)	169	n.s.
Overseas	0	104	(104)	(100.0%)
Water	1,835	31	1,804	n.s.
Energy Infrastructures	0	0	0	n.s.
Engineering and Services	0	0	0	n.s.
Parent Company	2	2	0	0
<b>Payables to third parties</b>	<b>39,736</b>	<b>84,932</b>	<b>(45,196)</b>	<b>(53.2%)</b>
Environment	344	6,944	(6,600)	(95.1%)
Commercial and Trading	15,972	21,006	(5,034)	(24.0%)
Overseas	354	0	354	n.s.
Water	7,376	20,762	(13,386)	(64.5%)
Energy Infrastructures	13,931	34,460	(20,530)	(59.6%)
Engineering and Services	0	0	0	n.s.
Parent Company	1,760	1,760	0	0
<b>TOTAL</b>	<b>41,670</b>	<b>84,997</b>	<b>(43,327)</b>	<b>(51.0%)</b>

Payables to third parties recorded a decrease of 45,196 thousand euros, mainly due to the reduction in payables to factors for the sale of receivables.

### Payables to suppliers

thousand euros	30/06/18	31/12/2017	Variation	Variation %
Payables to suppliers	1,033,357	1,106,681	(73,324)	(6.6%)
Payables to the parent company	118,208	126,128	(7,919)	(6.3%)
Payables to subsidiaries and associates	3,670	4,999	(1,329)	(26.6%)
<b>Trade payables</b>	<b>1,155,236</b>	<b>1,237,808</b>	<b>(82,572)</b>	<b>(6.7%)</b>

### Payables to third-party suppliers

Payables to suppliers amounted to 1,033,357 thousand euros. The decrease of 73,324 thousand euros is the result of contrasting factors, as highlighted below per business segment:

- ✦ **Environment:** the decrease of 3,119 thousand euros is mainly attributable to Acea Ambiente and Aquaser;
- ✦ **Commercial and Trading:** decreased by 43,407 thousand euros compared to 31 December 2017, mainly due to Acea Energia;
- ✦ **Water:** the growth of 15,179 thousand euros compared to 31 December 2017 is mainly attributable to ACEA Ato2 (+ 25,607 thousand

- euros), partially offset by a decrease in Acea Ato5's payables (- 8,598 thousand euros);
- ✦ **Overseas:** decreased by 135 thousand euros mainly for Agua de San Pedro;
- ✦ **Energy Infrastructures:** they decreased by 16,738 thousand euros compared to 31 December 2017, mainly due to areti;
- ✦ **Engineering and Services:** decreased by 9,131 thousand euros due in part to the effect of the sold facility management business;
- ✦ **Parent Company:** they decreased by 15,973 thousand euros compared to 31 December 2017.

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 118,208 thousand euros and are commented on with the trade receivables in paragraph 23 of these notes.

### **Trade payables to subsidiaries and associates**

thousand euros	30/06/18	31/12/2017	Variation	Variation %
Payables to subsidiaries	2,935	2,592	343	13.3%
Payables to associates	735	2,407	(1,672)	(69.5%)
<b>Total</b>	<b>3,670</b>	<b>4,999</b>	<b>(1,329)</b>	<b>(26.6%)</b>

Payables to subsidiaries include payables to companies consolidated under the equity method, including Ingegnerie Toscane (2,300 thousand euros), while

payables to associates are mainly due to payables of the Parent Company due to the associated company Citelum Napoli Pubblica Illuminazione.

### **Taxes payable**

These amounted to 38,337 thousand euros (38,841 thousand euros at 31 December 2017) and include

3,319 thousand euros for IRES and IRAP tax payables for the period and 34,634 thousand euros for VAT. The decrease is equal to 504 thousand euros.

### **Other current liabilities**

These amounted to 308,773 thousand euros with breakdown as shown in the following table:

thousand euros	30/06/18	31/12/2017	Variation	Variation %
Payables to social security institutions	15,229	19,714	(4,485)	(22.8%)
Accrued liabilities and deferred income	31,236	466	30,770	0.0%
Other current liabilities	262,309	257,640	4,669	1.8%
<b>Total</b>	<b>308,773</b>	<b>277,819</b>	<b>30,954</b>	<b>11.1%</b>

### **Payables to social security institutions**

These amounted to 15,229 thousand euros (19,714 thousand euros at 31 December 2017) and break down as follows for Industrial Segment:

thousand euros	30/06/18	31/12/2017	Variation	Variation %
Environment	849	1,157	(308)	(26.6%)
Commercial and Trading	1,601	1,828	(227)	(12.4%)
Overseas	14	12	2	16.8%
Water	5,039	5,825	(786)	(13.5%)
Energy Infrastructures	4,531	6,558	(2,027)	(30.9%)
Engineering and Services	788	1,175	(387)	(33.0%)
Parent Company	2,408	3,159	(751)	(23.8%)
<b>Total</b>	<b>15,229</b>	<b>19,714</b>	<b>(4,485)</b>	<b>(22.8%)</b>

### **Accrued liabilities and deferred income**

This item amounts to 31,236 thousand euros at 30 June 2018 (466 thousand euros at 31 December 2017). The change is attributable for 30,184 thousand euros to IFRS15 international accounting standard starting from 1 January 2018, as well noted in the measurement criteria and accounting principles of this document.

IFRS15 international accounting standard starting from 1 January 2018, as well noted in the measurement criteria and accounting principles of this document.

### **Other current liabilities**

These amounted to 262,309 thousand euros, an increase of 4,669 thousand euros compared to 31 December 2017.

The entry is made up as follows:



thousand euros	30/06/18	31/12/2017	Variation	Variation %
Payables to Equalisation Fund	60,214	53,914	6,300	11.7%
Payables to municipalities for concession fees	47,322	51,585	(4,263)	(8.3%)
Payables for collections subject to verification	62,710	60,105	2,605	43%
Payables due to personnel	46,709	39,556	7,153	18.1%
Other payables to Municipalities	17,494	16,616	878	5.3%
Payables to Equitalia	4,468	4,745	(277)	(5.8%)
Welfare contribution payables	4,861	4,755	106	2.2%
Payables for environmental premium Art. 10 of ATI4 agreement of 13/08/2007	485	661	(175)	(26.5%)
Payables for purchase of surface rights	501	633	(132)	(20.9%)
Payables to end users for refund of Tariff Component as per referendum outcome	9	9	0	(2.4%)
Payables for the purchase of a business unit	1,156	5,537	(4,382)	(79.1%)
Other payables	16,380	19,523	(3,143)	(16.1%)
<b>Other current liabilities</b>	<b>262,309</b>	<b>257,640</b>	<b>4,669</b>	<b>1.8%</b>

The change, amounting to 4,669 thousand euros, mainly refers to the combined effect of the following opposite factors:

- + 6,300 thousand euros for payables to the Adjustment Fund for 6,413 thousand euros relating to *areti*;
- + 7,153 thousand euros for lower payables to employees;
- - 4,382 thousand euros for lower payables for the acquisition of the business unit registered in ACEA Ato 2;
- - 4,263 thousand euros for lower payables to the Municipalities for concession fees, of which 2,639 thousand euros of ACEA Ato2.

## Commitments and contingencies

### Endorsements, sureties and guarantees

At 30 June 2018 they totalled 326,056 thousand euros (330,455 thousand euros at 31 December 2017) and showed a reduction of 4,400 thousand euros.

The balance is made up of:

- ✦ 55,189 thousand euros for the bank guarantees for Acea Energia, mostly in favour of Terna and Eni Trading & Shipping relative to the electricity dispatch service contract;
- ✦ 68,277 thousand euros in favour of 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 euros 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 euros). The sum of 53,666 thousand euros refers to the guaranteed portion exceeding the loan originally disbursed (439 million euros);
- ✦ 32,774 thousand euros issued by insurance companies on behalf of Acea Ambiente (formerly ARIA) in relation to waste collection plants (7,088 thousand euros), waste collection plants with electricity production (6,130 thousand euros) and to the Umbria region for the management of operational and post-operative activities of the landfill (16,400 thousand euros);
- ✦ the guarantee of 30,000 thousand euros 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 20,000 thousand euros in favour of Enel Trade in the interests of Acea Energia as a back-to-back guarantee on electrical energy trading transactions;
- ✦ 13,784 thousand euros for the guarantees issued for areti in favour of Terna relative to the electricity transmission service contract;
- ✦ 2,701 thousand euros 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 euros relating to the bank guarantee issued for Roma Natura in connection with works to upgrade the network in the Marcigliana Reserve;
- ✦ 3,712 thousand euros for the guarantee issued in favour of Italgas SpA in the interest of Acea Energia, renewed in October 2014;
- ✦ 1,295 thousand euros 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 (formerly ARIA) to make the reimbursement to the GSE;
- ✦ 6,306 thousand euros concerning ACEA Ato5, and specifically a guarantee required obligatorily by art. 31 of the Technical Regulation, released by UNICREDITI in favour of the AATO, calculated on 10% of the three-year average of the Financial Plan - Tariff of the Framework Plan of the A.A.T.O.

Lastly, it should be noted that with regard to the physical purchases made by Acea Energia, contracts were signed with delivery starting from 1 July 2018, totalling 6,761,681.00 MWh.

## 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–Orvieto through Acea Ambiente (formerly ARIA), into which the company SAO was merged subsequent to the merger that became effective at the end of December 2016.

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

- Lazio, where ACEA Ato2 S.p.A. and ACEA Ato5 S.p.A. provide services in the provinces of Rome and Frosinone, respectively,
- Campania, where G.O.R.I. S.p.A. 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, there the ACEA Group operates in the province of Pisa, through Acque S.p.A., in the province of Florence, through Publiacqua S.p.A., in the provinces of Siena and Grosseto, through Acquedotto del Fiora S.p.A. in the province of Arezzo through Nuove Acque S.p.A. and in the province of Lucca and periphery through GEAL S.p.A.,
- Umbria, where the Group operates in the province of Perugia, through Umbra Acque S.p.A.

The Group is also in charge of several former CIPE services in the province of Benevento with GESESA S.p.A. and in the municipalities of Termoli and Campagnano with Crea Gestioni S.p.A.

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 (i) applied for and funded by the Municipal Authorities or (ii) 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.

Moreover, it has been established that the qualitative/quantitative parameters will be renegotiated in 2018.

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 euros, 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, in the number of 10,000 per month starting thirty days after the signing of the agreement; the price was set at 48 million euros 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 30 days following the closing of the progress certificate for 80%, and within 15 days after verification of the same progress certificate for the remaining 15%, and finally the remaining 5% upon completion of all replacements under the contract. 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 Ato2 S.p.A. (Ato 2 - Central Lazio - Rome)

ACEA Ato2 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 Ato2 pays a fee to all the municipalities based on the date the related services are effectively acquired, which is expected to

With regard to the tariffs, it is known that the ARERA - in resolution 674 dated 17 November 2016 - definitively approved the tariff plan for 2016-2019 as proposed by the Conference of Mayors and the Presidents of the Provinces of ATO2 Central Lazio; the essential contents are summarised below:

- the non-recognition of the interest on the adjustments (equal to 4.0 million euros) and the differences for the years 2014 and 2015 of the amounts of mortgages and other fees paid to the Municipalities compared to those recognised in the tariff calculation for the same years (total equal to 2.5 million euros);
- the elimination of the recovery component of the RcvOL tariff adjustment valued in the year 2018 (reduction of 2018 adjustments equal to 1.2 million euros); the elimination of the residual portion of the adjustment components whose recognition had been proposed by the Conference in annual instalments subsequent to 2019 (the full recovery of the previous adjustments is therefore prescribed by 2019);
- the postponement to the next biennial update in 2018-2019 of the recognition in the adjustment components of the charges related to systemic changes related to management/maintenance of municipal drinking fountains and water kiosks and to the acquisition of new projects (therefore rejecting the proposal to consider the costs incurred for systemic changes in 2016 and 2017 as an integration of the endogenous operating costs of the same years);

On the basis of ARERA Resolution 674/2016, the revenue for the period amounting to 291.1 million euros was valorised. This includes the estimate of the adjustments of passing items, the FNI component (8.3 million euros) - which as of 2017 is partially allocated to tariff subsidies (1 million euros for the period) - and the bonus due to the Operator for achieving the

### Lazio – ACEA Ato5 S.p.A. (Ato5 - Southern Lazio - Frosinone)

ACEA Ato5 provides integrated water services on the basis of a thirty-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 Ato5 pays a fee to all the

occur gradually: to date, the survey work (including that for municipalities already taken over) has been completed for 94 municipalities out of 112, equivalent to around 3,869,179 residents (source ISTAT 2011).

As at 30 June 2018 the managed territory underwent changes with respect to 31 December 2017 following the acquisition of the Municipalities of Civitavecchia and Morlupo.

- within 30 days from publication the sending by the EGA of the Service Charter Resolution as amended in agreement with the operator and the Consumer Associations operating in the territory, fully compliant with the provisions on quality of contract pursuant to Deliberation 655/2015.

The Authority has in any case determined the maximum values of the tariff multipliers, confirming the values of 2016 and 2017, lowering those for the subsequent years 2018 and 2019.

In consideration of the mandate already assigned with the resolution of the Conference of Mayors 1/2016 to incorporate any of the Authority's requirements, the Technical Operational Secretariat has made provision for the 2016-2019 tariff redetermination and transmission to the Authority and the manager of the relative and complete documentation on 20 December 2016 (with advance communication to the manager of the main tariff data on December 5). The implementation of the provisions led to the following recalculation of the restriction on the eligible revenues and tariff multipliers (to be applied to the tariff in force in 2015):

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

The tariff structure applied to users as at 1 January 2017, therefore, recorded an increase of 4.8% compared to the tariffs applied in 2015 and 2016, considering the unchanged tariff in 2016.

improvement standards compared to that envisaged by the ARERA in Resolution 655/2015 (15.1 million euros 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.

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 480,000 inhabitants, about 470,000 inhabitants

supplied and a number of end users equal to around 186,377.

To date, the Municipality of Paliano has not completed this process, while as per the acting Commissioner appointed by the President of the Province of Frosinone the acquisition of Atina was completed on 19 April 2018. Below is a description of the main events during the period:

**Municipality of Atina:** at the beginning of the year several meetings took place at the Operational Technical Secretariat of ATO5. However, as the Municipality of Atina had still failed to fulfil its obligation - ascertained by the administrative judge with sentence no. 356/2013 and confirmed by the Council of State with sentence no. 2742/2014, i.e. "material delivery of the works and installations relating to the IWS" - the Operational Technical Secretariat of ATO 5 Southern Lazio-Frosinone and ACEA Ato5, in the meeting of 23 January 2018, decided to urge the President of the Province of Frosinone, as Acting Commissioner appointed by the Lazio Regional Administrative Court - detached section of Latina with sentence no. 356/2013 of 21 March 2013, to implement all the appropriate initiatives, activities and appropriate and/or necessary actions to allow the conclusion of the transfer of the works and water and sanitation facilities relevant to the IWS in the municipal territory of Atina to ACEA Ato5. The Company immediately sent a formal request to the President of the Province of Frosinone, as acting Commissioner, to act on behalf of the defaulting Municipality of Atina to "proceed with the concession...and delivery of the works and plants pertaining to the IWS" to ACEA Ato5. It simultaneously requested ARERA to initiate a procedure aimed at verifying the legitimacy of the tariffs applied by the Municipality of Atina to its users and invited the competent Supervisory Authorities - including the Public Prosecutor of Cassino and the Court of Auditors - to ascertain any criminal and/or fiscal liability of the persons specified and to take any consequent necessary actions. Subsequent to this request, on 29 March 2018 a first meeting between the parties was held at the offices of the Operational Technical Secretariat of AATO5 in order to complete the process of transferring the IWS of the municipal territory of Atina.

Specifically, the parties agreed (i) to proceed with the updating of the reconnaissance report of the works of 28 September 2017 by 10 April 2018; (ii) to update the terms established by the parties with regard to their respective obligations, as agreed in the minutes of 9 January 2018, fully confirming the content; (iii) to send to the Acting Commissioner the documentation certifying the Municipality of Atina's transmission of the database relating to the users located in the municipal territory to the Manager, the Municipality agreeing to provide for the subsequent updating of the aforementioned users according to the procedures established in the report of 9 January 2018.

The next meeting was held on 19 April 2018 to proceed with the formalisation of the transfer of the

works and plants pertaining to the IWS in the Municipality of Atina, as well as for the completion of the Acting Commissioner's work, in compliance with the Decree of the President of the Province no. 27 of 2 March 2018.

In the aforementioned meeting in the presence of the Operational Technical Secretariat of ATO5, the Municipality of Atina and ACEA Ato5, the Acting Commissioner - noting that the parties had carried out the obligations referred to in points 1), 2) and 3) of the report of 29 March 2018, in compliance with the sentence of the Latina administrative court no. 356 of 23 April 2013 - transferred the works, assets and facilities pertaining to the IWS in the municipal territory to ACEA Ato5.

In addition, with subsequent report signed on the same date by the Operational Technical Secretariat of ATO5, ACEA Ato5 and the Municipality of Atina, the parties - reaffirming to fully confirm the contents of the minutes of 9 January 2018 - agreed to adjust the deadlines provided for in the aforementioned minutes, updating them to that day's date and extending them for 100 days.

**Municipality of Paliano:** following the hearing of 7 December 2017 the administrative court of Latina upheld the appeal brought by the Company against the Municipality of Paliano, which for more than 10 years has unlawfully opposed the transfer of the service to the Company in order to preserve the continuation of the management of its investee company AMEA S.p.A. Subsequently, the Company requested the immediate transfer of the service and also the Ministry of the Environment requested this fulfilment, also through the exercise of substitute powers by the Regional Administration.

However, the Mayor of the City of Paliano has communicated the will of the City of Paliano to appeal to the Council of State against the ruling of the regional administrative court, and therefore has not proceeded with the transfer of the service, waiting for the Council of State to decide on the appeal.

The Operational Technical Secretariat of the Area Authority, following the warning issued by ACEA Ato5, convened the parties - on 23 January 2018 - to "undertake the activities related to the delivery of the infrastructure of the water service". At the aforementioned meeting, not being present either the Municipality of Paliano in the person of the Director of the Integrated Water System, or the Company AMEA S.p.A. in the person of its Legal Representative, the Operational Technical Secretariat of ATO5 Southern Lazio-Frosinone and ACEA Ato5 decided to present a formal petition to the Lazio Regional Administrative Court - Latina section - to proceed with the appointment of the acting Commissioner who would act on behalf of the defaulting Municipality of Paliano and carry out the activities necessary to allow the delivery of the water service infrastructure in the Municipality of Paliano to ACEA Ato5. Furthermore, ACEA Ato5 immediately informed the Public Prosecutor of Frosinone and the Court of Auditors of

what happened, inviting them to ascertain any responsibilities, also in relation to the evident violation - already noted by the regional administrative court in the above judgement - of art.153 of Italian Legislative Decree no.152/2006 and of the corresponding fiscal and criminal liability. At the same time, it invited all the Administrations and Supervisory Authorities to take any action necessary within their remit to restore the violated legality - repeating the request already made in previous communications to the Area Authority and the sector regulation Authority to initiate the appropriate checks on the legitimacy of the water tariffs applied until then in the Municipality of Paliano. On 16 February 2018 the Municipality of Paliano filed an appeal to the Council of State, whose hearing in the council chamber was held on 5 April 2018. At the outcome of the aforementioned hearing, in response to the request for clarification by the President of the Panel of Judges regarding the danger in delay for the new regional regulatory framework and the establishment of ATO 6, to which the Municipality of

Paliano belongs, it was suggested that the Company could wait for the ruling on the matter before proceeding with the execution of the regional administrative court's decision. Therefore, the hearing was set for 27 September 2018. Pending the definition of the judgement, the Operational Technical Secretariat has convened the interested parties - ACEA Ato5, the Municipality of Paliano and AMEA - for the day 4 June 2018 in order to comply with the requirements of the Ministry. However, given the absence of both the Municipality of Paliano and AMEA at the aforementioned meeting, the Operational Technical Secretariat sent its report to the Lazio Region, awaiting the measures that the Regional Administration intends to take. Finally, on 2 July 2018, the Company was notified as a counterparty of the Municipality of Paliano's appeal of the Lazio Regional Administrative Court - Latina section's provision of 27 April 2018 with which AATO 5 rejected the safeguard petition presented by the aforementioned Municipality.

With regard to the **tariffs**, as is known, the Conference of Mayors, in its meeting on 13 December 2016, approved, among other matters, the 2016-2019

tariff proposal and the following multipliers, in resolution no. 6.

2016	2017	2018	2019
1.080	1.166	1.260	1.360

The essential contents of resolution no. 6 are:

- ✓ valorisation of the FNI component on the basis of the parameter  $\psi$  of 0.4;
- ✓ recognition of an arrears rate of 3,8% rather than the 7.1% requested by the Company on the basis of a reasoned request;
- ✓ failure to recognise the  $Opex_{qc}$  component;
- ✓ reduction of the adjustments accrued in 2012-2015 through the application of fines for presumed non-fulfilments in 2014 and 2015 for about 11 million euros;

As is known, the Company filed an appeal for the annulment of resolution no. 6, and the public hearing for the discussion on the merits was set for 8 March 2018. Following this hearing, on 22 March 2018 sentence no. 1335/2018 was published with which the Latina administrative court rejected the appeal brought by ACEA Ato5 against the aforementioned resolution of the Conference of the Mayors no. 6 of 13 December 2016. In any case - regardless of the possible appeal of the sentence - the merit of the matter remains completely open and the Company will have to await the resolution of ARERA on the tariff proposal proposed by AATO5.

In any case, it can certainly be confirmed that the rate currently applied by ACEA Ato5 remains valid and is not affected by the ruling in question.

As regards relations with the STO, it should be noted that during the year, the Company requested an in-depth account of the use of the sums paid as

concession fees as of 2003. This recognition is based on the need to verify the possibility of at least partially hedging the debt incurred by the Framework Authority

On the basis of the tariff proposal approved by the Conference of Mayors on 13 December 2016, the revenues for the period have been quantified and amount to 37.1 million euros including the estimate of the adjustment of passing items and the FNI component of 2.3 million euros.

As regards the tariff adjustments, it should be noted that:

- the backdated ones for the period 2006-2011, quantified by the acting Commissioner as 75.2 million euros and confirmed by the Council of State in sentence no. 1882/2016, have been fully billed;
- those accrued in the first regulatory period (2012-2015) amount to 54.7 million euros and, in fulfilment of ARERA Resolution 51/2016, will be recovered as of 2023. The Directors, also supported by authoritative legal opinions, believe that the fines of 11 million euros imposed by the Conference of Mayors for presumed non-fulfilments in 2014 and 2015 are not due and for this reason following the ruling were appealed before the Latina Regional Administrative Court. The following are not therefore included in the financial statements:
- those accrued in 2016 amounted to 17.2 million euros, while those accrued in 2017 amounted to 22.1 million euros.



with the Company (10.7 million euros) by force of the Transitory Agreement signed in 2007, in other words the reduction of the concession fee (and therefore the tariff charged to the users).

It should also be noted, again with regard to the concession fees, that in June, the STO sent several bills to the Company concerning the balance of the fee for the period 2006-2011, totalling approximately 7 million euros (net of the sums already paid during the same period). These bills were challenged and rejected, as the Decision dated 30 May 2013 by the acting Commissioner - concerning the *“Calculation of the adjustments and service levels with regard to management in the period 2006-2011”* - in calculating the tariff adjustments in favour of the Operator (see para. 3.5, pages 17-18, of the aforementioned Decision):

- a. identified the concession cost among the operating costs, the value of which has remained constant over the years;
- b. expressly qualified the concession fees as “passing items”;
- c. specified that the amount of the concession fees should be reduced on the basis of the weight of the users served on the total utilities in the framework area (91.51%), consistently with the Report dated 21 June 2012;
- d. expressly quantified the concession fees, reduced as described above, as 5,634,000.00 euros annually.

In other words, the total amount of the concession fees due by the Company for the period 2006-2011 amounted to a total of 33.8 million euros; net of payments made for the same period (29.6 million

As regards the appeal before the Latina Regional Administrative Court filed by the Company against resolution no. 1/2016 dated 18 February 2016, in which the Conference of Mayors rejected the incorporation of ACEA Ato5 into ACEA Ato2, the appeal concluded with sentence no. 450/2017 with which the

#### **ACEA Ato5 - 2016-2019 Tariffs**

On 9 February 2017, the Company filed an appeal at the Lazio Regional Administrative Court in Latina for the annulment of Resolution no. 6 dated 13 December 2016, in which the Conference of Mayors of AATO 5 approved the tariff proposal for the SII for the regulatory period 2016-2019, envisaging period adjustments less than those envisaged in the Operator’s proposal (77 million euros compared to about 35 million euros), as a consequence of the different quantification by the STO, essentially on four regulatory items: **(i)** the amount of the FNI (psi coefficient of 0.4 rather than 0.8 proposed by the Company); **(ii)** the recognition of arrearage costs (3.8% of the returns rather than 7.1%); **(iii)** the recognition of quality costs (opex qc), zeroed and not recognised by the STO; **(iv)** fines for approximately 11 million euros. The public hearing on the merits was set for 8 March 2018.

euros), the residual amount still due amounts to a total of 4.2 million euros that the Company duly paid by submitting on 16 November 2017 a note highlighting the Manager’s commitment to pay 1.37 million euros by the end of the year (regularly paid at the beginning of 2018) as well as an objection to any further debt regarding the concession fees. In view of the commitment, the counterparty took note of the document produced and declared the need - also due to the content of the same note - to have to “report” to AATO 5. In light of this, the Court, 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 Ato5 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.

With regard to the appeal filed on 20 September 2017 before the Court of Appeals of Rome against the sentence of the Court of Frosinone which annulled the injunction decree of 10.7 million euros, initially issued by the same Court, the first hearing was postponed automatically until 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. 81 sexies of the code of civil procedure.

administrative judge upheld the challenge brought by ACEA Ato5. The Company was formed in the appeal decision promoted by the Authority of Territorial Area no.5 Southern Lazio - Frosinone against the aforementioned ruling. To date there is no information regarding the scheduling of the hearing.

Following this hearing, on 22 March 2018 sentence no. 1335/2018 was published with which the Latina administrative court rejected the appeal brought by ACEA Ato5 against the aforementioned resolution of the Conference of the Mayors no. 6 of 13 December 2016.

- With this ruling, the administrative court did not enter into the merits of the complaints raised by the Company, but confined itself to stating the inadmissibility of the appeal, on the assumption that the resolution of the Conference of Mayors would be a mere end-procedural act because the pricing determination process should conclude *“with the definitive provision represented by the approval of the Authority for Electricity and Gas, as also reaffirmed in Resolution no. 664/2015 ARERA in point 7.4: ‘Within the following 90 days, the Authority, without prejudice to the need to request further supplements, approves*



the tariff proposals pursuant to Article 154, paragraph 4 of Italian Legislative Decree no. 152/06". Therefore the deliberation of the Conference of Mayors no. 6 of 13 December 2016 would not be the definitive measure for determining the tariff, but only a proposal of the Area Authority submitted for the approval of ARERA: consequently, the resolution in question would not be open to challenge. The decision of the matter remains completely open and the Company will have to await the resolution of ARERA on the tariff proposal made by ATO5. In any case, it can certainly be confirmed that the rate currently applied by ACEA Ato5 remains valid and is not affected by the ruling in question. On the contrary, the acceptance of the appeal would have resulted in the obligation for the Area Authority to modify the tariff proposal by adding back the illegitimate reductions. Furthermore, as regards the topic of penalties, which resulted in a tariff reduction of over 10 million euros, the administrative court recalled the previous ruling no. 638/2017 which cancelled the imposition of penalties on ACEA Ato5.

On this specific matter, with the ruling in question no. 135/2018 the administrative court noted that the previous judgement and the previous sentence preclude "the Panel from deciding again on the same acts on the basis of the principle - referred to in art. 2929 of the Italian Civil Code and 324 of the Code of Civil Procedure - of *ne bis in idem* which is also applicable to the administrative process, which presupposes the identity in the two judgements of the parties involved and the identifying elements of the proposed action and therefore that in the aforementioned judgements cancellation is requested for the same provisions, or at the most for different rulings but linked by a strict link of consequentiality to the point of having the same relationship, on the basis

of identical grounds of appeal (Council of State Section IV 23 June 2015 no. 3158)".

This leads us to believe that - even independently of the possible proposition of an appeal - for the purpose of approving the final 2016-2019 tariffs both the AATO and the ARERA will have to consider:

- the previous sentence of the Latina administrative court no. 638/2017 which cancelled the penalties, with the consequence that the PEF must be increased by the amounts already reduced as penalties (over 10 million euros). This aspect was reiterated by the sentence in question which underscored how the issue has already been definitively resolved by the administrative court itself;
- as well as the further investigation carried out by the AATO - in the interest of the administrative judgement - in relation to the charges incurred by ACEA Ato5 so-called Opex QC (equal to 1,970,082.00) and the increase in the default rate.

Further, regarding the appeal presented by the Company (additional reasons added to appeal no. 316/2016) before the Latina administrative court with a simultaneous claim for damages against resolution no. 7 of 13 December 2016, with which the Conference of Mayors resolved to terminate the contractual relationship with ACEA Ato5, with sentence no. 638 published on 27 December 2017 the Lazio Regional Administrative Court - Latina branch upheld the appeal brought by the Company against the aforementioned resolution, annulling the provision; terms for the appeal are pending.

#### **ACEA Ato5 - Injunction Order requested for credit collection on the settlement agreement of 2007**

With regard to the 10,700,000 euros receivables for higher costs incurred in the 2003-2005 period, pursuant to the Settlement agreement of 27 February 2007, on 14 March 2012, ACEA Ato5 lodged an appeal for an injunction order concerning the receivables recognised by the 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 euros.

ACEA Ato5 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 euros.

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 Ato5 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 Court, 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 Ato5 and AATO 5, granted a postponement to 4 May 2018, inviting the parties to clarify the reasons for these discrepancies and indicating that if they cannot then a court expert would be appointed. At this

hearing there was a further postponement until 21 September 2018.

Linked to this judgement must be considered the appeal against the sentence of the Court of Frosinone that revoked the injunction order of 10.7 million euros initially issued by the same 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. 81 sexies of the code of civil procedure.

#### **ACEA Ato5 - Contractual termination Management Agreement**

The Company filed an appeal (no. 316/2016) against resolution no. 2 taken by the Mayors' Conference on 18 February 2016 with which the process of termination of the contract was initiated and the subsequent formal notice was sent to the Company in March 2016. It also challenged resolution no. 7 of 13 December 2016 with which the resolution was decided, presenting reasons added to appeal no. 316 and with a concurrent claim for damages. Following the public hearing on 23 November 2017, the administrative court of Latina upheld the appeal filed by the Company and with sentence no. 638/2017 published on 27 December 2017 vacated the contested measures. On 26 June 2018 the appeals filed by the

Area Authority and the Municipality of Ceccano as well as by other Municipalities of ATO5 were served, challenging the aforementioned ruling no. 638/2017 of the Lazio Regional Administrative Court - Latina section.

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, as soon as possible the Company will file the formal documents concerning the two disputes and will request that they be combined into one case.

#### **ACEA Ato5 - 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 Ato5 (case value 14,181,770.45 euros). 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 reference to the judgement established following appeal 3895/2013 (judgement value 7,710,946.06 euros), the parties involved initiated a series of meetings, at the end of which, in the month of March 2018, a settlement agreement was reached (which also includes ACEA Ato2 as a party), whose effectiveness was subject to prior approval by the respective boards of directors. The Board of Directors of each of the Parties approved the aforementioned settlement and on 15 May 2018 the final settlement agreement was signed by Consorzio ASI, ACEA Ato2 and ACEA Ato5.

The parties subsequently signed an addendum to the outline of the settlement agreement - an agreement previously approved by the respective Boards of Directors - in order to settle the reciprocal relationships according to the definitive decisions of the Area Authority in relation to the reciprocal tariffs and/or costs and/or remuneration methods;

- with reference to the judgement following appeal no. 3371/2016 (judgement value 6,470,824.39 euros), the judge, granted the terms pursuant to article 183, paragraph 4 of Italian civil procedure code set the hearing to be held on 15 May 2018. On this occasion, in view of the parties' express intention to achieve an amicable settlement of the dispute - in relation to their reciprocal credit/debit positions also for the following period 2012-2015 - through the activation of a settlement discussion the Judge ordered the postponement of the hearing to 25 September 2018.

#### **Campania - GORI S.p.A. (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 essentially 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 regulatory period

As known, on 10 March 2016 the procedure for the approval by ARERA of the ATO3 tariff proposals was finally completed, with the publication of Resolution 104/2016/R/idr containing: "Approval, for the purpose of determining the adjustments under the tariff method for the second regulatory period, MTI-2, of the tariff proposed by the Sarnese Vesuviano Area Authority for the period 2012-2015". More specifically, the ARERA:

- approved the tariff multipliers to the extent of the maximum applicable amount for each year, namely: year 2012:  $\vartheta=1.065$ ; year 2013:  $\vartheta=1.134$ ; year 2014:  $\vartheta=1.236$ ; year 2015:  $\vartheta=1.347$ ;
- thus establishing, as a result, the total amount of tariff adjustments to be recovered in the years after 2015 for a total of 38.9 million euros (Group share 14.4 million euros);
- ordered the Entity to adjust the Economic-Financial Plan to the values approved within the same resolution, taking into account the adjustment of the cost of Property Mortgages (MTp) 2013 due to incorrect valuation, to be made to the adjustments whose recognition are expected from 2016;
- ordered that within 30 days from the publication of the provision the Entity transmit, "the results of

*the checks made with regard to the assumptions underlying the treatment of the cost component for wholesale purchases and in particular with regard to the provisions of the Agreement - signed on 24 June 2013 - for the regulation of relations between the Campania Region, the Area Authority, Acqua Campania S.p.a. and GORI S.p.a., of which the same competent subject will have taken into account in the quantification of previous items relating to periods prior to transfer to the Authority of the sector regulation and control functions, also asking to verify that the same agreement is compatible with the principle of heterointegration (confirmed by the case law mentioned above) in light of the provisions introduced by the Authority starting from 2012".*

In April, the Authority acknowledged the requests made by the ARERA, noting for the year 2012, a material error of about 4 million euros in relation to the wholesale water tariff reduction, given that the 2013 Agreement already included a 25% reduction for the year 2012.

This error will be recovered in the tariff determinations of the second regulatory period, in which also the portion of loans not recognised in the year 2013 will be recovered.

### Tariffs: Application for economic - financial rebalancing and application for arrearage

Pursuant to Art. 32.2 Annex A of Resolution 643/2013/R/idr and pursuant to Resolution 122/2015/R/idr, in order to gain access to the equalization measures in terms of advances and financing of tariff adjustments, on 23 March 2016, the Company submitted a formal rebalancing application by submitting a set of measures, including access to equalisation, which, if accepted, would lead to finally overcoming the situation of financial imbalance in the ATO3 management; simultaneously and in connection with the aforementioned rebalancing application, the Company also submitted a specific request for the recognition of the actual arrearage cost for the years 2014 and 2015, pursuant to art. 30.3 of Annex A to ARERA Resolution 643/2013/R/idr.

The ATO3 conclusions concerning the analysis of the application were formalised in the final Report of 18 May 2016: the Authority considers that the grounds underlying the application are well-founded and that, therefore, the conditions for adopting the proposed rebalancing measures are satisfied, with the changes introduced with specific reference to the scenario providing for the transfer of the "Regional works". Regional Works. Accordingly, such rebalancing measures will have to be included and covered by the Economic Financial Plan to be prepared as part of the tariff obligations established by Resolution 664/2015. ATO3 reaches the same conclusions also with reference to the application for the recognition of the actual arrearage cost for the years 2014 and 2015. For more information, see the following paragraph.

### Tariffs: Tariff proposal for the second regulatory period

As described in the 2016 Consolidated Financial Statements, as the term set by the ARERA in Resolution 664/2015 for the 2016-2019 tariff proposals has expired, on 15 June 2016, the Operator filed an application for a tariff update, in the framework of which it requested the Authority to simultaneously approve the economic and financial rebalancing measures proposed in the rebalancing application, with specific regard, among others, to accessing financial equalisation in the methods and terms specified in the same Rebalancing Application and in the Supplementary Report.

On 8 August 2016, the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority, in resolution no. 19 subsequently amended by resolution no. 20

dated 1 September 2016, approved the regulatory scheme for ATO3 Sarnese Vesuviano pursuant to Resolution 664/2015/R/IDR, in which, as specified in the supplementary methodological report, "the tariff proposal submitted by the operator CORI Spa on 15/06/2016 is to be considered as superseded". The main assumptions on which the tariff proposal by the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority for the second regulatory period are described below:

- transfer of Regional Works by the end of 2019, on the basis of the framework agreement disciplining the transfer in question, subsequently signed by Campania Region and the Commissioner of the

Sarnese Vesuviano Area Authority on 3 August 2016;

- additional costs concerning the activities undertaken for the fulfilment of the service quality standards defined by the ARERA in Resolution 655/2015/R/idr (OpexQC), 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. For the purposes of quantification of this component in VRG 2018, pursuant to art. 6.3 of ARERA resolution no. 918 of 27 December 2017, the charges actually incurred by the manager amounting to 1.1 million euros are quantified;
- additional costs for arrearage (10% for 2016, 9% for 2017, 8% for 2018, 7.1% for 2019, plus adjustments), in partial acceptance of that requested by the Operator;
- billing of the backdated adjustments in four years, as of 2020;
- recovery of the 2012-2019 tariff adjustments, for an expected amount of 106 million euros, within the limits of the growth of the tariff multiplier and in three years starting from 2020;
- re-formulation of the Works Programme proposed by the manager in the context of the request to update the tariff on 15 June 2016 with the elimination of a significant project. Note that at the end of 2017 the study of the new Technical Quality regulation (Dco 748/2017) was started in order to verify the consequent impact on the Works Programme;
- payment of payables to stakeholders in instalments over ten years, confirming the hypothesis by the Operator in the application;
- payment of the SII loan debts in instalments over four years;
- extinction of the payables to Campania Region for services rendered, concerning the period 2013-2016, without the payment in instalments of the amount due being envisaged;
- access to the equalisation fund for up to 244 million euros, envisaging restitution over eleven years as of 2020 at the rate applied by the CSEA.

The tariff proposal deliberated by the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority also envisaged tariff increases within the limit

of the multiplier for 2016 and 2017 (9%) and a 5% increase for 2018 and 2019.

Both the Sorrento Peninsula Hoteliers Federation and the Municipalities of Casalnuovo di Napoli (NA), Lettere (NA), Nocera Inferiore (SA), Roccamonte (SA), Roccarainola (NA) and Scisciano (NA) filed an appeal against Resolution no. 19/2016 before the Campania Regional Administrative Court in Naples for its annulment, deeming the tariff increases proposed and the regulation of the tariff adjustments to be illegitimate.

The appeal filed by the Sorrento Peninsula Hoteliers Federation was declared inadmissible by the Regional Administrative Court in sentence no. 2437 dated 08 May 2017 due to the absence of legitimacy of the plaintiff, while for the case for the appeal by the aforementioned Municipalities, the date of the public hearing for discussing the matter has not yet been set. The Penisola Sorrentina Hoteliers Association appealed this ruling to the Council of State, discussed in a public hearing on 26 April 2018. The ruling has yet to be published.

The Company has also appealed against resolution no. 19/2016 before the Campania Regional Administrative Court in Naples for its partial annulment, with regard specifically to: (i) the deferral, as of 2020, of the recovery from the end users of the tariff adjustment fees and (ii) the calculation of the tariff increase in a measure less than the threshold allowed. The date of the public hearing for discussing the case is still to be set.

The revenues for the year 2018 have been quantified on the basis of resolution 19/2016 of the Extraordinary Commissioner and amounted to 192 million euros (Group share 71.1 million euros) with theta equal to 1.248, showing that in order to achieve equilibrium financial management of the ATO no. 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, a remodulation of the VRG has been proposed through the regulatory postponement of the portion of the costs exceeding the maximum limit. Revenues for the period contain the estimate of adjustments for pass-through items.

#### Relations with Campania Region and the concessionary Acqua Campania

On 8 August 2016, Campania Region, believing itself to be a legitimate authority, by Managerial Decree no. 4, approved the tariff proposal for the second regulatory period 2016-2019 for the regional supplies of water in bulk also provided to ATO3

The tariff proposal adopted by the Region has various significant elements that are not consistent with the tariff proposal by the Extraordinary Commissioner in the aforementioned resolution no. 19/2016 for the same regulatory period, and more specifically:

- the effects of ARERA Resolution 338/2015/R/idr (in which the Authority officially approved the tariffs for the bulk supplies provided by Campania Region for the four-year period 2012-2015) are used in the calculations in a manner different from that envisaged in resolution no. 19/2016 which, contrarily, operated in continuity that already established by the Authority in the framework of the tariff approvals for the Sarnese-Vesuviano

District Area (see ARERA Resolution 104/2016/R/idr);

- the tariff proposal by Campania Region does not take into account the reduction in the boundary managed (due to the transfer of the Regional Works and the management costs to GORI) in compliance with the provisions of the aforementioned Framework Agreement dated 3 August 2016, signed in implementation of Campania Regional Authority resolution 243/2016, which envisages a three-year chronological schedule for the transfer of the Regional Works as of 2016;
- also as a consequence of the above inconsistencies, and more generally the fact that the bulk tariffs approved in Managerial Decree no. 4 are much higher (by effect of an increase in excess of the limit established by the tariff method) than those considered in the framework of the Regulatory Scheme for ATO3.

The Company challenged Managerial Decree no. 4/2016 before the Campania Regional Administrative Court in Naples, deeming it illegitimate, first and foremost due to the complete incompetence of Campania Region in calculating the tariff for the bulk water distribution service (as the new Tariff Method approved in ARERA Resolution 664/2015/R/idr envisaged that tariff related powers are exercised only by the Area Authority in competition with the ARERA), and also, as we have seen, because the 2016-2019 Regulatory Schemes adopted by the Region and the Area Authority respectively are not consistent, and even contrasting with each other.

In this regard, Regional Administrative Court sentence no. 2839/2017 was published on 29 May 2017, accepting the appeal filed by GORI and annulling the regional decree. For this reason, the tariff for the bulk water supply services by Campania Region remains that officially calculated by the Authority in resolution 338/2015/R/idr, amounting to 0.1638954 €/m<sup>3</sup>.

As known, in 2016 official cautions were received by Campania Region for the payment of the fees for the collection and treatment of waste water due for the year 2013. This was followed in 2017 by the notification of an injunction decree for about 19.5 million euros by the Naples Law Courts on request by the Region for the period 2015-third quarter 2016. Furthermore, Acqua Campania S.p.A. (as ascertained regional concessionary for credit collection) initially cautioned and then, on 14 November 2016, notified that it was taking legal action against GORI before the Naples Law Courts for the payment of the residual amounts due for the period 01/01/2013-30/06/2016 for supplies of water in bulk, amounting to approximately 103 million euros.

The Company challenged and rejected these cautions and appeared in the aforementioned lawsuits to defend its position and challenge the claims of the counterparties, reiterating that the current agreement

framework between Campania Region, the Area Authority, GORI and Acqua Campania itself, GORI cannot be considered to be in breach, as the current tariff regime in ATO3 is still unsuitable in terms of guaranteeing the hedging of all costs including those that may derive from regional supplies in bulk.

The Agreement dated 24 June 2013 and Addendum dated 24 March 2014 also impose that the parties reformulate - through a suitable agreement - the sums due from GORI as fees according to the tariff dynamics, in other words according to the capacity guaranteed by the effective tariff of the Integrated Water Service applied by the Operator.

It is absolutely vital that the Area Authority and Regional Authority conduct new preliminary proceedings aimed at adopting consistent and useful measures so that the ARERA can approve the 2016-2019 Regulatory Scheme, ensuring economic and financial balance in managing the Integrated Water Service in ATO3.

This holding firm, as regards the dispute concerning the regional collection and treatment of waste water service for the period 2013-2016, GORI, on the precondition that it was impossible for it to pay the fees accrued for the bulk supplies made by ATO3 to the Regional Authority, made another request for payment in instalments during the course of 2016, as it had in 2015, preparing - and then implementing - a proposal for a plan for the payment of the fees for the supply of waste water collection and treatment services consistent with the provisions of the Economic and Financial Plan of ATO3 approved by resolution of the Commissioner no. 15/2015, and in any event such as to ensure the financial balance of the Company, also in relation to and in the framework of the Rebalancing Application.

As a result of the repeated requests of the Company and of the Area Authority and in consideration of the critical issues related to the disputes under way with the Region and with Acqua Campania S.p.A., the Campania Water Authority has convened a Service Conference, held on 3 August 2017 (and continued on 21 March 2018), during which emerged the opportunity to postpone the hearings - scheduled for September and October 2017 - relating to the aforementioned pending judgements before the Court of Naples for the payment of the fees requested by the Region and by Acqua Campania S.p.A., "with a view to not frustrate the efforts already made" with a specific timetable prepared by the Campania Water Authority itself as part of the preliminary investigation referred to below and initiated by ARERA in 2017, to align and harmonise the regulatory/tariff schemes of the various managers in Campania for the 2016-2019 regulatory period.

Accordingly, in agreement between the parties, for the reasons set out above the pending hearings were postponed to February 2019.

On 7 June, the ARERA held a preliminary meeting with Campania Region, the Campania Water Authority, the Extraordinary Commissioners of the Naples-Volturno



(“ATO 2”) and Sarnese-Vesuviano (“ATO 3”) districts and the service managers “Azienda Speciale di Napoli ABC” (“ABC”), Acqua Campania and GORI, in order to conduct checks “on the basis of the criteria and procedures in resolutions 656/2015/R/idr and 664/2015/R/idr”, concerning:

- the general elements of the joint Campania Region / Acqua Campania tariff proposal and relevant impact on the regional management set-up;
- the failure to adopt the tariff proposal concerning the treatment service provided by Campania Region;
- the general elements of the specific regulatory schemes proposed for GORI and ABC;
- the transfer of the Regional Works as per Campania Regional Authority resolution 243/2016 to the operator GORI;
- the Rebalancing Measures requested by the Commissioner of the Sarnese Vesuviano Area Authority to the Authority for the management of the IWS of ATO 3, on the basis of the Economic-Financial Rebalancing Petition presented by GORI

The tariff adjustments due to GORI as at 30 June 2018 amounted to 179.6 million euros (Group share 66.5 million euros) and consist of: **(i)** backdated items accrued up to 31 December 2011 for 122.5 million euros, **(ii)** tariff adjustments accrued during the first regulatory period (2012-2015) for 53.2 million euros and **(iii)** adjustments accrued in 2016 for 10.9 million euros. It should be noted that no further adjustments requiring recovery have been accrued in 2017.

As regards the backdated items, as known, the Campania Regional Administrative Court, in sentences emanated in 2015, declared the resolutions on the matter (43 and 46 of 2014) null and void, on the precondition that the Extraordinary Commissioner at the time of their adoption did not have the required powers. On 16 March 2017, the Council of State, to which GORI appealed, set the date for an additional hearing for discussing the case on 26 October 2017, in the meantime ordering the Campania Water Authority (the Bodies of which are still being set-up) to produce a preliminary document on the measures to be taken as regards the aforementioned tariff adjustments. At this point, without the required preliminary investigation, the parties requested the postponement of the discussion. The new date is pending. While awaiting the settlement of these cases, the Extraordinary Commissioner, in the framework of resolution

For the above reasons and despite the significant uncertainty (mainly related to the billing times of tariff adjustments for pre-2012 backdated items and the relevant collections, the procedure for approving the above applications for recognition of arrearage and rebalancing submitted to the competent Authorities, as well as the agreement reached to pay the debt with the Regional Authority in instalments as a result and within the scope of the rebalancing measures to be adopted),

pursuant to art. 9, 10 and 11 of the Model Convention approved by the resolution of ARERA 656/2015/R/idr;

- the tariff for the supply of wholesale water sold by the manager ABC to the sub-distributors of Campania (including GORI).

As part of the ARERA procedure, the Campania Water Authority has prepared a schedule of activities to complete the preliminary investigation aimed at harmonisation by 31 March 2018, then deferred to the whole of 2018, with the dual purpose of proceeding first of all with the preliminary investigation and then the subsequent approval of the tariffs for the regional “wholesale water” supplies and the “waste water collection and treatment” service (so-called “wholesale tariffs”), as well as to agree on the suspension of judicial proceedings concerning the credit/debit entries between the Region and the managers of Campania (mainly GORI and ABC), awaiting the consequent critical issues that could potentially be raised by such proceedings.

19/2016, confirmed the existence of these adjustments, although further deferring the possibility of billing them to the users.

Presently, discussions continue among the interested parties, the Campania Region, the Campania Water Authority, the Sarnese Vesuviano Area Authority, aimed at establishing an overall industrial agreement for the complete adoption and implementation of the IWS in the Sarnese Vesuviano District, to be finalised in the process of updating the tariff for the two-year period 2018-2019 and in which they can find a definitive solution, also through access to the financial equalisation already requested of ARERA: **i)** the transfer of the Regional Works and of the relative personnel assigned according to the resolution of the Campania Region Council 243/2016 and of the subsequent Agreement to implement this resolution stipulated between the Region and the Area Authority on 3 August 2016; **ii)** the tariff reconciliation for wholesale supplies to ATO3 for the years 2012 ÷ 2019; **iii)** the regulation between the Campania Region and GORI of the respective credit and debit entries through an appropriate repayment plan commensurate with the recovery of the tariff adjustments and **iv)** the regulation of the recovery of tariff adjustments.

which have an evident impact of a financial nature, the preconditions of a going concern have been met as it is believed a settlement will be found for the above proceedings and agreements within reasonable time in the suggested manner.

In this regard, given the situation of financial stress, it was considered appropriate to maintain the impairment of the investment in the consolidated financial statements.

In **financial terms**, on 23 April 2014 a contract was signed to reschedule the loan which matured in June 2011 into a multi-year loan with maturity on 31 December 2021. The loan has an interest rate equal to

the 6-month Euribor plus a spread of 5.5 percentage points maturing on 30 June and 31 December each year.

#### **Campania – GESESA S.p.A. (Ato I - Calore Irpino)**

The Company operates in ATO I 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 21 Municipalities in the Province of Benevento with a resident population served of approximately 120,000 inhabitants over an area of approximately 7000 km<sup>2</sup> and 57,000 users. The sewerage service is provided to approximately 83% of users while the purification service to about 40%.

From 1 July 2018 the IWS of the Municipality of Morcone will be acquired, a shareholder returning after a few years of economic management, with about 5,000 inhabitants and 2,200 users, while several contacts are under way with new Municipalities for the management of the related IWS.

Currently, the Authority, controlled by the Extraordinary Commissioner in accordance with Decree of the Regional Government No. 813/2012, has not yet appointed a Sole operator to manage the Integrated Water Service.

Following the approval of Regional Law 15/2015 on the reorganisation of the Campania SII, GESESA is looking for opportunities to aggregate with other companies in the industry in order to create an entity that can be identified as the sole operator in the ATO I area.

Pending the provisions of the competent bodies, the company undertook forms of aggregation with other managers in the area, and to this end it expanded its scope of management in November 2015 with the

#### **Tuscany - Acque S.p.A. (Ato2 - Basso Valdarno)**

The management agreement, which came into force on 1 January 2002 with an initial twenty-year duration then extended to 2026 in 2016, was signed on 28 December 2001. In accordance with said agreement, the Operator took over the exclusive integrated water service of ATO 2, comprising all public water collection,

With regard to the **tariffs**, with resolution no. 32 on 5 October 2017 the AIT approved the new 2016-2019 tariff scheme, submitting it to ARERA for its approval. The main change compared to before (resolution 28 of 5 October 2016) is the approval of the new OPEXqc request presented by Acque to replace the petition of PremioQc. The new 2018-2019 tariff proposal and the attached economic and financial plan have as objectives the sustainability of the forecast of greater investments that the manager will have to implement in the period 2018-2031, and, in parallel, the containment of the increase in tariffs to be applied to users by extending the duration of the concession a further 5 years.

acquisition of the business unit for the conferment of the Consorzio CA.B.I.B. acquiring the direct management of the SII of 5 consortium municipalities and the wholesale supply of other 2 consortium municipalities, one of which (Tocco Caudio) in 2017 decided to entrust the management of the SII directly to the company starting from June 2017. In addition, facilitated by the aforementioned rules aimed at introducing the principle of "unitarity" i.e. of a Single Manager in AATO I, numerous municipalities currently operating on their own have expressed their willingness to entrust the management of their IWS to the Company.

In August 2016 all the documentation containing the figures and calculation tools as regards the tariff proposal for the period 2016-2019 was submitted to A.T.O. Calore Irpino useful for the purpose of presenting the tariff adjustment request to the competent Authority. The Tariff Proposal for 2016-2019, approved by AATO I 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.

In October 2017, the Company was subject to an Audit by the Authority, which collected information and documentation on the management of the service. We are waiting to know the results of the audit.

abstraction and distribution services for civil use, sewage systems and the treatment of waste water. 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.

Therefore, as a result of the new tariff proposal, the 2018 tariff multiplier is now equal to 5.39%, whereas in the previous AIT resolution 32/2017 it was equal to 6%. The new 2018-2019 tariff proposal, as well as the update of the 2016-2017 tariff, and all the related documents (works programme, updating of the financial economic plan, extension of the duration of the concession for a further 5 years) approved by AIT with Resolution 6/2018, have already been sent by the AIT to ARERA for final approval.

Following the approval of the tariff proposal and the related documents detailed above by ARERA, the AIT meeting will approve the extension of the duration of



the management agreement by giving a mandate to the General Manager to sign the modification.

The revenues for the period amount to a total, including the adjustment of passing items, of 79.2

million euros (Group share 35.6 million euros) and represent the best estimate made on the basis of the tariff proposal approved by the AIT in October 2017, awaiting the conclusion of the process of approval of the tariffs for the second regulatory period.

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

- an appeal was filed with the Council of State against the decision of the Tuscany Regional Administrative Court of 22 April 2013, which rejected the appeal presented by Acque for the annulment of resolution no. 60 of 27 April 2011 of Co.N.Vi.Ri., referring to the review of the revision for the three-year period 2005-2008 of the AATO 2 Toscana - Basso Valdarno area plan. The trial is currently pending, awaiting the date of the hearing. It should be noted that the regional administrative court ruling was challenged not only by the Company but also and firstly by the A.A.T.O.;
- in November 2014, a writ was served to the Company with which it was called before the Court of Florence by CONSIAG S.p.A.. Until 31

December 2001, CONSIAG was the manager of the water service of its associated municipalities, all falling within ATO 3 with the exception of the Municipality of Montespertoli, included in ATO2. In addition to Acque, the citation was also served to the AIT and to all public shareholders of Acque. With regard to the Acque CONSIAG, due to the service carried out in the municipality of Montespertoli, it claims a shareholding equal to 0.792% of the Company and an indemnity for a total amount of 2.0 million euros. On the other hand, the Municipality of Montespertoli already participates in Acque through Publiservizi (shareholder of Acque with 19.26% of the shares) of which it is a partner with a 0.98% stake. The Company considers these requests to be unfounded.

#### **Tuscany - Publiacqua S.p.A. (Ato3 - 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 waste water. 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 Fiorentina S.p.A., completed the acquisition of an interest in the company. - in the Company's capital.

With regard to the **tariffs**, on 5 October 2016, the AIT, in resolution no. 29, approved the 2016-2019 tariff proposal, envisaging a tariff multiplier of 1.040 and 1.066 for 2016 and 2017 respectively. With resolution 687/2017R/ldr ARERA approved the tariffs proposed by the Tuscany Water Authority on 12 October 2017. Also, in resolution 27/2016, the AIT approved the new tariff formulation, which introduces new types of use envisaging a variation in the consumption intervals

attributed to the various uses. The most significant of these is the subdivision of domestic use into resident and non-resident.

Total revenues for the year, including adjustments to pass-through items, amounted to 118.4 million euros (47.3 million euros in the Group). Revenues also include the Fo.NI. component for 8.2 million euros (Group share 3.3 million euros).

In terms of **funding sources**, on 30 April 2015 the Company took on a 50 million euros loan with the European Investment Bank (EIB) which matures at the end of 2020. On 30 March 2016 a 110 million euros loan agreement was signed, expiring on 30 June 2021, which was fully disbursed as at the date of preparation of this document; the use of the loan was partly

intended to repay existing loans and mortgages. The repayment plans agreed to were scheduled on the basis of the cash flows available for repayment, according to the Economic and Financial Plan used for tariff purposes, and the instalments falling due on 31 December 2017 and 30 June 2018 were duly repaid.

#### **Tuscany - Acquedotto del Fiora S.p.A. (Ato6 - Ombrone)**

Based on the agreement signed on 28 December 2001, the operator (Acquedotto del Fiora) 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 waste water treatment. The concession term is twenty-five years from 1 January 2002. In August 2004, ACEA – via the vehicle Ombrone SpA – completed its acquisition of an interest in the company. - in the Company's capital.

With regard to the **tariffs**, on 5 October 2016, the AIT, in resolution no. 32, approved the tariff for 2016 and the remaining years in the second regulatory period, in addition to the 2016-2021 Plan of Interventions, the Economic-Financial Plan and the new awarding Agreement. The tariff calculations envisage the recognition of additional costs ( $Opex_{qc}$ ) for aspects concerning adjustment to the service quality standards, for 0.8 million euros in 2016 and 1.5 million euros for

From a **financial viewpoint**, Acquedotto del Fiora signed a loan contract for 143 million euros in June 2015 maturing at the end of 2025. The loan is a variable rate loan with guarantee on the Company's current accounts and receivables and upon pledge of Ombrone's shares in Acquedotto del Fiora. In order to protect the Company from excessive market volatility, in line with the term sheet, in consideration of the principles of economical

#### **Umbria - Umbra Acque S.p.A. (Ato I - Umbria I)**

On 26 November 2007 ACEA was definitively awarded the tender called by the Area Authority of Perugia ATO I for selection of the minority private business partner of Umbra Acque S.p.A. (concession expiry 31

As of 30 June 2018, the tariff applied to users is the tariff set by Shareholders' Meeting Resolution no. 4 of 30 June 2016 of ATI No. 2 and by Shareholders' Meeting Resolution no. 5 of 30 June 2016 of ATI no. 1, which determined the tariff scheme for the 2016-2019 four-year period, as definitively approved by ARERA, with Resolution no. 764/2016/R/idr of 15 December 2016, which provides for a decrease of -3.30% for the year 2018 compared to year 2017, subject to adjustment.

The additional rate equalisation components envisaged by ARERA resolution 6/2013/R/COM are also applied (later updated with Resolution 529/2013/R/COM), effective from 1 January 2013, and 918/2017/R/IDR, effective from 1 January 2018, subject to adjustment.

On the basis of the determinations of the ARERA, the revenues for the period were valorised, amounting to a total of 34.4 million euros (Group share 13.8 million euros) inclusive of the adjustment of passing items and

With regard to the appeal before the Umbria regional administrative court filed by another user and the Umbrian Public Water Committee, following the transposition of the original Extraordinary Appeal to the Council of State filed by the appellants in the year 2015, for the annulment of subject to suspension of Deliberation no. 6 of 28 April 2015 and related attachments, it should be noted that at the hearing of 6 April 2016 before the Umbria Regional Administrative Court, the Umbrian Public Water Committee waived the request for suspension of the application of tariff

2017-2018, and the FNI component for 8.0 million euros for 2016 only. With resolution 687/2017/R/idr of 12 October 2017 ARERA ratified the proposal previously approved by the AIT.

The revenues for the first period have been quantified on the basis of AIT resolution 32/2016 and amount to a total of 52.5 million euros (Group share 21.0 million euros), including the adjustment of passing items.

convenience and financial risk, the Company contracted a plain vanilla type rate equal to 70% of the loan with some Lenders until final maturity, through Interest Rate Swap operations to transform the current variable rate into a fixed rate. Reimbursement of the capital portions started in December 2016, and the residual loan amounted to a total of 128.5 million euros at the end of 2017.

December 2027). A stake in the company (40% of the shares) was acquired on 1 January 2008. The company performed its activities in all 38 Municipalities constituting ATOs I and 2.

include the FoNI component of 2.0 million euros (Group share 0.8 million euros).

It should be noted that the Economic-Financial Plan approved in resolution 764/2016 envisages a plan for the reimbursement of the residual debt at 31 December 2015 (12.5 million euros) to the municipalities for fees due, as per the Agreement, for the restitution of the instalments of the mortgage contracted with the municipalities themselves for the realisation of the Integrated Water Service. The plan envisages the reimbursement of the debt in five annual instalments as of 2017 at constant rates. Note that the payment of fees to the Municipalities is carried out respecting the pre-established deadlines in order to guarantee the creditor a well-distributed financial flow during the year and better financial planning during the period for the Company.

adjustments for the prior years 2003-2011. The Umbrian Public Water Committee first approved and then validated the recognition of the tariff adjustments due to Umbra Acque S.p.A. for the previous items of the years 2003-2011, before the advent of the national ARERA regulation. Therefore, we are waiting for the rejection by the Judicial Authority, evidence that this would represent a significant step for the Company. Again in this case the Company will continue to monitor the progress of the dispute between the parties involved.

### 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 integrated water service tariff provisions for the Group companies is shown below.

Company	Approval status (up to MT12 "2016 - 2019")	Biennial update status (2018 - 2019)
ACEA Ato2	On 27 July 2016, the EGA approved the tariff inclusive of the bonus as per art. 32.1, subsection a) of Resolution 664/2015/R/idr. <u>The ARERA then approved them in Resolution 674/2016/R/idr, with some changes compared to the EGA proposal: quality bonus confirmed.</u>	The Conference of Mayors has not yet been convened
ACEA Ato5	Tariff proposal submitted by the Operator on 30 May 2016, with request for recognition of the Opex <sub>qc</sub> . ARERA warned the EGA 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 <sub>qc</sub> . Approval by the ARERA is awaited.	The Conference of Mayors that should approve the 2018-2019 tariff update has been scheduled for 1 August 2018.
GORI	On 1 September 2016, the Extraordinary Commissioner of the EGA approved the tariff with Op <sub>xqc</sub> as of 2017. Approval by the ARERA is awaited.	On 17 July 2018 the Extraordinary Commissioner of the EGA approved the 2018-2019 tariff update.
Acque	On 05 October 2017, the AIT approved the tariff with recognition of the Opex <sub>qc</sub> . Approval by the ARERA is awaited.	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, without prejudice to the need for its approval by ARERA.
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. <u>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.</u>	The Territorial Conference called to review the Works Plan to contain the tariff increase was postponed to September.
Acquedotto del Fiora	On 05 October 2016, the AIT approved the tariff with recognition of the Opex <sub>qc</sub> . <u>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.</u>	The AIT Board of Directors approved the 2018-2019 tariff update in the session of 26 July 2018.
Geal	On 22 July 2016, the AIT approved the tariff with recognition of the Opex <sub>qc</sub> . <u>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.</u>	On 12 July 2018 the ARERA approved the 2018-2019 tariff update proposed by the AIT.
Crea Gestioni	Following Resolution 664/2015/R/idr, as neither the Municipalities where the service is provided nor the Area Authorities of reference had any tariff proposal for the 2016-2019 regulatory period, the Company submitted its own tariff proposals. Today approval by the ARERA is awaited.	The Company submitted the tariff update data to the competent/EGA parties, unless still in progress for the technical quality part. Given the substantial inertia of the parties responsible, the Company envisages the presentation of an autonomous proposal by the end of September 2018.
Gesesa	On 29 March 2017 with resolution no.8 of the Extraordinary Commissioner the AATO1 approved the tariffs for the years 2016-2019. Today approval by the ARERA is awaited.	The Company sent the documentation relating to the 2018-2019 tariff review to the Area Authority and the preliminary investigation was initiated by the EGA with the expectation of reaching the approval of the tariffs by October 2018.
Umbra Acque	On 30 June 2016, the AIT approved the tariff with recognition of the Opex <sub>qc</sub> . <u>The ARERA then approved them in Resolution 764/2016/R/idr.</u>	In its session of 27 July 2018, the AURI Meeting approved the 2018-2019 tariff update.

The tariff provisions subject to biennial update (2018-2019) being approved will have retroactive effect starting from 1 January 2018 once approved.

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 better represented above.

Finally, below is a table that indicates for each Company in the Water Segment the amount of revenue in the first half of 2018, valorised on the basis of the tariff decisions made by the respective EGAs or

by the ARERA. The data includes the adjustment of passing items, the Fo.NI component, the Opex<sub>qc</sub> or the award as per art. 32.1, subsection a) of resolution 664/2015/R/idr.

Company	Revenue from the IWS (pro quota values in million euros)	Details (pro quota values in million euros)
ACEA Ato2	291.1	FNI = 9.3 AMM <sub>FoNI</sub> = 2,8 Award = 15.7
ACEA Ato5	37.1	FNI = 2.3 AMM <sub>FoNI</sub> = 0,4
GORI	30.3	
Acque	35.6	AMM <sub>FoNI</sub> = 2,2
Publiacqua	47.4	AMM <sub>FoNI</sub> = 3,3
Acquedotto del Fiora	20.9	AMM <sub>FoNI</sub> = 1,7
Umbra Acque	13.8	AMM <sub>FoNI</sub> = 0,8

## 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.

For further information regarding relations between the ACEA Group and Roma Capitale, reference should be made to the disclosures regarding receivables and

The following table shows details of revenues and costs at 30 June 2018 of the ACEA Group (compared to

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”.

payables from and to the Parent Company in note 23 of this document.

those of the previous year) deriving from the most significant financial relations.

thousand euros	REVENUES		COSTS	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
Supply of fresh water	37,005	18,650		
Supply of electricity	0	0		
Public lighting service contract	22,009	33,186		
Public lighting contract interest	2,488	2,306		
Water maintenance service contract	119	59		
Monumental fountain service contract	119	59		
Realisation of sanitary water works	0	278		
Concession fee	0	0	25,765	12,776
Leasing fees	0	0	0	120
Taxes and duties	0	0	5,287	3,297

Reference should be made to note 23 for details on the impact of these transactions, while the table

below summarises the changes in receivables and payables.

thousand euros	31.12.2017	Collections / payments	Accruals 2018	30.06.2018
Receivables	192,137	(54,930)	37,434	174,642
Payables	(129,064)	49,504	(83,426)	(162,986)

### **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	Revenue
AMA S.P.A.	758	580	2,898	5,867
ATAC S.P.A.	479	76	6,267	986
ROMA MULTISERVIZI S.P.A.	233	70	0	0
<b>Total</b>	<b>1,470</b>	<b>726</b>	<b>9,165</b>	<b>6,853</b>

### **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 30 June 2018.

thousand euros	Revenue	Costs	Receivables	Payables
Caltagirone Group	1,807	3,745	1,637	1,400

### **ACEA GROUP AND SUEZ ENVIRONMENT COMPANY SA GROUP**

There were no relations with companies in the Suez Group as at 30 June 2018.

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.

### **Incidence on the financial position**

thousand euros	30.06.2018	of which with related parties	Incidence	31.12.2017	of which with related parties	Incidence
Financial assets	36,162	33,801	93.50%	38,375	35,637	92.90%
Trade receivables	848,278	163,299	19.30%	1,022,710	158,748	15.50%
Current financial assets	458,880	106,272	23.20%	237,671	121,137	51.00%
Payables to suppliers	1,155,236	125,008	10.80%	1,237,808	136,054	11.00%
Borrowings	869,956	4,526	0.50%	633,155	3,042	0.50%

### **Incidence on the Income Statement**

thousand euros	30.06.2018	of which with related parties	Incidence	30.06.2017	of which with related parties	Incidence
Consolidated net revenue	1,454,278	61,355	4.2%	1,372,483	73,756	5.4%

Consolidated operating costs	1,022,894	29,134	2.8%	968,953	23,890	2.5%
Total Financial (costs)/income	(42,381)	10,189	(24.0%)	(31,162)	2,804	(9.0%)

### Incidence on the Statement of Cash Flows

thousand euros	30.06.2018	of which with related parties	Incidence	30.06.2017	of which with related parties	Incidence
Increase in current receivables included in the working capital	(110,189)	4,550	(4.1%)	(101,028)	(11,969)	11.8%
Increase/decrease in current payables included in the working capital	(15,489)	(11,046)	71.3%	(141,860)	12,060	(8.5%)
Proceeds/payments deriving from other financial investments	(218,996)	(16,701)	7.6%	3,383	14,052	415.4%
Decrease/increase in other short-term borrowings	236,801	1,484	0.6%	99,247	2,443	2.5%
Dividends paid	(114,666)	(114,666)	100.0%	(136,105)	(136,105)	100.0%

## Update on major disputes and litigation

Updates on the significant events occurring in the six-month period are provided below. For further information on the individual issues, please refer to the

description given in the 2017 Consolidated Financial Statements

### Tax issues

There were no significant events other than those described in the 2017 Consolidated Financial Statements.

### Other issues

#### ACEA Ato5 - 2016-2019 Tariffs

On 9 February 2017, the Company filed an appeal at the Lazio Regional Administrative Court in Latina for the annulment of Resolution no. 6 dated 13 December 2016, in which the Conference of Mayors of AATO 5 approved the tariff proposal for the SII for the regulatory period 2016-2019, envisaging period adjustments less than those envisaged in the Operator's proposal (77 million euros compared to about 35 million euros), as a consequence of the different quantification by the STO, essentially on four regulatory items: **(i)** the amount of the FNI (psi coefficient of 0.4 rather than 0,8 proposed by the Company); **(ii)** the recognition of arrearage costs (3.8% of the returns rather than 7.1%); **(iii)** the recognition of quality costs (opex qc), zeroed and not recognised by the STO; **(iv)** fines for approximately 11 million euros. The public hearing on the merits was set for 8 March 2018.

Following this hearing, on 22 March 2018 sentence no. 1335/2018 was published with which the Latina administrative court rejected the appeal brought by ACEA Ato5 against the aforementioned resolution of the Conference of the Mayors no. 6 of 13 December 2016.

With this ruling, the administrative court did not enter into the merits of the complaints raised by the Company, but confined itself to stating the inadmissibility of the appeal, on the assumption that the resolution of the Conference of Mayors would be a mere end-procedural act. The terms for appeal are pending.

Further details on matters of an accounting nature are provided in the section "Service concession arrangements".

#### ACEA Ato5 - Injunction Order requested for credit collection on the settlement agreement of 2007

With regard to the 10,700,000 euros receivables for higher costs incurred in the 2003-2005 period, pursuant to the Settlement agreement of 27 February 2007, on 14 March 2012, ACEA Ato5 lodged an appeal for an injunction order concerning the receivables recognised by the 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 euros.

ACEA Ato5 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 euros.

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 Ato5 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 Court, 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 Ato5 and AATO 5, granted a postponement to 4 May 2018, inviting the parties to clarify the reasons for these discrepancies and indicating that if they



cannot then a court expert would be appointed. At this hearing there was a further postponement until 21 September 2018.

Linked to this judgement must be considered the appeal against the sentence of the Court of Frosinone that revoked the injunction order of 10.7 million euros initially issued by the same Court.

#### **ACEA Ato5 - Contractual termination Management Agreement**

The Company filed an appeal (no. 316/2016) against resolution no. 2 taken by the Mayors' Conference on 18 February 2016 with which the process of termination of the contract was initiated and the subsequent formal notice was sent to the Company in March 2016. It also challenged resolution no. 7 of 13 December 2016 with which the resolution was decided, presenting reasons added to appeal no. 316 and with a concurrent claim for damages. Following the public hearing on 23 November 2017, the administrative court of Latina upheld the appeal filed by the Company and with sentence no. 638/2017 published on 27 December 2017 vacated the contested measures. On 26 June 2018 the appeals filed by the

ACEA Ato5 provides integrated water services on the basis of a thirty-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 Ato5 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 480,000 inhabitants, about 470,000 inhabitants supplied and a number of end users equal to around 186,377.

To date, the Municipality of Paliano has not completed this process, while as per the acting Commissioner appointed by the President of the Province of Frosinone the acquisition of Atina was completed on 19 April 2018. Below is a description of the main events during the period:

**Municipality of Atina:** at the beginning of the year several meetings took place at the Operational Technical Secretariat of ATO5. However, as the Municipality of Atina had still failed to fulfil its obligation - ascertained by the administrative judge with sentence no. 356/2013 and confirmed by the Council of State with sentence no. 2742/2014, i.e. "material delivery of the works and installations relating to the IWS" - the Operational Technical Secretariat of ATO 5 Southern Lazio-Frosinone and ACEA Ato5, in the meeting of 23 January 2018, decided to urge the President of the Province of Frosinone, as Acting Commissioner appointed by the Lazio Regional Administrative Court - detached section of Latina with sentence no. 356/2013 of 21 March 2013, to implement all the appropriate initiatives, activities and appropriate and/or necessary actions to allow the conclusion of the transfer of the

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. 81 sexies of the code of civil procedure.

Area Authority and the Municipality of Ceccano plus other Municipalities of ATO 5 were served, challenging the aforementioned ruling no. 638/2017 of the Lazio Regional Administrative Court - Latina section.

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, as soon as possible the Company will file the formal documents concerning the two disputes and will request that they be combined into one case.

For more details on the content of the measures cited, see the paragraph "Service Concession Arrangements". works and water and sanitation facilities relevant to the IWS in the municipal territory of Atina to ACEA Ato5.

The Company immediately sent a formal request to the President of the Province of Frosinone, as acting Commissioner, to act on behalf of the defaulting Municipality of Atina to "proceed with the concession...and delivery of the works and plants pertaining to the IWS" to ACEA Ato5. It simultaneously requested ARERA to initiate a procedure aimed at verifying the legitimacy of the tariffs applied by the Municipality of Atina to its users and invited the competent Supervisory Authorities - including the Public Prosecutor of Cassino and the Court of Auditors - to ascertain any criminal and/or fiscal liability of the persons specified and to take any consequent necessary actions. Subsequent to this request, on 29 March 2018 a first meeting between the parties was held at the offices of the Operational Technical Secretariat of AATO5 in order to complete the process of transferring the IWS of the municipal territory of Atina.

Specifically, the parties agreed (i) to proceed with the updating of the reconnaissance report of the works of 28 September 2017 by 10 April 2018; (ii) to update the terms established by the parties with regard to their respective obligations, as agreed in the minutes of 9 January 2018, fully confirming the content; (iii) to send to the Acting Commissioner the documentation certifying the Municipality of Atina's transmission of the database relating to the users located in the municipal territory to the Manager, the Municipality agreeing to provide for the subsequent updating of the aforementioned users according to the procedures established in the report of 9 January 2018.

The next meeting was held on 19 April 2018 to proceed with the formalisation of the transfer of the works and plants pertaining to the IWS in the Municipality of Atina, as well as for the completion of

the Acting Commissioner's work, in compliance with the Decree of the President of the Province no. 27 of 2 March 2018.

In the aforementioned meeting in the presence of the Operational Technical Secretariat of ATO5, the Municipality of Atina and ACEA Ato5, the Acting Commissioner - noting that the parties had carried out the obligations referred to in points 1), 2) and 3) of the report of 29 March 2018, in compliance with the sentence of the Latina administrative court no. 356 of 23 April 2013 - transferred the works, assets and facilities pertaining to the IWS in the municipal territory to ACEA Ato5.

In addition, with subsequent report signed on the same date by the Operational Technical Secretariat of ATO5, ACEA Ato5 and the Municipality of Atina, the parties - reaffirming to fully confirm the contents of the minutes of 9 January 2018 - agreed to adjust the deadlines provided for in the aforementioned minutes, updating them to that day's date and extending them for 100 days.

**Municipality of Paliano:** following the hearing of 7 December 2017 the administrative court of Latina upheld the appeal brought by the Company against the Municipality of Paliano, which for more than 10 years has unlawfully opposed the transfer of the service to the Company in order to preserve the continuation of the management of its investee company AMEA S.p.A. Subsequently, the Company requested the immediate transfer of the service and also the Ministry of the Environment requested this fulfilment, also through the exercise of substitute powers by the Regional Administration.

However, the Mayor of the City of Paliano has communicated the will of the City of Paliano to appeal to the Council of State against the ruling of the regional administrative court, and therefore has not proceeded with the transfer of the service, waiting for the Council of State to decide on the appeal.

The Operational Technical Secretariat of the Area Authority, following the warning issued by ACEA Ato5, convened the parties - on 23 January 2018 - to "undertake the activities related to the delivery of the infrastructure of the water service". At the aforementioned meeting, not being present either the Municipality of Paliano in the person of the Director of the Integrated Water System, or the Company AMEA S.p.A. in the person of its Legal Representative, the Operational Technical Secretariat of ATO5 Southern Lazio-Frosinone and ACEA Ato5 decided to present a formal petition to the Lazio Regional Administrative

With regard to the **tariffs**, as is known, the Conference of Mayors, in its meeting on 13 December 2016, approved, among other matters, the 2016-2019

Court - Latina section - to proceed with the appointment of the acting Commissioner who would act on behalf of the defaulting Municipality of Paliano and carry out the activities necessary to allow the delivery of the water service infrastructure in the Municipality of Paliano to ACEA Ato5. Furthermore, ACEA Ato5 immediately informed the Public Prosecutor of Frosinone and the Court of Auditors of what happened, inviting them to ascertain any responsibilities, also in relation to the evident violation - already noted by the regional administrative court in the above judgement - of art.153 of Italian Legislative Decree no.152/2006 and of the corresponding fiscal and criminal liability. At the same time, it invited all the Administrations and Supervisory Authorities to take any action necessary within their remit to restore the violated legality - repeating the request already made in previous communications to the Area Authority and the sector regulation Authority to initiate the appropriate checks on the legitimacy of the water tariffs applied until then in the Municipality of Paliano.

On 16 February 2018 the Municipality of Paliano filed an appeal to the Council of State, whose hearing in the council chamber was held on 5 April 2018. At the outcome of the aforementioned hearing, in response to the request for clarification by the President of the Panel of Judges regarding the danger in delay for the new regional regulatory framework and the establishment of ATO 6, to which the Municipality of Paliano belongs, it was suggested that the Company could wait for the ruling on the matter before proceeding with the execution of the regional administrative court's decision. Therefore, the hearing was set for 27 September 2018. Pending the definition of the judgement, the Operational Technical Secretariat has convened the interested parties - ACEA Ato5, the Municipality of Paliano and AMEA - for the day 4 June 2018 in order to comply with the requirements of the Ministry. However, given the absence of both the Municipality of Paliano and AMEA at the aforementioned meeting, the Operational Technical Secretariat sent its report to the Lazio Region, awaiting the measures that the Regional Administration intends to take.

Finally, on 2 July 2018, the Company was notified as a counterparty of the Municipality of Paliano's appeal of the Lazio Regional Administrative Court - Latina section's provision of 27 April 2018 with which AATO 5 rejected the safeguard petition presented by the aforementioned Municipality.

tariff proposal and the following multipliers, in resolution no. 6

2016	2017	2018	2019
1.080	1.166	1.260	1.360

The essential contents of resolution no. 6 are:

- ✓ valorisation of the FNI component on the basis of the parameter  $\psi$  of 0.4;

- ✓ recognition of an arrears rate of 3,8% rather than the 7.1% requested by the Company on the basis of a reasoned request;
- ✓ failure to recognise the  $Opex_{qc}$  component;
- ✓ reduction of the adjustments accrued in 2012-2015 through the application of fines for presumed non-fulfilments in 2014 and 2015 for about 11 million euros;

As is known, the Company filed an appeal for the annulment of resolution no. 6, and the public hearing for the discussion on the merits was set for 8 March 2018. Following this hearing, on 22 March 2018 sentence no. 135/2018 was published with which the Latina administrative court rejected the appeal brought by ACEA Ato5 against the aforementioned resolution of the Conference of the Mayors no. 6 of 13 December 2016. In any case - regardless of the possible appeal of the sentence - the merit of the matter remains completely open and the Company will have to await the resolution of ARERA on the tariff proposal proposed by AATO5.

In any case, it can certainly be confirmed that the rate currently applied by ACEA Ato5 remains valid and is not affected by the ruling in question.

On the basis of the tariff proposal approved by the Conference of Mayors on 13 December 2016, the

As regards relations with the STO, it should be noted that during the year, the Company requested an in-depth account of the use of the sums paid as concession fees as of 2003. This recognition is based on the need to verify the possibility of at least partially hedging the debt incurred by the Framework Authority with the Company (10.7 million euros) by force of the Transitory Agreement signed in 2007, in other words the reduction of the concession fee (and therefore the tariff charged to the users).

It should also be noted, again with regard to the concession fees, that in June, the STO sent several bills to the Company concerning the balance of the fee for the period 2006-2011, totalling approximately 7 million euros (net of the sums already paid during the same period). These bills were challenged and rejected, as the Decision dated 30 May 2013 by the acting Commissioner - concerning the "*Calculation of the adjustments and service levels with regard to management in the period 2006-2011*" - in calculating the tariff adjustments in favour of the Operator (see para. 3.5, pages 17-18, of the aforementioned Decision):

- e. identified the concession cost among the operating costs, the value of which has remained constant over the years;
- f. expressly qualified the concession fees as "passing items";
- g. specified that the amount of the concession fees should be reduced on the basis of the weight of the users served on the total utilities in the framework area (91.51%), consistently with the Report dated 21 June 2012;

revenues for the period have been quantified and amount to 37.1 million euros including the estimate of the adjustment of passing items and the FNI component of 2.3 million euros.

As regards the tariff adjustments, it should be noted that:

- the backdated ones for the period 2006-2011, quantified by the acting Commissioner as 75.2 million euros and confirmed by the Council of State in sentence no. 1882/2016, have been fully billed;
- those accrued in the first regulatory period (2012-2015) amount to 54.7 million euros and, in fulfilment of ARERA Resolution 51/2016, will be recovered as of 2023. The Directors, also supported by authoritative legal opinions, believe that the fines of 11 million euros imposed by the Conference of Mayors for presumed non-fulfilments in 2014 and 2015 are not due and for this reason following the ruling were appealed before the Latina Regional Administrative Court. The following are not therefore included in the financial statements:
  - those accrued in 2016 amounted to 17.2 million euros, while those accrued in 2017 amounted to 22.1 million euros.

- h. expressly quantified the concession fees, reduced as described above, as 5,634,000.00 euros annually.

In other words, the total amount of the concession fees due by the Company for the period 2006-2011 amounted to a total of 33.8 million euros; net of payments made for the same period (29.6 million euros), the residual amount still due amounts to a total of 4.2 million euros that the Company duly paid by submitting on 16 November 2017 a note highlighting the Manager's commitment to pay 1.37 million euros by the end of the year (regularly paid at the beginning of 2018) as well as an objection to any further debt regarding the concession fees. In view of the commitment, the counterparty took note of the document produced and declared the need - also due to the content of the same note - to have to "report" to AATO 5. In light of this, the Court, 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 Ato5 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.

With regard to the appeal filed on 20 September 2017 before the Court of Appeals of Rome against the sentence of the Court of Frosinone which annulled the injunction decree of 10.7 million euros, initially issued

by the same Court, the first hearing was postponed automatically until 11 May 2018. On this occasion the Court, having heard the respective positions of the parties, postponed the case to 20 November 2020 for

As regards the appeal before the Latina Regional Administrative Court filed by the Company against resolution no. 1/2016 dated 18 February 2016, in which the Conference of Mayors rejected the incorporation of ACEA Ato5 into ACEA Ato2, the appeal concluded with sentence no. 450/2017 with which the administrative judge upheld the

#### **ACEA Ato5 - 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 Ato5 (case value 14,181,770.45 euros). 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 reference to the judgement established following appeal 3895/2013 (judgement value 7,710,946.06 euros), the parties involved initiated a series of meetings, at the end of which, in the month of March 2018, a settlement agreement was reached (which also includes ACEA Ato2 as a party), whose effectiveness was subject to prior approval by the respective boards of directors. The Board of Directors of each of the Parties approved the aforementioned settlement and on 15 May 2018 the final settlement agreement was signed by Consorzio ASI, ACEA Ato2 and ACEA Ato5.

#### **Acea S.p.A. - 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 - is alleged to have produced on minority shareholders and their respective stakeholders. The petition is for more than 10 million euros.

The court, accepting SMECO's request, deemed necessary expert accounting consulting aimed at quantifying the costs incurred, the loss of earnings and any payment due as a result of sale option envisaged in

#### **Acea S.p.A. - SASI**

In sentence no. 6/10, the TRAP accepted the request for damages compensation due to the illegitimate collection of water from the Verde river, made by ACEA in 2006 against Società Abruzzese per il Servizio Integrato S.p.A. (SASI), awarding ACEA 9,002,920 euros in damages compensation, plus interest, from 14 June 2001 to 30 July 2013.

The sentence, which provisionally is not enforceable, was impugned by SASI before the TRAP, and ACEA filed an incidental appeal. In non-definitive sentence no.

the oral discussion and the ruling of the sentence pursuant to art. 81 sexies of the code of civil procedure.

challenge brought by ACEA Ato5. The Company was formed in the appeal decision promoted by the Authority of Territorial Area no. 5 Southern Lazio - Frosinone against the aforementioned ruling. To date there is no information regarding the scheduling of the hearing.

The parties subsequently signed an addendum to the outline of the settlement agreement - an agreement previously approved by the respective Boards of Directors - in order to settle the reciprocal relationships according to the definitive decisions of the Area Authority in relation to the reciprocal tariffs and/or costs and/or remuneration methods;

- with reference to the judgement following appeal no. 3371/2016 (judgement value 6,470,824.39 euros), the judge, granted the terms pursuant to article 183, paragraph 4 of Italian civil procedure code set the hearing to be held on 15 May 2018. On this occasion, in view of the parties' express intention to achieve an amicable settlement of the dispute - in relation to their reciprocal credit/debit positions also for the following period 2012-2015 - through the activation of a settlement discussion the Judge ordered the postponement of the hearing to 25 September 2018.

the shareholders' agreements.

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 expenses of 50,000.00 plus accessory costs. On 1 October 2015, SMECO appealed to the 2nd Section of the Court of Appeal of Rome. At the hearing of 3 February 2016 the case was postponed for the clarification of the pleadings to 11 April 2018. On this occasion, the matter was further postponed until 29 January 2020.

117/13 dated 11 June 2013, the TSAP accepted one of the reasons for appeal, adjourning the case and setting-up the CTU for quantifying the damage incurred by ACEA for the period 2001-2010. After a series of adjournments, sentence no. 16 was filed on 1 February 2017, in which the TSAP recognised the sum of 6,063,361 euros in favour of ACEA, plus legal interest compensating the sum year by year, revalued from 2001 to 2010 and interest on arrears for the final decision. By appeal notified before the United Sections

of the Court of Cassation on 5 April 2017, SASI challenged the TSAP sentence. ACEA's counter-appeal was notified on 12 May 2017 and the hearing is still pending.

Following communication by Acea of the order for payment for the amount of 7,383,398.66 euros, on 5 March 2018 SASI filed an appeal pursuant to art. 373 of the Italian Code of Civil Procedure, aimed at obtaining the suspension of the enforcement of the sentence. The hearing for the discussion in the council chamber was scheduled for 11 April 2018, and due to

the pending negotiations for the amicable settlement of the litigation, the hearing was postponed to 10 October 2018.

On 5 July 2018 the Parties reached a settlement agreement during which SASI agreed to renounce the appeal against ACEA pending before the Court of Cassation and any claim made therein, and ACEA agreed to accept said renunciation. With this agreement S.A.S.I. will have to pay ACEA the total amount of 5.4 million euros.

**Acea S.p.A., ACEA Ato2 S.p.A. and AceaElectrabel Produzione S.p.A. (today Acea Produzione S.p.A.) – ERG HYDRO S.r.l. (formerly E.ON. Produzione S.p.A.)**

E.ON. Produzione S.p.A., Enel's successor of some concessions for the derivation of public waters of the springs of Peschiera for the production of energy, filed a case against the joint defendants (ACEA, ACEA Ato2 and AceaElectrabel Produzione) requesting payment of the subtension indemnity (i.e. compensation for damages due to illegitimate subtension), which remained frozen in the state of the 1980s to the extent of 48.8 million euros (in addition to the amounts due for the years from 2008 onwards) or alternatively to the payment of the sum of 36.2 million euros.

On 3 May 2014 with sentence no. 14/14 the Administrative Court of Public Waters fully rejected E.ON's petition, considering the agreements of 1985 still to be in force and only considering the request for the "price of subtension", as it deemed the question of adjustments to be unrelated.

E.ON was ordered to reimburse the costs of litigation in the amount of 32 thousand euros plus accessory costs under law and the fees of court experts.

On 23 June 2014 E.ON. appealed to the TSAP with the first hearing set for 1 October 2014. After subsequent postponement of the procedure, at the hearing of 14 January 2015 the judgement was deferred to a hearing of 10 May 2015. With sentence no. 243/2016 the appeal was rejected, ordering E.ON. to reimburse litigation costs.

With appeal lodged before the United Sections of the Court of Cassation on 20 December 2016, the counterpart challenged the sentence of the TSAP; the counterclaim of ACEA was served on 27 January 2017 and the hearing was scheduled for 9 October 2018.

**Acea S.p.A. - Milano '90**

This issue concerns Milano '90's failure to pay 5 million euros due for the balance of the sale price of the area in the municipality of Rome with access from via Laurentina No. 555, formalised on 28 February 2007 and with a subsequent supplementary deed of 5 November 2008. With the supplementary deed, the parties agreed to change the fee from 18 to 23 million euros, 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 S.p.A. 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.

With sentence no. 3258 published on 13 February 2018 the Court of Rome rejected the objection and fully confirmed the injunction, condemning Milano '90 to reimburse the litigation costs. Following the favourable 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.

On 26 April 2018 Milano 90 appealed and the hearing was scheduled for 13 September 2018.

**Acea S.p.A. - Trifoglio S.r.l.**

The complex dispute consists of a case filed as a plaintiff and also a case appearing as a defendant., combined in 2015 before the judge for the pending proceeding as a plaintiff.

Case filed as a plaintiff: this issue concerns the breach by Trifoglio of its obligation to pay the balance of the amount due (10.3 million euros), 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 Civil Procedures Code. 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 notified to ACEA and ATA Patrimonio a deed of summons aimed at ascertaining the invalidity of the sale deed and recognition of damage compensation of about 20 million euros.

In sentence no. 11436/2017 dated 6 June 2017, the Court of Rome declared the nullity of the sale contract, substantially accepting the demand by ACEA aimed at

#### **Acea S.p.A. - Kuadra S.r.l.**

Within the scope of the Kuadra S.r.l. dispute against the subsidiary Marco Polo S.r.l. in liquidation for alleged breach of contract related to participation in the Temporary Grouping of Companies for the CONSIPI order, lawsuits were also filed against the same Kuadra S.r.l. and the shareholders of Marco Polo (and therefore: ACEA, AMA and EUR) as well as Roma Capitale.

This summons was filed by the counterparty on the basis that Marco Polo was under the management and coordination of all direct and indirect Shareholders.

ACEA holds that, also in consideration of the generic nature of Kuadra S.r.l.'s reasoning attributing responsibility to the shareholders of Marco Polo, the risk of an unfavourable ruling is considered remote, while the indirect risk as a Marco Polo shareholder has already been considered in the assessment of risks with the subsidiary.

#### **Acea S.p.A. - Andrea Peruzi, Maurizio Leo and Antonella Illuminati**

With appeals filed with the Court Employment Division, former ACEA Directors Peruzi and Leo summoned ACEA itself to request that the Company be ordered to pay the remuneration unpaid and due to them, amounting respectively to 190 thousand euros and 185 thousand euros following the early termination of the office held, and compensation for financial and other damages, for various reasons, to be paid equitably. ACEA filed its appearance and in the first place asserted the non-applicability of the employment law procedure and then the necessary transfer of the proceedings to the ordinary courts, as well as the lack of grounds of the claim. At the hearing on 25 February 2016, the Court, by order of the same date, declared the lack of jurisdiction of the specialised Section and referred the case to the President of the Court for allocation to another section. The cases were resumed

#### **Acea S.p.A. – Former COS rulings**

Currently the following rulings are connected to the COS dispute, concerning the ascertainment of the illegality of the contract between ALMAVIVA Contact (formerly COS) and ACEA and the consequent right of its workers to be recognised as having a subordinate employment relationship with Acea S.p.A. It should be noted that the majority of the judgements in which ACEA has been unsuccessful are settled and that only

terminating the contractual relations with Trifoglio and recovering ownership of the area, ordering the restitution to Trifoglio of the deposit received (amounting to 4 million euros), and rejecting the demand for damages compensation made by Trifoglio and excluded any liability of ACEA with regard to the truthfulness of the contractual guarantees offered by Trifoglio. On 8 August 2017, Trifoglio filed an appeal and the first hearing was scheduled for 8 February 2018. The hearing was postponed for pleadings to 13 September 2018.

The case was adjourned to 19 January 2016 for the decision on the admission of evidence. The judge reserved the decision on the matter. Overcoming the aforementioned reservation, the Court rejected the motions for admission of evidence submitted by the plaintiffs, and adjourned the case to 4 October 2016 for the final pleadings. As a consequence of the start of negotiations for the amicable settlement of the dispute, the hearing has been adjourned several times.

In view of the agreement reached by the parties for the abandonment of the case pursuant to art. 309 of the Italian Code of Civil Procedure, on 15 December 2017 Kuadra S.r.l. filed a petition to adjourn the proceedings. By order issued on 25 January 2018, the Court therefore dismissed the case setting the hearing of 27 February 2018. Pursuant to art. 309 of the Italian Code of Civil Procedure it was further postponed to 13 September 2018.

before the Business Section of the Court of Rome. The matter was definitively settled with the signing of two settlement agreements in April 2017; the proceedings have therefore terminated.

With similar actions brought before the Court Employment Division, former Director Antonella Illuminati summoned ACEA itself to request that the Company be ordered to pay the remuneration unpaid and due to her, amounting to about 190 thousand euros following the early termination of her employment, and compensation for financial and other damages, under various titles, to be paid equitably. As already happened previously for the former directors Peruzi and Leo, the matter was closed with the signing of a settlement agreement in February 2018, so the proceedings are therefore terminated.

six are currently pending in the Court of Cassation with regard to the claim (i.e. ascertaining the authenticity of the contract and the right to the establishment of the relationship), since with the sentence of the Court of Appeal of Rome no. 5392 of 8 January 2018 the lien proposed by an appellant was rejected and the limitations have passed to file an appeal to the Court of Cassation.

On the basis of the judgements relating to the an debeatour, victorious workers (who were recognised as having a subordinate employment relationship with ACEA) then petitioned for quantification of the claim, with which ACEA was ordered to pay the salaries due as a result of the relationship established. There are multiple judgements introduced by six workers but with different timing, which has led to discordant rulings which remain in various stages of jurisdiction. Specifically, two quantification judgements are currently pending in the Court of Cassation.

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

A further ruling was made at first instance with sentence 5538/15 of 3 June 2015 which rejected the demand - relating to a certain time segment - on the principal finding that the six workers remained

employees of ALMAVIVA Contact (formerly COS) and as such received income.

The value of the petitions amounted to 660 thousand euros net of accessory costs, but ACEA has not been found liable and therefore has not paid anything. However, the unsuccessful workers appealed, and the discussion hearing, scheduled for 18 September 2017, was postponed to 25 June 2018. During this hearing, the Court of Appeal considered it appropriate to suspend the quantification of the amount due pending the rulings that the Court of Cassation should make on the an debeatour of the claim.

Finally, it is also noted that there are two further cases on the an debeatour filed by appellants against the ruling by the Court of Appeal of Rome no. 6735/2013, which rejected the request for the authoritative constitution of the working relationship with the workers. ACEA responded with a counter-appeal.

The hearing before the judge has not yet been scheduled.

#### **Acea S.p.A. and areti S.p.A. – MP 31 S.r.l. (formerly ARMOSIA MP S.r.l.)**

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 euros, 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.

At the hearing on 17 February 2016, the Court joined these proceedings with the other proceedings General Docket 30056/2014 pending before the Court of Rome - brought by ACEA and by areti (the assignee of the lease) seeking a declaration of termination of the lease agreement.

In the latter proceedings, Armosia MP also filed a counter-claim for damages in consideration of the state of degradation of the property at the time it was released by areti. At the hearing of 17 February 2016 both ACEA and areti opposed that request. The judge ordered an expert witness. With sentence no. 22248/2017 of 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 euros plus interest from the individual deadlines, as well as the payment of the rent up to contract expiry (29 December 2022).

ACEA filed an appeal, served on 2 January 2018.

With the decree issued inaudita altera parte on 15 January 2018 the provisional enforceability of the sentence of first degree was suspended; the relevant hearing was held on 8 February 2018 and as a result, the Court of Appeals rejected the petition. The hearing to discuss the appeal initially set for March 15th was postponed to 19 April 2018. At the end of this hearing, considering the case ready for the decision, it was rescheduled to 16 April 2020.

It should be noted that MP31 has served areti with a garnishment order for the recovery of the sums referred to in sentence no. 22248/2017 and that on 21 June 2018 an assignment order was issued, performed by the attached party.

#### **Acea S.p.A. and ACEA Ato2 S.p.A. - Province of Rieti**

The Province of Rieti has served ACEA and ACEA Ato2 with a summons with which it makes a claim for damages (for various reasons) that it alleges to have suffered as a result of the non-approval of the agreement on so-called inter-area interference.

Also summoned together with ACEA and ACEA Ato2 are the Province of Rome, the ATO2 Lazio Central Authority, Roma Capitale and the Lazio Region.

The value of the dispute is currently about 90 million euros (25 million euros up to 31 December 2005 and 8 million euros per year for the subsequent period), but the construction of the case is rather fragile, especially against ACEA. First of all the identification of the competent judge appears to be improper: the Ordinary Court instead of the Regional Court of Public

Waters; second, the responsibility for the delay in the approval of the interference agreement is certainly not attributable to ACEA as this does not fall within its purview.

The judgement, postponed to the hearing of 14 July 2015 for admission of the investigative means requested by the parties in the terms granted, was postponed again for the clarification of the pleadings to 2 February 2017, being a case in law with relevant preliminary exceptions. The hearing was postponed again to 19 September 2017. At the hearing, a decision on the case was not taken.

Later, with Resolution no. 30 of 25 January 2018, the Regional Council of Lazio approved the updated scheme of the mandatory Convention for the



management of hydraulic interference, which acknowledges the recent agreements between AATO2 and AATO3 and the mayors' conferences of both the local authorities approved the scheme and on 2 February 2018 signed the agreement for the management of hydraulic interference of the Peschiera - Le Capore aqueduct system. It is important to note that art. 16 of this agreement provides for the waiving of pending judgements, including the one in question.

#### **Acea S.p.A. and ACEA Ato2 S.p.A. - CO.LA.RI**

With a writ of summons served on 23 June 2017, Co.La.Ri. Consortium and E. Giovi S.r.l. - manager of the landfill at Malagrotta (RM) and executor respectively - summoned ACEA and ACEA Ato2 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. 36/2003 - allegedly due for the conferment of waste occurred during the period of contractual validity in 1985 - 2009. The main request stands at over 36 million euros for the entire period of contract validity. Subordinately, in

#### **ACEA Ato2 S.p.A. - Hydraulic interference**

On 29 July 2016 ACEA Ato2 filed an appeal before the Lazio Regional Administrative Court in Rome against Lazio Region, to obtain the annulment of Regional Government Resolution no. 263 dated 17 May 2016, concerning the approval of the new obligatory Draft Agreement for managing hydraulic interference with the Peschiera - Le Capore aqueduct system.

In particular, the Company has objected to the part of the Resolution that determines in a completely arbitrary manner the amounts that the Authority of ATO2 will be required to pay to ATO3.

The Metropolitan City of Rome Capital intervened in the proceedings ad adiuvandum, while among the resisting and counter-interested parties, Lazio Region and the Province of Rieti appeared in the capacity of Authority Responsible for the coordination of the entities in ATO3.

Also as a consequence of the aforementioned legal proceedings being taken, Lazio Region began a procedure for the review of the aforementioned Resolution, subsequently issuing Resolution no. 360 dated 20 June 2017, which substantially confirms the contents of the previous measure.

The aforementioned Resolution was challenged for additional reasons.

Subsequently, on 9 January 2018 the Company filed a second document with additional reasons, concerning

#### **ACEA Ato2 S.p.A. - 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

Therefore, the main opposing parties presented the amicable settlement of the dispute and at the hearing of 8 May 2018, it being clear that the parties had an interest in reaching a conclusion, the court once again reserved its decision.

With sentence no. 9455/2018 of 10 May 2018 the matter of the dispute was therefore declared terminated.

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 euros 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.

At the moment, any evaluation of this matter appears premature.

the annulment of the note with protocol 038786 of the Director of the Regional Directorate for Water Resources, Soil Protection and Waste, bearing the report concerning the assessment and calculation of the ATO-ATO3 contribution and the note of the Committee for Legislation of the Lazio Region protocol 306024 of 15 June 2017 (both coming to light following acceptance of the request for access to documents on 17 October 2017). With this petition of additional reasons, the Regional Administrative Court was also requested to annul the resolution of the regional council no. 661 dated 17 October 2017 concerning the exercise of substitute powers through the appointment of an acting commissioner, then appointed on 5 December 2017.

Finally, note that with Resolution no. 30 of 25 January 2018, the Regional Council of Lazio approved the updated scheme of the mandatory Convention for the management of hydraulic interference, which acknowledges the recent agreements between ATO2 and ATO3 and the mayors' conferences of both the local authorities approved the scheme and on 2 February 2018 signed the agreement for the management of hydraulic interference of the Peschiera - Le Capore aqueduct system.

challenged by ACEA Ato2 before the Superior Court of Public Waters (TSAP) with separate appeals (cases then combined).

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 Ato2 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.

#### **ACEA Ato2 S.p.A. - 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 (Docket no. 81/18) ACEA Ato2 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

Against the provision of 29 December 2017 ACEA Ato2 has proposed an appeal, with a request for suspension, before the TSAP. At the hearing to discuss the injunction, held on 30 May 2018, the proceeding was postponed to 25 July 2018. Finally, with a ruling dated 27 July 2018, the Managing Director, cancelling the previous conditions established at the hearing, rejected the precautionary petition submitted by ACEA Ato2 and set the hearing for the next 7 November 2018.

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. 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.

#### **areti S.p.A. - GALA S.p.A.**

In November 2015, areti S.p.A. (formerly ACEA Distribuzione), in its capacity of manager of the electricity distribution network, entered into a transport contract with GALA, which operates in the sale of electricity to end users.

As of March 2017, GALA has suspended all payments of the amounts billed by and due to areti and, on 3 April, submitted an application for Settlement ex art. 161, paragraph 6, of the Bankruptcy Law (so-called settlement "with reserve" or "in balance") recorded in the companies register on 11 April 2017.

With a press release dated 30 May 2018, GALA announced "*that on 3 May 2018 the Shareholders' Meeting, specifically convened, confirmed the impossibility of pursuing the corporate purpose previously ascertained by the board of directors, and consequently has resolved the liquidation of the Company, modifying its company name with the addition of the expression 'in liquidation'*"; furthermore, with this press release Gala announced "*that it had revoked the proposal for an arrangement with creditors and renounced the related application, with a deed dated 6 March 2018. The Bankruptcy Court reserved the right to decide on the Company's requests following the hearing held on 23 May 2018*".

Given this situation, it should be noted that areti, in defence of its creditors, on 7 April 2017 started the enforcement of part of the guarantees issued by GALA, and then, challenging the non-fulfilment of the obligations arising from the contract both by Gala and the guarantors, availed itself of the termination clauses contained therein.

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 Civil Procedures Code 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 subsequently revoked by ordinance of the judge of 30 May 2017, which completely accepted areti's reasoning.

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 Civil Procedures Code, 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 S.p.A.**

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 next hearing of first appearance is set for March 2019.

GSE S.p.A., 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), with the first hearing set for March 2019, for the reasons set out below.

Both judgements are pending before Section XVII of the Court of Rome, the same designated judge, who set the hearing for the decision concerning the request for consolidation to be held on 5 July 2018: on that occasion, the Judge decided to order a postponement, for the same parties, to March 2019, ordering - for the judgement of opposition to the injunction of GSE - the renewal of notifications to Gala and its guarantors by *areti*.

This also for the purpose and awaiting the consolidation of the judgement (of merit) introduced by Gala in March 2018, with which it seeks to ascertain the illegitimacy of the termination of the contract, the invalidity of some of its clauses and the consequent compensation claimed from *areti* (see below).

**GALA's citation to *areti*, Acea Energia S.p.A. and Acea S.p.A.**

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.

GALA also requested that the behaviour of *areti* and other defendant companies - Acea S.p.A. and Acea

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 27 on the Provision for risks and charges).

Energia S.p.A. - be declared acts of unfair competition, condemning them to pay the corresponding damages.

The value of the dispute is about 200,000,000.00 euros, but the grounds of the introductory case currently appear rather weak.

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-fulfillment of Gala S.p.A. 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.

At the hearing of 13 June 2018, the designated judge remanded the decision of the consolidation to the Section President, who - in turn - remanded the case back to the President of the general role for the assignment to a new section and possible consolidation at the first judgement, i.e. the one introduced by Euroins for joint treatment.

**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

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

## Annexes

- A. List of consolidated companies
- B. Reconciliation of shareholders' equity and statutory profit – consolidated
- C. Remuneration of Directors, Statutory Auditors and Key Managers
- D. Segment information: statement of financial position and income statement

**A. List of consolidated companies**

Name	Registered office	Share Capital (in Euros)	% Interest	Group's Consolidated Interest	Method of Consolidation
<b>Environment Segment</b>					
Acea Ambiente S.r.l.	Via G. Bruno 7 - Terni	2.224.992	100,00%	100,00%	Line-by-line
Aquaser S.r.l.	P.le Ostiense, 2 - Roma	3.900.000	93,06%	100,00%	Line-by-line
Iseco S.p.A.	Loc. Surpian n. 10 - 11020 Saint-Marcel (AO)	110.000	80,00%	100,00%	Line-by-line
Acque Industriali S.r.l.	Via Bellatalla,1 - Ospedaletto (Pisa)	100.000	67,91%	100,00%	Line-by-line
<b>Energy Commerciale and Trading Segment</b>					
Acea Energia Sp.A.	P.le Ostiense, 2 - Roma	10.000.000	100,00%	100,00%	Line-by-line
AceaBcento S.r.l.	P.le Ostiense, 2 - Roma	10.000	100,00%	100,00%	Line-by-line
Cesap Vendita Gas S.r.l.	Via del Teatro, 9 - Bastia Umbra (PG)	10.000	100,00%	100,00%	Line-by-line
Acea Liquidation and Litigation s.r.l.	P.le Ostiense, 2 - Roma	10.000	100,00%	100,00%	Line-by-line
Umbria Energy Sp.A.	Via B. Capponi, 100 - Terni	1.000.000	50,00%	100,00%	Line-by-line
Acea Energy Management S.r.l.	P.le Ostiense, 2 - Roma	50.000	100,00%	100,00%	Line-by-line
Parco della Mistica S.r.l.	P.le Ostiense, 2 - Roma	10.000	100,00%	100,00%	Line-by-line
<b>Overseas Segment</b>					
Acea Dominicana S.A.	Avenida Las Americas - Esquina Mazoneria, Ensanche Ozama - Santo Domingo	644.937	100,00%	100,00%	Line-by-line
Agua de San Pedro S.A.	Las Palmas, 3 Avenida, 20y 27 calle - 21104 San Pedro, Honduras	6.457.345	60,65%	100,00%	Line-by-line
Acea International S.A.	Avenida Las Americas - Esquina Mazoneria, Ensanche Ozama - 11501 Santo Domingo	5.020.430	99,99%	100,00%	Line-by-line
Consorcio ACEA-ACEA Dominicana	Av. Las Americas - Esq. Mazoneria - Ens. Ozama	67.253	100,00%	100,00%	Line-by-line
<b>Water Segment</b>					
ACEA Ato2 Sp.A.	P.le Ostiense, 2 - Roma	362.834.320	96,46%	100,00%	Line-by-line
ACEA Ato5 Sp.A.	Viale Roma snc - Frosinone	10.330.000	98,45%	100,00%	Line-by-line
Acque Blu Arno Basso Sp.A.	P.le Ostiense, 2 - Roma	8.000.000	76,67%	100,00%	Line-by-line
Acque Blu Fiorentina Sp.A.	P.le Ostiense, 2 - Roma	15.153.400	75,01%	100,00%	Line-by-line
Crea Gestioni S.r.l.	P.le Ostiense, 2 - Roma	100.000	100,00%	100,00%	Line-by-line
CREA Sp.A. (in liquidation)	P.le Ostiense, 2 - Roma	2.678.958	100,00%	100,00%	Line-by-line
Gesesa Sp.A.	Corso Garibaldi, 8 - Benevento	534.991	57,93%	100,00%	Line-by-line
Lunigiana Sp.A. (in liquidation)	Via Nazionale 173/175 - Massa Carrara	750.000	95,79%	100,00%	Line-by-line
Ombrene Sp.A.	P.le Ostiense, 2 - Roma	6.500.000	99,51%	100,00%	Line-by-line
Samese Vesuviano S.r.l.	P.le Ostiense, 2 - Roma	100.000	99,16%	100,00%	Line-by-line
UmbriaDue Servizi Idrici S.c.a.r.l.	Strada Sabbione zona ind. A72 - Terni	100.000	99,20%	100,00%	Line-by-line
<b>Energy Infrastructure Segment</b>					
areti Sp.A.	P.le Ostiense, 2 - Roma	345.000.000	100,00%	100,00%	Line-by-line
Acea Illuminazione Pubblica Sp.A.	P.le Ostiense, 2 - Roma	1.120.000	100,00%	100,00%	Line-by-line
Acea Produzione Sp.A.	P.le Ostiense, 2 - Roma	5.000.000	100,00%	100,00%	Line-by-line
Ecogena S.r.l.	P.le Ostiense, 2 - Roma	1.669.457	100,00%	100,00%	Line-by-line
<b>Engineering and Services Segment</b>					
ACEA Elabori Sp.A.	Via Vitorchiano - Roma	2.444.000	100,00%	100,00%	Line-by-line
Technologies For Water Services SPA	Via Ticino, 9 - 25015 Desenzano Del Garda (BS)	11.164.000	100,00%	100,00%	Line-by-line
Società valutate con il metodo del Patrimonio netto a partire dal 1° gennaio 2014 in ossequio all'IFRS11					
Name	Registered office	Share Capital (in Euros)	% Interest	Group's Consolidated Interest	Method of Consolidation
<b>Environment Segment</b>					
Ecomed S.r.l.	P.le Ostiense, 2 - Roma	10.000	50,00%	50,00%	Equity Method
<b>Overseas Segment</b>					
Consorcio Agua Azul S.A.	Calle Amador Merino Reina 307 - Lima - Perù	17.379.190	25,50%	25,50%	Equity Method
<b>Water Segment</b>					
Acque Sp.A.	Via Garigliano,1 - Empoli	9.953.116	45,00%	45,00%	Equity Method
Acque Servizi S.r.l.	Via Bellatalla,1 - Ospedaletto (Pisa)	400.000	100,00%	34,50%	Equity Method
Acquedotto del Fiora Sp.A.	Via Mamelli,10 Grosseto	1.730.520	40,00%	40,00%	Equity Method
GORI Sp.A.	Via Trentola, 211 - Ercolano (NA)	44.999.971	37,05%	37,05%	Equity Method
Gori Servizi S.r.l.	Via Trentola, 211 - Ercolano (NA)	1.000.000	37,05%	37,05%	Equity Method
Geal Sp.A.	Viale Luporini, 1348 - Lucca	1.450.000	48,00%	48,00%	Equity Method
Intesa Aretina S.c.a.r.l.	Via B.Crespi, 57 - Milano	18.112.000	35,00%	35,00%	Equity Method
Nuove Acque Sp.A.	Patrignone Loc.Cuculo - Arezzo	34.450.389	46,16%	16,16%	Equity Method
Publiacqua Sp.A.	Via Villamagna - Firenze	150.280.057	40,00%	40,00%	Equity Method
Umbra Acque Sp.A.	Via G. Benucci, 162 - Ponte San Giovanni (PG)	15.549.889	40,00%	40,00%	Equity Method
<b>Engineering and Services Segment</b>					
Ingegnerie Toscane S.r.l.	Via Francesco de Sanctis,49 - Firenze	100.000	42,52%	42,52%	Equity Method
Visano S.c.a.r.l.	Via Lamarmora, 230 - 25124 Brescia	25.000	40,00%	40,00%	Equity Method

**Companies accounted for using the equity method as from 1 January 2014 in accordance with IFRS 11**

Name	Registered office	Share Capital (in Euros)	% Interest	Group's Consolidated Interest	Method of Consolidation
<b>Environment Segment</b>					
Ercomed S.r.l.	P.le Ostiense, 2 - Roma	10.000	50,00%	50,00%	Equity Method
<b>Overseas Segment</b>					
Consorcio Agua Azul S.A.	Calle Amador Merino Reina 307 - Lima - Perù	17.379.190	25,50%	25,50%	Equity Method
<b>Water Segment</b>					
Acque S.p.A.	Via Garigliano,1 - Empoli	9.953.116	45,00%	45,00%	Equity Method
Acque Servizi S.r.l.	Via Bellatalla,1 - Ospedaletto (Pisa)	400.000	100,00%	34,50%	Equity Method
Acquedotto del Fiora S.p.A.	Via Marnelli,10 Grosseto	1.730.520	40,00%	40,00%	Equity Method
GORI S.p.A.	Via Trentola, 211 - Ercolano (NA)	44.999.971	37,05%	37,05%	Equity Method
Gori Servizi S.r.l.	Via Trentola, 211 - Ercolano (NA)	1.000.000	37,05%	37,05%	Equity Method
Geal S.p.A.	Viale Luporini, 1348 - Lucca	1.450.000	48,00%	48,00%	Equity Method
Intesa Aretina S.c.a.r.l.	Via B.Crespi, 57 - Milano	18.112.000	35,00%	35,00%	Equity Method
Nuove Acque S.p.A.	Patrignone Loc.Cuculo - Arezzo	34.450.389	46,16%	16,16%	Equity Method
Publacqua S.p.A.	Via Villamagna - Firenze	150.280.057	40,00%	40,00%	Equity Method
Umbra Acque S.p.A.	Via G. Benucci, 162 - Ponte San Giovanni (PG)	15.549.889	40,00%	40,00%	Equity Method
<b>Engineering and Services Segment</b>					
Ingegnerie Toscane S.r.l.	Via Francesco de Sanctis,49 - Firenze	100.000	42,52%	42,52%	Equity Method
Visano S.c.a.r.l.	Via Lamarmora, 230 -25124 Brescia	25.000	40,00%	40,00%	Equity Method

**The following companies are also consolidated using the equity method:**

Name	Registered office	Share Capital (in Euros)	% Interest	Group's Consolidated Interest	Method of Consolidation
<b>Environment Segment</b>					
Amea S.p.A.	Via San Francesco d'Assisi 15C - Paliano (FR)	1.689.000	33,00%	33,00%	Equity Method
Arkessia S.p.A. (in liquidation)	Via S. Francesco D'Assisi, 17 - Paliano (FR)	170.827	33,00%	33,00%	Equity Method
Coema	P.le Ostiense, 2 - Roma	10.000	33,50%	33,50%	Equity Method
<b>Overseas Segment</b>					
Aguasazul Bogotá S.A.	Calle 82 n. 19°-34 - Bogotá- Colombia	1.482.921	51,00%	51,00%	Equity Method
<b>Water Segment</b>					
Azga Nord S.p.A. (in liquidation)	Piazza Repubblica Palazzo Comunale - Pontremoli (MS)	217.500	49,00%	49,00%	Equity Method
Sogea S.p.A.	Via Mercatanti, 8 - Rieti	260.000	49,00%	49,00%	Equity Method
Le Soluzioni	Via Garigliano,1 - Empoli	250.678	75,65%	24,62%	Equity Method
Servizi Idrici Integrati ScPA	Via 1 Maggio, 65 Terni	19.536.000	25,00%	24,80%	Equity Method
<b>Energy Infrastructure Segment</b>					
Citelum Napoli Pubblica Illuminazione S.c.a.r.l.	Via Monteverdi Claudio, 11 - Milano	90.000	32,18%	32,18%	Equity Method
Sienergia S.p.A. (in liquidation)	Via Fratelli Cairoli, 24 - Perugia	132.000	42,08%	42,08%	Equity Method
Umbria Distribuzione Gas S.p.A.	Via Bruno Capponi 100 - Terni	2.120.000	15,00%	15,00%	Equity Method
<b>Other Services</b>					
Marco Polo Srl (in liquidation)	Via delle Cave Ardeatine, 40 - Roma	10.000	33,00%	33,00%	Equity Method

## B. Reconciliation of shareholders' equity and statutory profit – consolidated

thousand euros	Profit for the year		Shareholders' Equity	
	30.06.2018	30.06.2017	30.06.2018	31.12.2017
<b>Balances in ACEA's statutory financial statements</b>	<b>152,792</b>	<b>206,721</b>	<b>1,576,806</b>	<b>1,554,961</b>
Surplus of shareholders' equity and profit for the year at current values compared to book values	137,132	106,212	(185,942)	(37,747)
Goodwill	(2,760)	(2,687)	172,207	174,967
Elimination of tax effects, including those from previous years	(3,515)	(3,515)	817	19,886
Accounted for using the equity method	19,025	11,218	139,940	140,177
Elimination of dividends	(165,436)	(225,588)	0	0
Elimination of goodwill (intragroup transactions)	10,275	12,525	(122,699)	(132,974)
Other movements	(4,838)	(1,393)	(6,482)	(1,644)
<b>Balances in consolidated financial statements</b>	<b>142,675</b>	<b>103,492</b>	<b>1,574,646</b>	<b>1,717,626</b>



## C. Remuneration of Directors, Statutory Auditors and Key Managers

### Board of Directors and Board of Statutory Auditors

thousand euros	Remuneration due				
	Remuneration for the office	Non-monetary benefits	Bonuses and other incentives	Other compensation	Total
<b>Board of Directors in office until 27 April 2017</b>	117	39	115	191	<b>462</b>
<b>Board of Statutory Auditors</b>	175	0	0	0	<b>175</b>

### Key Managers

Fees due to executives with strategic responsibilities for the first half of 2018 amount to:

✚ salaries and bonuses	397	thousand euros,
✚ non-monetary benefits	34	thousand euros.

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

## D. Segment information: statement of financial position and income statement

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

- ✦ sales refer to the Commercial and Trading Segment which, from an organisational standpoint, is responsible for Acea Energia, Acea8cento, AEMA, Umbria Energy, Acea Liquidation and Litigation, 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, areti and Acea Illuminazione Pubblica,
- ✦ analysis and research services refer to the Engineering and Services Segment, which, from an organisational standpoint, is responsible for Acea Elabori,
- ✦ 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 and Iseco.

**Balance Sheet Assets 31.12.2017**

	Environment	Commercial & Trading	Overseas	Water	Electricity generation	Distribution	Public Lighting	Engineering and Services	Corporate	Group total	Total consolidation adjustments	Consolidated Total
Investments	15,366	19,367	5,183	271,435	23,106	185,665	641	826	10,663	532,252	-	532,252
Tangible Fixed Assets	226,750	4,932	32,097	62,530	208,030	1,623,324	1,682	2,937	99,827	2,262,110	(6,652)	2,255,457
Intangible Fixed Assets	14,524	143,941	13,497	2,184,695	460	104,490	1,126	1,060	11,748	2,524,077	(410,578)	2,064,964
Non-current financial assets measured at equity	-	-	-	-	-	-	-	-	-	-	-	280,853
Financial assets	-	-	-	-	-	-	-	-	-	-	-	2,614
Other non-current trading assets	-	-	-	-	-	-	-	-	-	-	-	505,301
Other non-current financial assets	-	-	-	-	-	-	-	-	-	-	-	38,375
Inventories	5,639	-	777	7,016	1,775	20,248	-	4,747	0	40,201	-	40,201
Trade receivables from third parties	74,524	367,424	7,961	373,466	18,753	181,385	1,547	44,409	312	1,069,781	(136,072)	933,709
Trade receivables from Parent Company	268	17,232	-	44,877	3,891	4,908	5,754	5,477	93	82,499	(30,001)	52,498
Receivables from subsidiaries and associates	14	365	4	11,776	0	0	767	11,023	92,923	116,871	(80,368)	36,503
Other current trading assets	-	-	-	-	-	-	-	-	-	-	-	210,085
Other current financial assets	-	-	-	-	-	-	-	-	-	-	-	237,671
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-	-	680,641
Non-current assets held for sale 497	-	-	-	-	183	-	-	-	-	183	-	183
<b>Total Assets</b>												<b>7,339,055</b>

Amounts in thousand euros

**Balance Sheet Liabilities 31.12.2017**

	Environment	Commercial & Trading	Overseas	Water	Electricity generation	Distribution	Public Lighting	Engineering and Services	Corporate	Group Total	Total consolidation adjustments	Consolidated Total
Segment liabilities												
Trade payables to third parties	47,032	391,485	2,319	312,309	23,345	343,229	12,245	18,043	93,297	1,243,305	(136,623)	1,106,681
Trade payables to Parent Company	914	26,063	285	156,089	576	22,706	1,306	475	24	208,438	(82,310)	126,128
Trade payables to subsidiaries and associates	-	3,331	539	70	-	-	13,840	80	14,340	32,199	(27,201)	4,999
Other current trading liabilities	-	-	-	-	-	-	-	-	-	-	-	316,660
Other current financial liabilities	-	-	-	-	-	-	-	-	-	-	-	633,155
Staff termination benefits and other defined benefit plans	6,478	4,861	258	28,262	2,445	36,501	-	5,160	24,464	108,430	-	108,430
Other provisions	19,747	25,812	-	60,423	12,285	23,568	-	12,011	31,955	234,336	23,818	209,619
Provision for deferred taxes												92,835
Other non-current trading liabilities												184,270
Other non-current financial liabilities												2,745,035
Liabilities directly associated with assets held for sale	-	-	-	-	37	-	-	-	-	37	-	37
Shareholders' Equity												1,811,206
Total liabilities and shareholders' equity												7,339,055

Amounts in thousand euros

**Income Statement 30.06.2017**

	Environment	Commercial and Trading	Overseas	Water	Electricity generation	Distribution	Public Lighting	Engineering	Corporate	Group total	Consolidation adjustments	Group total
Revenue	80,393	777,910	17,592	344,889	35,409	254,447	34,410	38,768	58,875	1,642,692	(270,209)	1,372,483
Personnel costs	8,876	11,698	4,784	36,988	2,602	11,830	3,789	12,949	25,659	119,175	(10,070)	109,105
Purchase of electricity	1,092	679,691	-	2,509	3,140	70,634	-	31	713	757,810	(105,784)	652,027
Sundry costs of materials and overheads	39,062	45,888	6,641	142,522	7,724	36,196	28,398	17,640	38,320	362,392	(154,571)	207,821
Costs	49,030	737,277	11,425	182,019	13,466	118,660	32,187	30,620	64,692	1,239,377	(270,424)	968,953
Income/(Costs) from equity investments of a non-financial nature	(31)	-	562	9,346	-	-	-	692	-	10,569	-	10,569
EBITDA	31,331	40,633	6,728	172,216	21,943	135,787	2,223	8,840	(5,817)	413,884	215	414,100
Depreciation/amortisation	15,274	31,295	2,909	72,101	8,767	61,295	4,041	1,176	22,934	219,792	(562)	219,230
Operating profit/(loss)	16,058	9,337	3,819	100,115	13,175	74,492	(1,818)	7,664	(28,750)	194,092	778	194,869
Financial (costs)/income												(31,162)
(Costs)/Income from Equity Investments		(22)	(154)	1,948				(1,122)		649	-	649
Profit/(loss) before tax												164,357
Taxes												54,020
<b>Net profit/(loss)</b>												<b>110,337</b>

Amounts in thousand euros

**Balance Sheet Assets 30.06.2018**

	Environment	Commercial & Trading	Overseas	Water	Electricity generation	Distribution	Public Lighting	Engineering and Services	Corporate	Group total	Total consolidation adjustments	Consolidated Total
Investments	8,626	5,523	2,215	156,437	4,927	100,610	125	468	3,146	282,077	-	282,077
Tangible Fixed Assets	224,653	4,537	32,366	61,818	206,501	1,677,326	1,775	2,818	98,335	2,310,128	(6,652)	2,303,476
Intangible Fixed Assets	17,111	152,164	12,373	2,275,957	310	86,604	(407)	864	10,540	2,555,515	(399,777)	2,155,739
Non-current financial assets measured at equity	-	-	-	-	-	-	-	-	-	-	-	249,179
Financial assets	-	-	-	-	-	-	-	-	-	-	-	2,614
Other non-current trading assets	-	-	-	-	-	-	-	-	-	-	-	532,293
Other non-current financial assets	-	-	-	-	-	-	-	-	-	-	-	36,162
Inventories	5,536	-	919	7,295	633	31,553	-	3,262	-	49,199	-	49,199
Trade receivables from third parties	82,478	286,909	8,642	281,378	17,812	172,133	820	38,557	(153)	888,575	(137,700)	750,874
Trade receivables from Parent Company	376	12,697	-	46,214	2,780	1,618	7,657	3,034	81	74,457	(19,360)	55,098
Receivables from subsidiaries and associates	55	414	61	19,908	-	-	597	11,870	106,303	139,208	(96,902)	42,306
Other current trading assets	-	-	-	-	-	-	-	-	-	-	-	188,701
Other current financial assets	-	-	-	-	-	-	-	-	-	-	-	458,880
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-	-	1,200,547
Non-current assets held for sale 497	-	-	-	-	183	-	-	-	-	183	-	183
<b>Total Assets</b>												<b>8,025,250</b>

Amounts in thousand euros

**Balance Sheet Liabilities 30.06.2018**

	Environment	Commercial and Trading	Overseas	Water	Generation	Distribution	Public Lighting	Engineering and Services	Corporate	Group Total		Total consolidation adjustments	Consolidated Total
Segment liabilities													
Trade payables to third parties	42,999	348,835	2,175	332,519	7,941	343,479	7,053	8,947	77,173	1,171,120		(137,763)	1,033,357
Trade payables to Parent Company	1,370	28,498	876	154,560	1,105	25,251	985	945	19	213,608		(95,399)	118,208
Trade payables to subsidiaries and associates	-	2,344	0	86	-	-	2,878	198	18,565	24,071		(20,401)	3,670
Other current trading liabilities	-	-	-	-	-	-	-	-	-	-		-	347,110
Other current financial liabilities	-	-	-	-	-	-	-	-	-	-		-	869,956
Staff termination benefits and other defined benefit plans	6,388	4,954	313	27,840	2,443	35,704	-	3,810	25,289	106,741		-	106,741
Other provisions	20,034	15,749	-	60,849	13,200	11,016	-	2,399	50,190	173,437		23,818	197,254
Provision for deferred taxes													74,187
Other non-current trading liabilities													212,526
Other non-current financial liabilities													3,395,892
Liabilities directly associated with assets held for sale	-	-	-	-	37	-	-	-	-	37		-	37
Shareholders' Equity													1,666,311
Total liabilities and shareholders' equity													8,025,250

Amounts in thousand euros



**Income Statement 30.06.2018**

	Environment	Commercial and Trading	Overseas	Water	Electricity generation	Distribution	Public Lighting	Engineering	Corporate	Group total	Consolidation adjustments	Group total
Revenue	83,866	822,153	17,304	364,920	40,073	283,968	22,912	35,938	59,939	1,731,072	(276,793)	1,454,278
Personnel costs	9,743	12,610	4,167	33,205	2,476	16,018	2,804	14,280	29,033	124,336	(14,409)	109,927
Purchase of electricity	1,503	728,312	-	12,330	4,658	77,193	4,110	34	478	828,619	(125,984)	702,635
Sundry costs of materials and overheads	40,841	37,103	6,328	144,152	7,748	35,660	17,720	12,619	42,165	344,338	(134,006)	210,331
Costs	52,087	778,026	10,495	189,688	14,882	128,871	24,634	26,933	71,676	1,297,292	(274,399)	1,022,894
Income/(Costs) from equity investments of a non-financial nature	(4)	-	538	17,085	-	-	-	904	-	18,523	-	18,523
EBITDA	31,775	44,127	7,347	192,317	25,191	155,097	(1,722)	9,909	(11,737)	452,303	(2,395)	449,908
Depreciation/amortisation	15,358	25,800	3,679	84,971	9,003	54,506	457	791	4,622	199,186	-	199,186
Operating profit/(loss)	16,417	18,327	3,668	107,346	16,188	100,591	(2,178)	9,118	(16,360)	253,116	(2,395)	250,722
Financial (costs)/income												(42,381)
(Costs)/Income from Equity Investments			323	492				8,902	(306)	9,411		9,411
Profit/(loss) before tax												217,751
Taxes												67,093
<b>Net profit/(loss)</b>												<b>150,659</b>

Amounts in thousand euros