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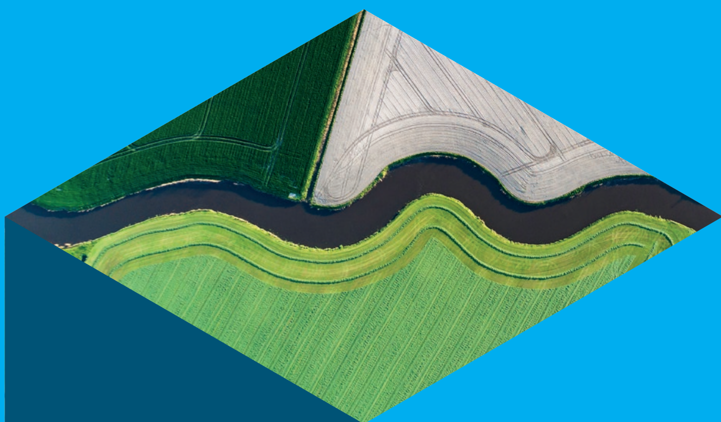

2018

Consolidated Financial Statements

Consolidated financial statements

2018

These Financial Statements are available at the website
www.a2a.eu

Contents

This is a translation of the Italian original "Relazione finanziaria annuale consolidata 2018" and has been prepared solely for the convenience of international readers. In the event of any ambiguity the Italian text will prevail. The Italian original is available at the website www.a2a.eu.


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Consolidated financial statements

Consolidated balance sheet (1-2)

Assets

millions of euro	Note	12 31 2018	12 31 2017
NON-CURRENT ASSETS			
Tangible assets	1	4,620	4,606
Intangible assets	2	2,302	1,863
Shareholdings carried according to equity method	3	16	63
Other non-current financial assets	3	29	44
Deferred tax assets	4	264	301
Other non-current assets	5	20	8
Total non-current assets		**7,251**	**6,885**
CURRENT ASSETS			
Inventories	6	187	147
Trade receivables	7	1,781	1,671
Other current assets	8	313	216
Current financial assets	9	16	8
Current tax assets	10	49	107
Cash and cash equivalents	11	624	691
Total current assets		**2,970**	**2,840**
NON-CURRENT ASSETS HELD FOR SALE	12	**112**	**224**
TOTAL ASSETS		**10,333**	**9,949**

(1) As required by Consob Resolution no. 17221 of March 12, 2010, the effects of related party transactions on the consolidated financial statements are provided in the statements and discussed in Note 39.

(2) Significant non-recurring events and transactions in the consolidated financial statements are provided in Note 40 as required by Consob Communication DEM/6064293 of July 28, 2006.

Equity and liabilities

millions of euro	Note	12 31 2018	12 31 2017
EQUITY			
Share capital	13	1,629	1,629
(Treasury shares)	14	(54)	(54)
Reserves	15	1,216	1,010
Result of the year	16	344	293
Equity pertaining to the Group		**3,135**	**2,878**
Minority interests	17	388	135
Total equity		**3,523**	**3,013**
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	18	2,984	3,501
Employee benefits	19	314	319
Provisions for risks, charges and liabilities for landfills	20	642	625
Other non-current liabilities	21	148	148
Total non-current liabilities		**4,088**	**4,593**
Current liabilities			
Trade payables	22	1,413	1,381
Other current liabilities	22	581	521
Current financial liabilities	23	694	437
Tax liabilities	24	34	4
Total current liabilities		**2,722**	**2,343**
Total liabilities		**6,810**	**6,936**
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		**-**	**-**
TOTAL EQUITY AND LIABILITIES		**10,333**	**9,949**

Consolidated income statement (1-2)

millions of euro	Note	01 01 2018 12 31 2018	01 01 2017 12 31 2017
Revenues			
Revenues from the sale of goods and services		6,271	5,590
Other operating income		223	206
Total revenues	26	**6,494**	**5,796**
Operating expenses			
Expenses for raw materials and services		4,332	3,681
Other operating expenses		266	281
Total operating expenses	27	**4,598**	**3,962**
Labour costs	28	**665**	**635**
Gross operating income - EBITDA	29	**1,231**	**1,199**
Depreciation, amortization, provisions and write-downs	30	**643**	**489**
Net operating income - EBIT	31	**588**	**710**
Result from non-recurring transactions	32	**14**	**-**
Financial balance			
Financial income		16	19
Financial expenses		132	158
Affiliates		4	5
Result from disposal of other shareholdings		-	-
Total financial balance	33	**(112)**	**(134)**
Result before taxes		**490**	**576**
Income taxes	34	**157**	**192**
Result after taxes from operating activities		**333**	**384**
Net result from discontinued operations	35	**21**	**(85)**
Net result		**354**	**299**
Minorities	36	**(10)**	**(6)**
Group result of the year	37	**344**	**293**
Result per share (in euro):			
- basic		0.1106	0.0944
- basic from continuing operations		0.1040	0.1215
- basic from assets held for sale		0.0066	(0.0271)
- diluted		0.1106	0.0944
- diluted from continuing operations		0.1040	0.1215
- diluted from assets held for sale		0.0066	(0.0271)

(1) As required by Consob Resolution no. 17221 of March 12, 2010, the effects of related party transactions on the consolidated financial statements are provided in the statements and discussed in Note 39.

(2) Significant non-recurring events and transactions in the consolidated financial statements are provided in Note 40 as required by Consob Communication DEM/6064293 of July 28, 2006.

Consolidated statement of comprehensive income

millions of euro	12 31 2018	12 31 2017
Net result of the year (A)	**354**	**299**
Actuarial gains/(losses) on employee's benefits booked in the Net equity	2	19
Tax effect of other actuarial gains/(losses)	(1)	(7)
Total actuarial gains/(losses) net of the tax effect (B)	**1**	**12**
Effective part of gains/(losses) on cash flow hedge	18	(26)
Tax effect of other gains/(losses)	(5)	8
Total other gains/(losses) net of the tax effect of companies consolidated on a line-by-line basis (C)	**13**	**(18)**
Other gains/(losses) of companies valued at equity net of the tax effect (D)	**-**	**-**
Total comprehensive result (A) + (B) + (C) + (D)	**368**	**293**
Total comprehensive result attributable to:		
Shareholders of the parent company	**358**	**287**
Minority interests	**(10)**	**(6)**

With the exception of the actuarial effects on employee benefits recognized in equity, the other effects stated above will be reclassified to the Income Statement in subsequent years.

Consolidated cash-flow statement

millions of euro		12 31 2018		12 31 2017
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**691**		**402**
Change in EPCG consolidation method				(55)
Contribution of first consolidation of acquisitions of 2018/2017		26		7
CASH AND CASH EQUIVALENTS		**717**		**354**
Operating activities				
Net Result (**)		348		297
Tangible assets depreciation		372		338
Intangible assets amortization		91		72
Fixed assets write-downs/disposals		167		43
Result from affiliates		(4)		(5)
Held for sale activities write off		-		86
Net financial interests		116		139
Net financial interests paid		(114)		(115)
Net taxes paid (a)	*(102)*		*(192)*	
Gross change in assets and liabilities (b)	*149*		*203*	
Total change of assets and liabilities (a+b) (*)		47		11
Cash flow from operating activities		**1,023**		**866**
Investment activities				
Investments in tangible assets		(305)		(306)
Investments in intangible assets and goodwill		(195)		(148)
Investments in shareholdings and securities (*)		(25)		(23)
Disposal of fixed assets and shareholdings		13		-
Dividends received		2		2
Cash flow from investment activities		**(510)**		**(475)**
FREE CASH FLOW		**513**		**391**

(*) Cleared of balances in return of shareholders' equity and other balance sheet items.

(**) Net Result is exposed net of gains on shareholdings', fixed assets' disposals and from discontinued operations.

millions of euro	12 31 2018	12 31 2017
Financing activities		
Changes in financial assets		
Monetary changes:		
Issuance of loans	-	-
Proceeds from loans	5	7
Other monetary changes	11	(10)
Total monetary changes	**16**	**(3)**
Non-monetary changes:		
Other non-monetary changes	79	5
Total non-monetary changes	**79**	**5**
Total changes in financial assets (*)	**95**	**2**
Changes in financial liabilities		
Monetary changes:		
Borrowings/bonds issued	68	743
Repayment of borrowings/bond	(521)	(613)
Lease payments	(2)	(2)
Dividends paid by the parent company	(180)	(153)
Dividends paid by the subsidiaries	(5)	(2)
Other monetary changes	(2)	(3)
Total monetary changes	**(642)**	**(30)**
Non-monetary changes:		
Amortized cost valuations	4	-
Other non-monetary changes	(63)	(26)
Total non-monetary changes	**(59)**	**(26)**
Total changes in financial liabilities (*)	**(701)**	**(56)**
Cash flow from financing activities	**(606)**	**(54)**
CHANGE IN CASH AND CASH EQUIVALENTS	**(93)**	**337**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**624**	**691**

Statement of changes in Group equity

Description *millions of euro*	Share capital Note 13	Treasury Shares Note 14	Cash Flow Hedge Note 15
Net equity at December 31, 2016 Restated	**1,629**	**(54)**	**(2)**
2016 result allocation			
Distribution of dividends			
IAS 19 reserves (*)			
Cash flow hedge reserves (*)			(18)
EPCG equity method			
Other changes			
Group and minorities result of the year			
Net equity at December 31, 2017	**1,629**	**(54)**	**(20)**
IFRS 9 - FTA			
Net equity at January 1, 2018	**1,629**	**(54)**	**(20)**
2017 result allocation			
Distribution of dividends			
IAS 19 reserves (*)			
Cash flow hedge reserves (*)			13
Other changes			
Group and minorities result of the year			
Net equity at December 31, 2018	**1,629**	**(54)**	**(7)**

(*) These form part of the statement of comprehensive income.

	Other Reserves and retained earnings Note 15	Result of the year Note 16	Total Equity pertaining to the Group	Minority interests Note 17	Total Net shareholders' equity
	921	**232**	**2,726**	**553**	**3,279**
	232	(232)	-		-
	(153)		(153)	(1)	(154)
	12		12		12
			(18)	1	(17)
				(420)	(420)
	18		18	(4)	14
		293	293	6	299
	1,030	**293**	**2,878**	**135**	**3,013**
	(4)		**(4)**		**(4)**
	1,026	**293**	**2,874**	**135**	**3,009**
	293	(293)	-		-
	(180)		(180)	(5)	(185)
	1		1		1
			13		13
	83		83	248	331
		344	344	10	354
	1,223	**344**	**3,135**	**388**	**3,523**

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Breakdown of the balance sheet with evidence of the effect of the first consolidation of the 2018 acquisitions

(NO GAAP MEASURES)

millions of euro	Note	Consolidated at 12 31 2017	Effect first consolidation A2A Rinnovabili Group
ASSETS			
NON-CURRENT ASSETS			
Tangible assets	1	4,606	94
Intangible assets	2	1,863	18
Shareholdings carried according to equity method	3	63	-
Other non-current financial assets	3	44	-
Deferred tax assets	4	301	1
Other non-current assets	5	8	3
TOTAL NON-CURRENT ASSETS		**6,885**	**116**
CURRENT ASSETS			
Inventories	6	147	-
Trade receivables	7	1,671	4
Other current assets	8	216	13
Current financial assets	9	8	-
Current tax assets	10	107	1
Cash and cash equivalents	11	691	5
TOTAL CURRENT ASSETS		**2,840**	**23**
NON-CURRENT ASSETS HELD FOR SALE	**12**	**224**	**-**
TOTAL ASSETS		**9,949**	**139**
LIABILITIES			
NON-CURRENT LIABILITIES			
Non-current financial liabilities	18	3,501	66
Deferred tax liabilities		-	-
Employee benefits	19	319	-
Provisions for risks, charges and liabilities for landfills	20	625	-
Other non-current liabilities	21	148	5
TOTAL NON-CURRENT LIABILITIES		**4,593**	**71**
CURRENT LIABILITIES			
Trade payables	22	1,381	3
Other current liabilities	22	521	1
Current financial liabilities	23	437	44
Tax liabilities	24	4	-
TOTAL CURRENT LIABILITIES		**2,343**	**48**
TOTAL LIABILITIES		**6,936**	**119**
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		**-**	**-**
LIABILITIES		**6,936**	**119**

Effect first consolidation ACSM-AGAM Group	Total effect first consolidation acquisitions 2018	Changes during the year	Consolidated at 12 31 2018
83	177	(163)	4,620
315	333	106	2,302
4	4	(51)	16
1	1	(16)	29
9	10	(47)	264
1	4	8	20
413	**529**	**(163)**	**7,251**
5	5	35	187
65	69	41	1,781
44	57	40	313
88	88	(80)	16
-	1	(59)	49
21	26	(93)	624
223	**246**	**(116)**	**2,970**
-	**-**	**(112)**	**112**
636	**775**	**(391)**	**10,333**
49	115	(632)	2,984
25	25	(25)	-
8	8	(13)	314
4	4	13	642
7	12	(12)	148
93	**164**	**(669)**	**4,088**
41	44	(12)	1,413
67	68	(8)	581
93	137	120	694
2	2	28	34
203	**251**	**128**	**2,722**
296	**415**	**(541)**	**6,810**
-	**-**	**-**	**-**
296	**415**	**(541)**	**6,810**

Breakdown of the economic effect of the consolidation of new acquisitions 2018

(NO GAAP MEASURES)

millions of euro	Note	Effect first consolidation A2A Rinnovabili Group	Effect first consolidation ACSM-AGAM Group
REVENUES			
Revenues from the sale of goods and services		1	181
Other operating income		5	6
TOTAL REVENUES	26	**6**	**187**
OPERATING EXPENSES			
Expenses for raw materials and services		1	122
Other operating expenses		-	11
TOTAL OPERATING EXPENSES	27	**1**	**133**
LABOUR COSTS	28	**-**	**22**
GROSS OPERATING INCOME - EBITDA	29	**5**	**32**
DEPRECIATION, AMORTIZATION AND WRITE-DOWNS	30	**2**	**24**
NET OPERATING INCOME - EBIT	31	**3**	**8**
RESULT FROM NON-RECURRING TRANSACTIONS	32	**-**	**-**
FINANCIAL BALANCE			
Financial income		-	-
Financial expenses		4	1
Affiliates		-	-
Result from disposal of other shareholdings		-	-
TOTAL FINANCIAL BALANCE	33	**(4)**	**(1)**
RESULT BEFORE TAXES		**(1)**	**7**
INCOME TAXES	34	**-**	**3**
RESULT AFTER TAXES FROM OPERATING ACTIVITIES		**(1)**	**4**
NET RESULT FROM DISCONTINUED OPERATIONS	35	**-**	**-**
NET RESULT		**(1)**	**4**
MINORITIES	36	**-**	**(4)**
GROUP RESULT OF THE YEAR	37	**(1)**	**-**

Total effect consolidation new acquisitions 2018	Old perimeter 12 31 2018	Consolidated at 12 31 2018	Consolidated at 12 31 2017
182	6,089	6,271	5,590
11	212	223	206
193	**6,301**	**6,494**	**5,796**
123	4,209	4,332	3,681
11	255	266	281
134	**4,464**	**4,598**	**3,962**
22	**643**	**665**	**635**
37	**1,194**	**1,231**	**1,199**
26	**617**	**643**	**489**
11	**577**	**588**	**710**
-	**14**	**14**	**-**
-	16	16	19
5	127	132	158
-	4	4	5
-	-	-	-
(5)	**(107)**	**(112)**	**(134)**
6	**484**	**490**	**576**
3	**154**	**157**	**192**
3	**330**	**333**	**384**
-	**21**	**21**	**(85)**
3	**351**	**354**	**299**
(4)	**(6)**	**(10)**	**(6)**
(1)	**345**	**344**	**293**

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Consolidated financial statements pursuant to Consob Resolution no. 17221 of March 12, 2010

Consolidated balance sheet

pursuant to Consob Resolution no. 17221 of March 12, 2010

Assets

millions of euro	12 31 2018	of which Related Parties (note 39)	12 31 2017	of which Related Parties (note 39)
NON-CURRENT ASSETS				
Tangible assets	4,620		4,606	
Intangible assets	2,302		1,863	
Shareholdings carried according to equity method	16	16	63	63
Other non-current financial assets	29	6	44	8
Deferred tax assets	264		301	
Other non-current assets	20		8	
Total non-current assets	**7,251**		**6,885**	
CURRENT ASSETS				
Inventories	187		147	
Trade receivables	1,781	113	1,671	102
Other current assets	313		216	
Current financial assets	16	1	8	
Current tax assets	49		107	
Cash and cash equivalents	624		691	
Total current assets	**2,970**		**2,840**	
NON-CURRENT ASSETS HELD FOR SALE	**112**	**109**	**224**	**224**
TOTAL ASSETS	**10,333**		**9,949**	

Equity and liabilities

millions of euro	12 31 2018	of which Related Parties (note 39)	12 31 2017	of which Related Parties (note 39)
EQUITY				
Share capital	1,629		1,629	
(Treasury shares)	(54)		(54)	
Reserves	1,216		1,010	
Result of the year	344		293	
Equity pertaining to the Group	**3,135**		**2,878**	
Minority interests	388		135	
Total equity	**3,523**		**3,013**	
LIABILITIES				
Non-current liabilities				
Non-current financial liabilities	2,984		3,501	
Employee benefits	314		319	
Provisions for risks, charges and liabilities for landfills	642	1	625	2
Other non-current liabilities	148		148	
Total non-current liabilities	**4,088**		**4,593**	
Current liabilities				
Trade payables	1,413	29	1,381	32
Other current liabilities	581	13	521	7
Current financial liabilities	694	2	437	1
Tax liabilities	34		4	
Total current liabilities	**2,722**		**2,343**	
Total liabilities	**6,810**		**6,936**	
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	-		-	
TOTAL EQUITY AND LIABILITIES	**10,333**		**9,949**	

Consolidated income statement

pursuant to Consob Resolution no. 17221 of March 12, 2010

millions of euro	01 01 2018 12 31 2018	of which Related Parties (note 39)	01 01 2017 12 31 2017	of which Related Parties (note 39)
Revenues				
Revenues from the sale of goods and services	6,271	434	5,590	396
Other operating income	223	1	206	1
Total revenues	**6,494**		**5,796**	
Operating expenses				
Expenses for raw materials and services	4,332	7	3,681	23
Other operating expenses	266	34	281	33
Total operating expenses	**4,598**		**3,962**	
Labour costs	**665**	**2**	**635**	**2**
Gross operating income - EBITDA	**1,231**		**1,199**	
Depreciation, amortization, provisions and write-downs	**643**		**489**	
Net operating income - EBIT	**588**		**710**	
Result from non-recurring transactions	**14**	**6**	**-**	
Financial balance				
Financial income	16	6	19	6
Financial expenses	132		158	
Affiliates	4	4	5	5
Result from disposal of other shareholdings	-		-	
Total financial balance	**(112)**		**(134)**	
Result before taxes	**490**		**576**	
Income taxes	**157**		**192**	
Result after taxes from operating activities	**333**		**384**	
Net result from discontinued operations	**21**	**21**	**(85)**	**(86)**
Net result	**354**		**299**	
Minorities	**(10)**		**(6)**	
Group result of the year	**344**		**293**	

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Notes to the Consolidated annual report

General information

A2A S.p.A. is a company with legal personality organized under the laws of the Italian Republic which operates, also through its subsidiaries ("Group"), both in Italy and abroad.

The A2A Group mainly operates in the following sectors:

- the production, sale and distribution of electricity even from renewable resources;
- the sale and distribution of gas;
- the production, distribution and sale of heat through district heating networks;
- waste management (from collection and sweeping to disposal) and the construction and management of integrated waste disposal plants and systems, also making these available for other operators;
- integrated water cycle management;
- technical consultancy relating to energy efficiency certificates.

Consolidated annual financial report

The consolidated annual financial report (hereafter referred to as the "**Annual report**") of the A2A Group at December 31, 2018, is presented in millions of euro; the euro is also the functional currency of the economies in which the Group operates.

The Annual report of the A2A Group at December 31, 2018 has been prepared:

- in compliance with Legislative Decree 58/1998 (art. 154-ter) as amended and with the Issuers' Regulations published by Consob;
- in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and approved by the European Union. IFRS means all the revised international accounting standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly known as the Standing Interpretations Committee (SIC).

In preparing the Annual report, the same principles used in the preparation of the consolidated annual financial report at December 31, 2017 were applied, other than the principles and interpretations described in detail in the paragraph below "Changes in accounting principles" adopted for the first time on January 1, 2018.

In this file, use has been made of some alternative indicators of performance (APM) that are different from the financial indicators expressly provided for by the IAS/IFRS international accounting standards adopted by the Group; for details of these indicators, please see the specific paragraph "Alternative Indicators of Performance (APM)" in the file of the "Report on Operations".

This Annual report at December 31, 2018 was approved on April 3, 2019 by the Board of Directors, which authorized publication, and has been audited by EY S.p.A. in accordance with their appointment by the Shareholders' Meeting of June 11, 2015 for the nine years from 2016 to 2024.

Financial statements

The Group has adopted a format for the balance sheet which presents current and non- current assets and current and non-current liabilities as separate classifications, as required by paragraph 60 et seq. of IAS 1.

The "Income Statement" is presented by nature, a format which is considered more representative than a presentation by function. The selected format is in agreement with the presentation used by the Group's major competitors and in line with international practice.

The specific line items "Result from non-recurring transactions" and "Result from disposal of other shareholdings" are in the format of the income statement in order to provide clear and immediate identification of the results arising from non-recurring transactions forming part of continuing operations, separating these from the results from discontinued operations. In particular, it should be noted that the item "Result from non-recurring transactions" is intended to include the results from the sale of investments in subsidiaries and associates and other non-operating expenses/ income. This item is presented between net operating income and the financial balance. In this way net operating income is not affected by non-recurring operations, making it easier to measure the effective performance of the Group's ordinary operating activities.

The Cash Flow Statement is prepared using the indirect method, as permitted by "IAS 7" and includes the disclosure amendments introduced by the integration to "IAS 7" approved on November 9, 2017.

The statement of changes in equity has been prepared in accordance with IAS 1.

The formats adopted for the financial statements are the same as those used to prepare the annual consolidated financial statements at December 31, 2017.

Basis of preparation

The consolidated annual financial report at December 31, 2018 has been prepared on a historical cost basis, with the exception of those items which under IFRS must or can be measured at fair value.

The consolidation principles, the accounting principles, the accounting policies and the methods of measurement used in the preparation of the Annual financial report are consistent with those used to prepare the consolidated annual financial report at December 31, 2017, except as specified below in relation to new principles of new emanation.

Changes in international accounting standards

Pursuant to IAS 8, the subsequent paragraph *"Accounting standards, amendments and interpretations applicable by the company as of the current year"* indicates and briefly illustrates the amendments in force as of January 1, 2018.

The following paragraphs, *"Accounting standards, amendments and interpretations approved by the European Union"* and *"Accounting standards approved by the European Union but applicable in future years"* instead detail the accounting standards and interpretations already issued, whether not yet approved or approved by the European Union and therefore not applicable for the preparation of the financial statements at December 31, 2018, any impacts of which will then be transposed as of the financial statements of the following years.

Accounting standards, amendments and interpretations applicable by the Group as of the current year

As from January 1, 2018, applicable to the Group are the following standards or additions to specific paragraphs of the international accounting standards already adopted by the company in previous years.

- IFRS 9 "Financial instruments": this standard, approved by the European Union on November 29, 2016, entirely replaces IAS 39 "Financial instruments: recognition and measurement" and introduces two new criteria to recognize and measure financial assets and liabilities. The main changes introduced by IFRS 9 may be summarized as follows: financial assets can be measured either at fair value or at their amortized cost. As a result, the categories "loans and receivables", "available- for-sale financial assets" and "held-to-maturity investments" disappear. Classification within the two categories is carried out on the basis of an entity's business model and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost if both of the following requirements are met: the objective of the entity's business model is to hold assets to collect contractual cash flows (and therefore in substance not to earn trading profits) and the characteristics of the cash flows of the asset are solely payments of principal and interest. A financial asset is measured at fair value if it is not measured at amortized cost. The rules to account for derivatives have been simplified, as the embedded derivative and the host financial asset are no longer recognized separately.
  All equity instruments - listed or unlisted - must be measured at fair value (IAS 39 established on the other hand that unlisted equity instruments should be valued at cost if fair value could not be reliably measured).
  An entity has the option of presenting changes in the fair value of equity instruments that are not held for trading in equity; that option is not permitted for equity instruments that are held for trading. This designation is permitted on initial recognition, may be adopted for each individual instrument and is irrevocable. If an election is made for this option, changes in the fair value of these instruments may never be reclassified from equity to the income statement. Dividends on the other hand continue to be recognized in the income statement.
  IFRS 9 does not permit reclassifications between the two categories of financial asset except in the rare case of a change in an entity's business model. In this case the effects of the reclassification are applied prospectively.
  The disclosures required to be made in the notes have been adjusted to the classification and measurements rules introduced by IFRS 9. On November 19, 2013, the IASB issued an amendment to this standard which mainly regards the following:

  i. the substantial revision of the "Hedge accounting", which will allow entities to better reflect their risk management activities in the financial statements;

  ii. enabling entities to change the accounting of liabilities measure at fair value: in particular the effects of a worsening of an entity's own credit risk will no longer be recognized in the income statement;

  A partial amendment to the standard was issued in July 2014 on the subject of the valuation of financial instruments, with the introduction of the expected-loss impairment model for loans which replaces the impairment model based on realized losses.

Said impairment model uses a "forward looking" information in order to obtain early recognition of losses on receivables with respect to the "incurred loss" model that defers the recognition of the loss until occurrence of the event with reference to financial assets measured at amortized cost, financial assets measured at fair value recorded in other items of the comprehensive income statement, receivables arising from lease contracts, as well as assets arising from contracts and certain loan commitments and financial guarantee contracts.
In 2017, the A2A Group carried out an in-depth analysis of the financial instruments in the portfolio impacted by the application of IFRS 9 and the write-down of receivables from customers according to the new logic (expected losses). The analysis ended with the identification of non-significant impacts on the valuation of financial assets and liabilities and on the method used to calculate the Group's provision for risks on receivables.
The Group has adopted the new standard starting from January 1, 2018, without restating the comparative figures. The consequent impacts are not significant both on the valuation of financial assets and liabilities and on the calculation method of the provision for risks on receivables.

- IFRS 15 "Revenues from contracts with customers": the standard, issued by the IASB on May 28, 2014 and approved by the European Union on October 29, 2016, is the result of efforts to achieve convergence between the IASB and the FASB ("Financial Accounting Standard Board", the body responsible for issuing new accounting standards in the United States) in order to achieve a single revenue recognition model applicable both in terms of IFRS and US GAAP. The new standard is applicable to all contracts with customers, including contract work in progress, and replaces the standards IAS 18 - Revenues and IAS 11 - Long-term contracts and all related interpretations. The essential element of IFRS 15 requires the recognition of revenue to be carried out for an amount that reflects the amount that the Group expects to be entitled to receive in respect of the transfer of goods and/or services. A contract with a customer falls within the scope of the standard if all the following conditions are met:

  i. the contract has been approved by the parties to the contract, who have undertaken to carry out their respective obligations;

  ii. each party's rights in relation to the goods and services to be transferred can be identified and the payment terms have been identified;

  iii. the contract has commercial substance (the risks, the timing or the cash flows may change as the result of the contract);

  iv. it is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected.

  IFRS 15 also includes the disclosure requirements that are significantly more extensive than the existing standard concerning the nature, amounts, timing and uncertainty of revenues and cash flows arising from contracts with customers.
  The provisions of IFRS 15, following the amendments made with the amendment issued respectively on September 11, 2015 and April 12, 2016, will be effective for years beginning on or after January 1, 2018. The A2A Group applied IFRS 15 using the modified retrospective approach.
  The impacts on the consolidated financial statements are not significant.

- IFRIC 22 "Transactions in foreign currency and recognition of prepayments or collections": approved on April 3, 2018, the interpretation of IAS 21 "Transactions in foreign currency" aims to clarify the date on which to use the exchange rate for the purpose of recording the non-monetary asset/liability relating to transactions in foreign currency. Specifically, the recognition of the advance asset/liability must be carried out at the exchange rate on the day of payment/collection of the advance and in the same terms the "derecognition" of the same, once the transaction is concluded with the recognition of the related sales revenues, will take place at the same exchange rate with which the non-monetary asset/liability was recorded.
  No impacts are expected on the Group's economic and financial situation.

- IAS 40 "Property Investments": approved on March 15, 2018, the amendment introduced clarifies when an entity must transfer ownership of the properties (including those under construction). It also establishes that the only intention of the management to change the use of a property is not evidence of a change in the use of the property investment. There were no impacts on the Group's economic and financial situation.

- IFRS 2 “Share-based payments”: approved on February 27, 2018 some amendments to the standard, which deal with two main areas: the classification of a share-based payment transaction settled net of obligations for withholding tax; accounting if a change in the terms and conditions of a share-based payment transaction changes its classification from settled in cash to settled with equity instruments. The adoption of the standard does not have any impact on the A2A Group as no share-based payments are envisaged.

- IFRS 4 “Insurance contracts”: published in the Official Journal of the European Union in November 2017, the amendment to this standard that allows companies that issue insurance contracts to defer the application of IFRS 9 for the accounting of financial investments aligning the date of first application with that of IFRS 17, expected in 2021 (deferral approach) and at the same time eliminating from the income statement some distorting effects deriving from the early application of IFRS 9 with respect to the application of IFRS 17 (overlay approach). There were no impacts on the Group’s economic and financial situation.

Accounting standards, amendments and interpretations not yet approved by the European Union

- IFRS 17 “Insurance contracts”: issued by the IASB on May 18, 2017, will be applicable to companies that issue insurance contracts from the financial statements closed as of January 1, 2021. No impact on the A2A Group is expected;

- on October 22, 2018, the IASB issued a supplement to IFRS 3 (Business Combination) that helps companies understand whether an acquisition is definable as an asset combination or a business. In particular, it clarifies that, to define an acquisition as a business, there must be the ability to provide goods or services to customers, unlike as indicated by the original standard that has a focus on the ability to produce dividends or economic benefits to stakeholders;

- on March 29, 2018, the IASB issued an addition to the framework of international accounting standards, which slightly changes the wording of the definitions of assets, liabilities, costs and revenues. Increasing emphasis is being placed on the concept of substance over form;

- an amendment to IAS 19 (Employee benefits) was published by the IASB on February 7, 2018, which deals with the accounting of pension expenses in the event of changes to defined benefit plans. Specifically, the amendment introduces the calculation of the service cost using the basic assumptions updated after any change made to the plan;

- issued by the IASB on December 12, 2017, some amendments to the standards approved in the three-year period 2015 - 2017. The following standards issued between 2015 and 2017 are amended:

  i. IAS 12 (Income Taxes): it is specified that taxes related to the distribution of dividends must be recognized when the obligation to recognize the liability to pay the dividend arises;

  ii. IAS 23 (Financial expenses): the amendment aims to clarify the amount and timing within which it is allowed to capitalize the financial expenses related to financial liabilities entered into in order to acquire assets of lasting value;

  iii. IAS 28 (Investments in associates): further cases of investments in associates or joint ventures are specified which, although valued at equity, are subject to the provisions of IFRS 9 (including impairment valuations).

Accounting standards, amendments and interpretations approved by the European Union, applicable in subsequent years

- IFRS 16 “Leases”: the standard issued by the IASB on January 13, 2016 and approved by the European Union in November 2017, fully replaces all the previous IFRS accounting requirements for the accounting of leases (IAS 17 and IFRIC 4). The standard applies to all contracts concerning the right to use an asset for a certain period of time in exchange for a specific fee. IFRS 16 sets, for lessees, a single accounting model for all leases (with specific cases of exclusion and exemption), eliminating the distinction, in terms of accounting treatment, between operating and financial leasing. The accounting forecasts for lessors remain substantially unchanged compared to the previous provisions.
  The initial recognition, for the lessee, involves the recording of assets equal to the right to use the asset and a financial liability corresponding to the present value of the future fees to be paid. The subsequent valuation involves the recognition of the amortization of the right of use on the basis

of IAS 16 (or alternative valuation method) and the discounting of the financial liability created during initial recognition using a discount rate defined in the leasing contract. Financial expenses and depreciation/amortization are recognized separately in the income statement.
The new standard will be in force for the financial years closed from January 1, 2019, with early application permitted on condition that the new IFRS 15 is already adopted or is applied on the same date as the first application of the IFRS 16 in question.
In 2018, the A2A Group completed its analysis in order to adopt the standard as from January 1, 2019. The analyses carried out have identified substantial impacts and changes in the economic and financial situation, as summarized in the section "Other information" of this report.

- IFRS 9 "Financial instruments": approved on March 26, 2018 and applicable starting January 1, 2019, an addition that allows valuing at amortized cost the expenses related early repayment of financial instruments that were previously measured at fair value through profit and loss.

Scope of consolidation

The Consolidated Annual Financial Report at December 31, 2018 includes the figures of the parent A2A S.p.A. and those of the subsidiaries over which A2A S.p.A. exercises either direct or indirect control. In addition, companies in which the parent exercises joint control with other entities (joint ventures) and those over which it has a significant influence are consolidated using the equity method.

The following changes to the scope of consolidation of the A2A Group are reported:

- line-by-line consolidation of the ACSM-AGAM Group as of July 1, 2018; The consolidated amounts reflect the effects of the purchase price allocation required by IFRS 3;
- acquisition and line-by-line consolidation of six companies, owners of five photovoltaic plants, from IMPAX (AIFM) Limited - part of Impax Asset Management Group plc;
- acquisition and line-by-line consolidation of TS Energy Italy S.p.A., owner of 9 project companies active in the photovoltaic field;
- incorporation and line-by-line consolidation of Fair Fenew S.r.l., 60% owned by A2A Rinnovabili S.p.A. and 40% owned by Ente Autonomo Fiera Internazionale di Milano;
- incorporation and line-by-line consolidation of A2A Integrambiente S.r.l., holder of the urban hygiene contract with Gelsia Ambiente S.r.l.;
- conclusion of the liquidation process of Vespia S.r.l. and Ecofert S.r.l.;
- sale of the shareholding of 39.49% in Rudnik Uglja ad Pljevlja previously consolidated using the equity method.

For further details on the activities of the Purchase Price Allocation required by IFRS 3, reference is made to the paragraph “Other information” of this report.

Consolidation policies and procedures

Consolidation policies

Subsidiaries

Subsidiaries are those companies over which the parent company, A2A S.p.A., exercises control and has the power, as defined by IFRS 10, to determine financial and operating policy, either directly or indirectly, in order to obtain returns from their activities. Subsidiaries are consolidated from the date on which the Group effectively acquires control and cease to be consolidated on a line-by-line basis from the date on which control is transferred to a company outside the Group.

Associates, joint ventures and joint operations

Shareholdings in associates, namely those in which the A2A Group has a considerable interest and is able to exercise significant influence are accounted for using the equity method. Gains and losses attributable to the Group are recognized in the financial statements from the date on which significant influence or joint control commences.

In the event that the loss attributable to the Group exceeds the carrying amount of an investment, the carrying amount is reduced to zero and any excess loss is provided for to the extent that the Group has legal or constructive obligations to make good the associate's losses or in any case to make payments on its behalf.

With the adoption of IFRS 11, the Group must now classify investments in joint arrangements as either joint ventures (if the Group has rights to the net assets of the arrangement) or joint operations (if the Group has rights to the assets, and obligations for the liabilities, relating to the arrangement).

Potential voting rights

If the A2A Group holds call options on shares or other equity instruments that represent capital (warrants) that are convertible into ordinary shares or similar instruments having the potential, if exercised or converted, to give the Group voting rights or reduce the voting rights of third parties ("potential voting rights"), such potential voting rights are taken into consideration when assessing whether or not the Group has the power to govern or influence another company's financial and operating policies.

Treatment of put options on the shares of subsidiaries

In general, paragraph 23 of IAS 32 states that a contract that contains an obligation for an entity to purchase shares for cash or another financial asset gives rise to a financial liability for the present value of the exercise price of the option.

As a result, therefore, if the Group does not have the unconditional right to avoid the delivery of cash or other financial instruments when a put option on the shares of subsidiaries is exercised, it must recognize a liability.

In the absence of specific instructions in the related accounting standards, the A2A Group: (i) considers the shares involving put options to have already been purchased, including in cases in which the risks and rewards connected with ownership of the shares remain with the minority shareholders and they remain exposed to equity risk; (ii) records a corresponding entry among equity reserves for the liability resulting from the obligation and any subsequent changes that are not related to the mere unwinding of the present value of the strike price; (iii) and recognizes such changes through the Income Statement.

Effect on the consolidation procedures of certain agreements involving the shares or quotas of Group companies

a) Earn-out and earn-in clauses on the purchase price of the shares of LGH S.p.A.

In 2016, A2A S.p.A. finalized the acquisition of 51% of the share capital of LGH S.p.A..

The value of the transaction was 98.9 million euro, paid for 51.7 million euro in cash and in treasury shares of A2A S.p.A. for a value of 47.2 million euro, of which 37.2 million euro related to shares purchased in the first half of 2016 and 10 million euro relating to treasury shares already held in portfolio at December 31, 2015.

Included in the acquisition value, A2A S.p.A. paid an amount of 9.6 million euro to minority shareholders of LGH S.p.A. related to specific earn-in clauses set at transaction closing.

Based on the initial contractual agreements signed by A2A S.p.A. with the minority shareholders of LGH S.p.A., it was agreed that A2A S.p.A., within the third year from the transaction closing date, upon the fulfilment of certain conditions, would pay up to a maximum of 13.9 million euro included in the acquisition value of LGH S.p.A. of 112.8 million euro, regulated by specific and well-identified earn-out clauses.

Based on the Purchase Price Allocation concluded in June 2017, the percentage probabilities of achieving some earn-out clauses have been revised downwards, resulting in a maximum payout of 7 million euro to minority shareholders resulting in an acquisition value of 109.4 million euro.

In accordance with the provisions of paragraphs 65B, 65C and 65D of IFRS 3, the Group recorded the effects of the contractual earn-outs for 10.5 million euro under long-term payables, with the investment value as balancing entry, with respect to the disbursement it will pay to the minority shareholders of LGH S.p.A. upon the fulfilment of the conditions established in the contract, since said adjustments are still considered probable and reliably determined at the acquisition date.

b) Put options relating to the portions held by the minority shareholder of LA BI.CO DUE S.r.l.

In the first half of 2016, Aprica S.p.A. acquired 64% of the portions of LA BI.CO DUE S.r.l., a company engaged in urban sanitation services in various municipalities of the Province of Brescia.

As a result of the shareholders' agreement signed between Aprica S.p.A. and Ecoimmobiliare S.r.l., the latter shall have the right, but not the obligation, to sell (put option) to Aprica S.p.A. its shareholding in LA BI.CO DUE S.r.l., equal to 36%.

The exercise of this option by Ecoimmobiliare S.r.l. can be made with effect from April 1, 2021 and by and not beyond June 30, 2021. If Ecoimmobiliare S.r.l. does not exercise the put option, Aprica S.p.A. shall have the right, but not the obligation, to purchase the shareholding of Ecoimmobiliare S.r.l. in LA BI.CO DUE S.r.l. from the first day following the expiration of the put option period and within, and not beyond the subsequent 90 business days.

In accordance with paragraph 23 of IAS 32, the Group has recognized as a liability the present value of the estimated outlay which it will not be able to avoid if the option is exercised, with a counter-entry to equity.

It is specified that this option has been valued based on the contractual conditions envisaged.

c) Earn-out on the purchase of the portions of LA BI.CO DUE S.r.l.

The contract for acquisition of 64% of the share capital of LA BI.CO DUE S.r.l. by Aprica S.p.A. envisages, some earn-outs that Aprica S.p.A. will be required to pay in case of achievement of predetermined levels of profitability and the award and extension of some agreements in the municipalities of the Province of Brescia.

In August 2017, Aprica S.p.A. paid 0.1 million euro following the awarding and extension of the agreements with the Municipalities of Rovato and Gambara.

In April 2018, Aprica S.p.A. paid an additional 0.1 million euro following the signing of the contract for the public integrated urban waste management service in the Municipality of Travagliato.

As a result of the agreements described, the consolidated annual financial report at December 31, 2018 shows a payable to Ecoimmobiliare S.r.l., for the possible exercise of the put options on portions of LA BI.CO DUE S.r.l., less than one million euro.

d) Earn-in on the purchase price of A2A Recycling S.r.l. (former RI.ECO-RESMAL Group)

The contractual agreements governing the acquisition of A2A Recycling S.r.l. (former RI.ECO-RESMAL Group) envisage, among other things, an earn-in clause in favour of A2A Ambiente S.p.A., linked both to an eventual non-renewal of the concession of the Cernusco plant for reasons not attributable to A2A Ambiente S.p.A., and to any disbursements and expenses incurred to obtain renewal of the concession. This clause will have an eventual effect from the third year and no later than the fifth year after the closing of the transaction.

In accordance with paragraphs 65B, 65C and 65D of IFRS 3, the Group considered the amount paid by way of earn-in as the investment value since said adjustments are not considered probable and reliably determined at the acquisition date.

e) Put options on the shares of Consul System S.p.A.

On October 20, 2016, the acquisition was finalized of 75% of the share capital of Consul System S.p.A., the main independent Italian ESCo (Energy Service Company). The transaction was finalized by ESCo certified by the A2A Group, A2A Calore & Servizi S.r.l., for a total value of 15.1 million euro. A part of this amount, equal to 11.8 million euro, was settled through cash at closing. Subsequently, an integration was made on the purchase price of 3.3 million euro, as a price adjustment based on both the net debt of Consul System S.p.A. and on other well-identified contractual clauses. The integration in question was recognized as an increase in the value of the shareholding.

In January 2017, a payment of 0.8 million euro was made as price adjustment on the net financial position.

It was also established that, by the deadline for approval of the financial statements of Consul System S.p.A. at December 31, 2020, upon the fulfilment of certain conditions, A2A Calore & Servizi S.r.l. may exercise the option to purchase the remaining 25% of the share capital of Consul System S.p.A..

Therefore, in accordance with paragraph 23 of IAS 32, the Group has recognized as a liability the present value of the estimated outlay of 2.7 million euro which it will not be able to avoid if the option is exercised, with a counter-entry to equity attributable to the minority shareholder.

It is specified that this option has been valued based on the contractual conditions envisaged.

In accordance with the provisions of IFRS 3, at December 31, 2017, the Group completed the Purchase price allocation process, allocating to other intangible assets the difference between the amount transferred, measured in accordance with IFRS 3, and the net fair value attributed to assets acquired and liabilities undertaken.

f) Earn-out on the purchase of “special purpose vehicles” from the Re Energy fund and from Novapower S.p.A.

By contract, there are price adjustments of non-significant amounts both in favour of the seller and in favour of the buyer upon the occurrence of certain conditions.

In accordance with the provisions of IFRS 3, at December 31, 2017, the Group completed the Purchase price allocation process, allocating to other intangible assets the difference between the amount transferred, measured in accordance with IFRS 3, and the net fair value attributed to assets acquired and liabilities undertaken.

Consolidation procedures

General procedure

The financial statements of the subsidiaries, associates and joint ventures consolidated by the A2A Group are prepared at the end of each reporting period using the same accounting policies as the parent. Any items recognized by using different accounting standards are adjusted during the consolidation process to bring them into line with Group accounting policies. All intra-group balances and transactions, including any unrealized profits arising from transactions between Group companies, are fully eliminated.

In preparing the Report the assets, liabilities, income and expenses of the companies being consolidated are included in their entirety on a line-by-line basis, with the portion of equity and net income for the period attributable to minority interests being stated separately in the balance sheet and income statement.

The carrying amount of the investment in each subsidiary is eliminated against the corresponding share of its net equity, including any adjustments to fair value at the acquisition date; any differences arising are accounted for in accordance with IFRS 3.

Transactions with minority interests which do not lead to the loss of control in consolidated companies are accounted for using the economic entity view approach.

Adoption of international accounting standard IFRS 12 "Disclosure of Interests in Other Entities"

With effect from January 1, 2014, the A2A Group has among other things adopted international accounting standard IFRS 12 "Disclosure of Interests in Other Entities", issued by the IASB in 2011 and adopted by the European Commission on December 11, 2012.

On the basis of the requirements of paragraphs 7 and following of the standard the Group discloses information below about the significant judgements and assumptions it has made in determining:

i. that the parent company has control of another entity within the meaning of IFRS 10;

ii. the type of joint arrangement (joint operation or joint venture) when the arrangement has been structured through a separate vehicle, in compliance with IFRS 11;

iii. that the parent company has significant influence over another entity (shareholdings in associates).

Shareholdings in joint ventures (IFRS 11): Ergosud S.p.A. and PremiumGas S.p.A.

IFRS 11 identifies two types of arrangement, joint operations and joint ventures, on the basis of the rights and obligations of the parties, and governs the resulting accounting treatment to be adopted for the recognition of these arrangements in the financial statements.

The most significant effect of the new standard is the fact that a number of entities jointly controlled by A2A, which up until now have been recognized using the equity method, could fall under the definition of joint operations on the basis of the requirements of IFRS 11. The accounting treatment for this type of joint arrangement requires the assets/liabilities and revenue/expenses connected with the arrangement to be recognized on the basis of the rights/obligations due to/assumed by A2A, regardless of the interest held.

In the particular case of its shareholdings in two joint arrangements operating in the Generation and Trading Business Unit, Ergosud S.p.A. and PremiumGas S.p.A., the A2A Group considers that these fall under the category joint ventures as far as their legal form and the nature of the contractual agreements are concerned.

In particular, as regards the shareholding in PremiumGas S.p.A., the Group has rights exclusively linked to the results achieved by the company.

On September 26, 2018, PremiumGas S.p.A. was placed in voluntary liquidation.

For the shareholding in Ergosud S.p.A., despite the existence of a tolling agreement the investee could dispatch energy autonomously, thereby ensuring business continuity also at the end of the agreement. In addition, the A2A Group does not appoint any of the company's key management.

On the basis of the above considerations, the A2A Group has accounted for the shareholdings using the equity method, continuing the treatment used in previous years.

Procedure for the consolidation of assets and liabilities held for sale (IFRS 5)

In the case of particularly large amounts and in connection with non-current assets and liabilities held for sale, and only in this case, in accordance with IFRS 5 the relative intra-group financial receivables and payables are not eliminated in order to provide a clear presentation of the financial impact of a possible disposal.

Latest available summarized figures for joint ventures (consolidated at equity)

Key figures at December 31, 2018 *millions of euro*	Bergamo Pulita 50%	PremiumGas 50% (figures at 12 31 2017) (*)	Metamer 50%	Ergosud 50% (figures at 12 31 2017) (*)
INCOME STATEMENT				
Revenues	0.04	8.8	30.9	33.4
Gross operating income	**(0.07)**	**(0.2)**	**0.3**	**14.1**
% of net revenues	*n.s.*	*(2.3%)*	*1.0%*	*42.3%*
Depreciation, amortization and write-downs	-	-	0.1	7.9
Net operating income	**(0.07)**	**(0.2)**	**0.2**	**6.2**
Result for the year	**(0.10)**	**(1.5)**	**0.1**	**3.7**
BALANCE SHEET				
Total assets	**2.80**	**5.1**	**8.8**	**162.3**
Net equity	**0.02**	**2.0**	**1.6**	**66.5**
Net (debt)	**1.40**	**0.5**	**0.3**	**(77.2)**

(*) Figures of the last financial statements available.

Key figures at December 31, 2017 *millions of euro*	Bergamo Pulita 50%	PremiumGas 50% (figures at 12 31 2016) (*)	Metamer 50%	Ergosud 50% (figures at 12 31 2016) (*)
INCOME STATEMENT				
Revenues	0.04	46.0	17.9	31.4
Gross operating income	**(0.07)**	**0.7**	**1.3**	**14.8**
% of net revenues	*n.s.*	*1.4%*	*7.0%*	*47.2%*
Depreciation, amortization and write-downs	0.01	-	0.2	8.1
Net operating income	**(0.06)**	**0.7**	**1.1**	**6.7**
Result for the year	**(0.10)**	**0.6**	**0.8**	**4.1**
BALANCE SHEET				
Total assets	**2.65**	**6.1**	**7.3**	**175.0**
Net equity	**(0.52)**	**3.5**	**2.1**	**66.5**
Net (debt)	**(1.29)**	**1.1**	**(1.6)**	**(86.9)**

(*) Figures of the last financial statements available.

Accounting standards and policies

Translation of foreign currency items

The consolidated financial statements of the A2A Group are presented in euro; this is also the functional currency of the economies in which the Group operates.

Transactions in other currencies are initially recognized at the exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into euro at the exchange rates at the balance sheet date.

Non-monetary items measured at historical cost in foreign currency are translated at the exchange rates at the date of the transaction. Non-monetary items measured at fair value are translated at the exchange rates at the date when the fair value was determined.

Tangible assets

Assets for business use are classified as tangible assets, while non-business assets are classified as investment property.

Tangible assets are measured at cost, including any additional charges directly attributable to bringing the asset into an operating condition (e.g. transport, customs duty, installation and testing costs, notary and land registry fees and any non-deductible VAT), increased when material and where there are obligations by the present value of the estimated cost of restoring the location from an environmental point of view or dismantling the asset. Borrowing costs, where directly attributable to the purchase or construction of an asset, are capitalized as part of the cost of the asset if the type of asset so warrants.

If important components of tangible assets have different useful lives, they are accounted for separately using the "component approach", assigning to each component its own useful life for the purpose of calculating depreciation (the component approach).

Land, whether occupied by residential or industrial buildings or devoid of construction, is not depreciated as it has an unlimited useful life, except for land used in production activities that is subject to deterioration over time (e.g. landfills, quarries).

Ordinary maintenance costs are fully expensed to the income statement in the year they are incurred. Costs for maintenance carried out at regular intervals are attributed to the assets to which they refer and are depreciated over the specific residual possibility of use of such.

Assets acquired under finance leases are accounted for on the basis of IAS 17 "Leases", which requires the leased asset to be recognized as a tangible asset together with a financial liability of the same amount. The liability is progressively reduced on the basis of the scheme for the repayment of the capital portion of the contractual lease instalments, while the carrying amount of the asset is systematically depreciated over its economic and technical life or over the shorter of the lease term and the asset's useful life, but only if there is reasonable certainty that the lessee will obtain ownership by the end of the lease term. During the reporting year, the useful lives of the CCGT plants were reviewed, as described in note "1) Tangible assets".

For assets acquired in leasing by Group companies, the guidance contained in IFRIC 4 "Determining whether an Arrangement contains a Lease" is applied. This interpretation provides guidance for arrangements which do not take the legal form of a finance lease but in substance transfer the risks and rewards of ownership of the assets included in the arrangement.

Applying the interpretation leads to the same accounting treatment as that required by IAS 17 "Leases".

Tangible assets are stated net of accumulated depreciation and any write-downs. Depreciation is charged from the year in which the individual asset enters service on a straight-line basis over the estimated useful life of the asset for the business. The estimated realizable value which is deemed to be recoverable at the end of an asset's useful life is not depreciated. The useful life of each asset is reviewed annually and any changes, if needed, are made with a view to showing the correct value of the asset.

Landfills are depreciated on the basis of the percentage filled, which is calculated as the ratio between the volume occupied at the end of the period and the total volume authorized.

The main depreciation rates used, which are based on technical and economic considerations, are as follows:

Le principali aliquote economico-tecniche utilizzate sono le seguenti:

- buildings 1% - 23.1%
- production plants 1% - 33.3%
- transport lines 2.1% - 7.4%
- transformation stations 2.5% - 10%
- distribution networks 0.9% - 12.5%
- fiber-optic networks 5%
- miscellaneous equipment 4% - 33.3%
- mobile phones 100%
- furniture and fittings 6% - 20%
- electric and electronic office machines 5% - 33.3%
- vehicles 10% - 20%
- e-moving 10% - 16.9%
- leasehold improvements 2% - 26.1%
- leased assets 5.6% - 7.7%

Tangible assets are subjected to impairment testing if there is any indication that an asset may be impaired in accordance with the paragraph below "Impairment of assets"; write-downs may be reversed in subsequent periods if the reasons for which they were recognized no longer apply.

When an asset is disposed of or if future economic benefits are no longer expected from using an asset, it is removed from the balance sheet and any gain or loss (being the difference between the disposal proceeds and the carrying amount) is recognized in the income statement in the year of the derecognition.

Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance which are controlled by the enterprise and able to produce future economic benefits, and include goodwill when acquired for consideration.

The fact of being identifiable distinguishes an intangible asset that has been acquired from goodwill; this requirement is normally met when: *(i)* the intangible asset is attributable to a legal or contractual right, or *(ii)* the asset is separable, in other words it can be sold, transferred, rented or exchanged individually or as an integral part of other assets.

Control by the enterprise consists of the right to enjoy the future economic benefits flowing from the asset and to restrict the access of others to those benefits.

Intangible assets are stated at purchase or production cost, including ancillary charges, determined in the same way as for tangible assets. Intangible fixed assets produced internally are not capitalized but recognized in the income statement in the year in which the costs are incurred.

Intangible assets with a definite useful life are reported in the financial statements net of the related accumulated amortization and impairments in the same way as for tangible assets. Changes in the expected useful life or in the ways in which the future economic benefits of an intangible asset are achieved by the Company are accounted for by suitably adjusting the period or method of amortization, treating them as changes in accounting estimates. The amortization of intangible fixed assets with a definite useful life is charged to income statement in the cost category that reflects the function of the intangible asset concerned.

Intangible assets are subjected to impairment testing if there are specific indications that they may be impaired, in accordance with the paragraph below "Impairment of assets"; impairment losses may be reversed in subsequent periods if the reasons for which they were recognized no longer apply.

Intangible assets with an indefinite useful life and those that are not yet available for use are subjected to impairment testing on an annual basis, whether or not there are any specific indications that they may be impaired, in accordance with the paragraph below "Impairment of assets". Impairment losses recognized for goodwill are not reversed.

Gains or losses on the disposal of an intangible asset are calculated as the difference between the disposal proceeds and the carrying amount of the asset and recognized in the Income Statement at the time of the disposal.

The following amortization rates are applied to intangible assets with a definite useful life:

- industrial patents and intellectual property rights ____________________________ 20% - 33.3%
- concessions, licenses, trademarks and similar rights ___________________________ 1.6% - 33.3%
- other intangible assets ____ 2.1% - 60%

Service concession arrangements

IFRIC 12 states that, based on the characteristics of the concession arrangement, the infrastructures used in the provision of public services under concession are to be recognized as intangible assets if the operator has the right to receive a payment from the customer for the service provided, or as a financial asset if the operator has the right to receive payment from the public sector entity.

Impairment of tangible and intangible fixed assets

Tangible and intangible assets are subjected to impairment testing if there is any specific indication that there may be an impairment loss.

Goodwill, other intangible assets with an indefinite useful life and assets not available for use are tested for impairment at least annually or more frequently if there is any specific indication that they may be impaired.

Impairment testing consists of comparing the carrying amount of an asset with its recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. To determine an asset's value in use, the entity calculates the present value of the estimated future cash flows on the basis of business plans prepared by management, before tax, applying a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is lower than its carrying amount, a loss is recognized in the Income Statement. If a loss recognized for an asset other than goodwill no longer exists or is reduced, the carrying amount of the asset or cash-generating unit is increased to the new estimate of recoverable value, which may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset. Reversals of impairment losses are immediately recognized in the income statement.

When the recoverable amount of the individual asset cannot be estimated, it is based on the cash generating unit (CGU) or group of CGUs that the asset belongs to and/or to which it may be reasonably allocated.

CGUs are identified on the basis of the company's organizational and business structure as homogeneous aggregations that generate independent cash inflows deriving from the continuous use of the assets allocated to them.

Environmental certificates: emission quotas and White Certificates

Different accounting policies are applied to quotas or certificates held for own use in the "Industrial Portfolio" and those held for trading purposes in the "Trading Portfolio".

Surplus quotas or certificates held for own use in the "Industrial Portfolio" which are in excess of the Group's requirements in relation to the obligations accruing at year end are recognized as other intangible assets at the actual cost incurred. Quotas or certificates assigned free of charge are recognized at a zero carrying amount. Given that they are assets for instant use, they are not amortized but subjected to impairment testing. The recoverable amount is the higher of value in use and market value. If, on the other hand, there is a deficit because the requirement exceeds the quotas or certificates in portfolio at the balance sheet date, a provision is recognized for the amount needed to meet the residual obligation, estimated on the basis of any purchase contracts, spot or forward, already signed at the balance sheet date; otherwise on the basis of market prices.

Quotas or certificates held for trading in the "Trading Portfolio" are recognized in inventories and measured at the lower of purchase cost and estimated realizable value based on market trends. Quotas or certificates assigned free of charge are recognized at a zero carrying amount. Market value is established on the basis of any sales contracts, spot or forward, already signed at the balance sheet date; otherwise on the basis of market prices.

Shareholdings in subsidiaries, associates and joint ventures

Subsidiaries are companies in which the parent company "is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee", as defined by IFRS 10. Control is generally assumed to exist when a company holds either directly or indirectly more than half of the exercisable voting rights at an ordinary shareholders' meeting, also considering potential voting rights, meaning voting rights deriving from convertible financial instruments.

Subsidiaries are consolidated on a line-by-line basis.

Associates are companies in which the parent has a significant influence over strategic decisions, despite not having control, also considering potential voting rights, meaning voting rights deriving from convertible financial instruments; significant influence is assumed to exist when A2A S.p.A. holds, either directly or indirectly, more than 20% of voting rights exercisable at an ordinary shareholders' meeting.

A joint venture is a contractual agreement whereby two or more parties undertake an income generating activity subject to joint control.

Shareholdings in associates and joint ventures are accounted for in the consolidated financial statements using the equity method.

Long term construction contracts in progress

Construction contracts with durations exceeding one year in progress are valued in accordance with IFRS 15. In particular, over-the-time revenues are recognized if it can be demonstrated that: a) the customer simultaneously receives and consumes the benefits of the contract in force at the same time as the service is provided b) the service provided improves.

Construction contracts currently in progress are measured on the basis of the contractual fees that have accrued with reasonable certainty on the basis of the stage of completion, using the "cost to cost" method, so as to allocate the revenues and net result of the contract to the individual periods to which they belong in proportion to the progress being made on the project. Any difference, positive or negative, between the value of the contracts and advances received is recognized as an asset or a liability respectively.

In addition to the contractual fees, contract revenues include variants, price revisions and incentive awards to the extent that it is probable that they represent actual revenues that can be reliably determined. Ascertained losses are recognized independently of the stage of completion of contracts.

Inventories

Inventories of materials and fuel are measured at the lower of weighted average cost and market value at the balance sheet date. Weighted average cost is determined for the period of reference for each inventory code. Weighted average cost includes any additional costs (such as sea freight, customers charges, insurance and lay or demurrage days in the purchase of fuel). Inventories are constantly monitored and, where necessary, obsolete stocks are written down with a charge to the Income Statement.

Financial instruments

They include shareholdings (excluding shareholdings in subsidiaries, joint ventures and associates) held for trading (so-called trading shareholdings) or available for sale, non-current receivables and loans and other non-current financial assets, trade and other receivables deriving from company operations and other current financial assets such as cash and cash equivalents. The latter consist of bank and postal deposits, readily negotiable securities used as temporary investments of surplus cash and financial receivables due within three months. Financial instruments also include financial payables (bank loans and bonds), trade payables, other payables and other financial liabilities and derivatives.

Financial assets and liabilities are recognized at the time that the contractual rights and obligations forming part of the instrument arise.

Financial assets and liabilities are accounted for in accordance with IFRS 9 “Financial Instruments”.

Financial assets

Initial recognition

Financial assets are classified into two categories alone - “at fair value” or “at amortized cost”. Classification within the two categories is carried out on the basis of an entity’s business model and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost if both of the following requirements are met: the objective of the entity’s business model is to hold assets to collect contractual cash flows (and therefore in substance not to earn trading profits) and the characteristics of the cash flows of the asset are solely payments of principal and interest. A financial asset is measured at fair value if it is not measured at amortized cost.

All equity instruments both listed and unlisted – must be measured at fair value.

An entity has the option of presenting changes in the fair value of equity instruments that are not held for trading in equity; that option is not permitted for equity instruments that are held for trading. This designation is permitted on initial recognition, may be adopted for each individual instrument and is irrevocable. If an election is made for this option, changes in the fair value of these instruments may never be reclassified from equity to the income statement. Dividends on the other hand continue to be recognized in the income statement.

In addition, the method of expected credit losses is modified, moving to an impairment model that leads to the early recognition of forward-looking losses.

Subsequent valuation

Measurement subsequent to initial recognition depends on which of the following categories the financial instrument falls into:

- Financial assets at amortized cost (debt instruments);
- Financial assets at fair value through profit or loss with reclassification of cumulative gains and losses (debt instruments);
- Financial assets at fair value through profit or loss without reversal of cumulative gains and losses at the time of derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortized cost

These are valued using the effective interest method and are subject to impairment.

Gains and losses are recognized in the income statement when the asset is derecognized, modified or revalued.

Investments in equity instruments

On initial recognition, the Group may irrevocably choose to classify its equity investments as equity instruments recognized at fair value through profit and loss when they meet the definition of equity instruments pursuant to IAS 32 “Financial instruments: Presentation” and are not held for trading. The classification is determined for each individual instrument.

Gains and losses on these financial assets are never reclassified to the income statement. Dividends are recognized as other income in the income statement when the right to payment has been approved, except when the Group benefits from such income as a recovery of part of the cost of the financial asset, in which case such profits are recognized in OCI. Equity instruments recognized at fair value through OCI are not subject to impairment testing.

Financial assets measured at fair value through the income statement

This category includes assets held for trading, assets designated at the time of initial recognition as financial assets at fair value with changes recognized in the income statement, or financial assets that must be measured at fair value. Assets held for trading are all those assets acquired for sale or repurchase in the short term. Derivatives, including those separated, are classified as financial instruments held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not represented solely by principal and interest payments are classified and measured at fair value through profit or loss, regardless of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be recognized at fair value through profit or loss upon initial recognition if this results in the elimination or significant reduction of an accounting mismatch.

Financial instruments at fair value with changes recognized in the income statement are recognized in the statement of financial position at fair value and net changes in fair value are recognized in profit or loss.

This category includes derivative instruments and listed equity investments that the Group has not irrevocably chosen to classify at fair value through OCI. Dividends on listed equity investments are also recognized as other income in the statement of profit/(loss) for the year when the right to payment is established.

The embedded derivative contained in a non-derivative hybrid contract, in a financial liability or in a principal non-financial contract, is separated from the principal contract and accounted for as a separate derivative, if: its economic characteristics and the risks associated with it are not closely correlated with those of the principal contract; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value, with changes in fair value recognized in the income statement. A restatement occurs only when there is a change in the terms of the contract that significantly changes the cash flows otherwise expected or a reclassification of a financial asset to a category other than fair value through profit or loss.

An embedded derivative included in a hybrid contract that contains a financial asset is not separated from the host contract. The financial asset together with the embedded derivative is classified entirely as a financial asset at fair value through profit or loss.

Derecognition

A financial asset is derecognized when:

- the rights to receive cash flows from the asset no longer apply;
- the company has transferred to a third party the right to receive cash flows from the asset or has assumed a contractual obligation to transfer them. In substance, the transfer is completed when: the company has transferred all the risks and rewards of ownership of the asset or has transferred control of the asset while maintaining the related risks and rewards.

In cases where the company has transferred the rights to receive cash flows from an asset or signed an agreement under which it retains the contractual rights to receive the cash flows from the financial asset but assumes a contractual obligation to pay the cash flows to one or more beneficiaries (pass-through), it assesses whether and to what extent it has retained the risks and rewards of ownership. In the cases in which it has neither transferred nor retained substantially all of the risks and rewards or has not lost control of the asset, it continues to be recognized in the financial statements of the Group to the extent of its continuing involvement in the asset. In this case, the Group also recognizes an associated liability. The transferred asset and the associated liability are valued to reflect the rights and obligations that remain with the Group.

When the entity’s continuing involvement is a guarantee of the transferred asset, involvement is measured on the basis of the lower of the amount of the asset and the maximum amount of consideration received that the entity might have to repay.

Financial liabilities

Financial liabilities are classified, at the time of initial recognition, at fair value through profit or loss, as mortgages and loans or as derivatives designated as hedges.

Directly attributable transaction costs are added to the valuation.

The Group's financial liabilities include trade payables and other payables, mortgages and loans, including current account overdrafts and derivative financial instruments.

The subsequent evaluation depends on the classification of the main instrument:

- financial liabilities at fair value through profit or loss, typically of a trading nature (settlement and transfer in the short term). This category includes financial derivatives held for trading (speculative);
- loans and receivables: valued at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the liability is settled, as well as through amortization.

A financial liability is derecognized when the obligation underlying the liability is settled or cancelled.

Derivative financial instruments and hedge accounting

These are initially recognized at fair value on the date the contract is signed and the subsequent measurement is also at fair value.

To classify a derivative as a hedge, the company formally designates and documents the hedging relationship, its risk management objectives and the strategy pursued.

From January 1, 2018, the following must be identified: a) the hedging instrument b) the nature of the risk being hedged c) the way in which the company will assess the effectiveness of the hedge.

The hedging relationship is effective if:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of the credit risk does not prevail over the changes in value resulting from the aforementioned economic relationship;
- the hedging ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge this quantity of hedged item.

Transactions that meet the above criteria are accounted for as follows:

Fair value hedging

If a derivative financial instrument is designated as a hedge against exposure to changes in the fair value of an asset or liability attributable to a specific risk, the gain or loss resulting from subsequent changes in fair value of the hedging instrument is recognized in the Income Statement. The profit or loss deriving from the adjustment to fair value of the item hedged, for the part attributable to the hedged risk, changes the book value of this item and is recognized in the Income Statement. Cash flow hedge - If a derivative financial instrument is designated to hedge the exposure to the variability of the cash flows of an asset or a liability recognized in the Financial Statements or of a highly probable transaction, the effective portion of the resulting profits or losses deriving from the fair value adjustment of the derivative instrument is recognized in a specific equity reserve. The cumulative profit or loss is reversed from the equity reserve and recorded in the Income Statement in the same years in which the effects of the hedged transaction are recognized in the Income Statement. The profit or loss associated with the part of the ineffective hedge is recognized in the Income Statement immediately. If the hedged transaction is no longer considered probable, the unrealized gains or losses recognized in the equity reserve are immediately recognized in the Income Statement.

Cash flow hedges

The portion of gain or loss on the hedged instrument relating to the effective portion of the hedge is recognized in other comprehensive income in the cash flow hedge reserve, while the ineffective portion is recognized directly in profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in the fair value of the hedged item.

Amounts accumulated under other components of the comprehensive income statement are recorded, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial component, the accumulated amount in equity is removed from the separate component of equity and included in the cost or other carrying amount of the asset or liability hedged. This is not considered a reclassification of the items recognized in OCI for the period. This also applies in the case of a hedged forecast transaction of a non-financial asset or a non-financial liability that subsequently becomes an irrevocable commitment to which fair value hedge accounting is applied.

For any other cash flow hedge, the amount accumulated in OCI is reclassified to the income statement as a reclassification adjustment in the same period or periods during which the hedged cash flows impact the income statement.

If the cash flow hedge accounting is discontinued, the accumulated amount in OCI must remain so if the hedged future cash flows are expected to occur. Otherwise, the amount shall be immediately reclassified to profit or loss for the period as a reclassification adjustment. After suspension, once the hedged cash flow occurs, any accumulated amount remaining in OCI must be accounted for depending on the nature of the underlying transaction as described above.

Non-current assets held for sale, disposal groups and discontinued operations – IFRS 5

Non-current assets held for sale, disposal groups and discontinued operations whose carrying amount will be recovered principally through sale rather than continuous use are measured at the lower of their carrying amount and fair value less costs to sell. A disposal group is a group of assets to be disposed of together as a group in a single transaction together with the liabilities directly associated with those assets that will be transferred in that transaction. Discontinued operations on the other hand consist of a significant component of the Group such as a separate major line of business or a geographical area of operations or a subsidiary acquired exclusively with a view to resale.

In accordance with IFRSs, the figures for non-current assets held for sale, disposal groups and discontinued operations are shown on two specific lines in the balance sheet: non-current assets held for sale and liabilities directly associated with non-current assets held for sale.

Non-current assets held for sale are not depreciated or amortized and are measured at the lower of carrying amount and fair value less costs to sell; any difference between carrying amount and fair value less costs to sell is recognized in the income statement as a write-down.

The net economic results arising from discontinued operations, and only discontinued operations, pending the disposal process, any gains or losses on disposal and the corresponding comparative figures for the previous year or period are recognized in a specific line of the income statement: "Net result from discontinued operations". On the other hand any gains or losses recognized as the result of measuring non-current assets (or disposal groups), classified as held for sale within the meaning of IFRS 5, at fair value less costs to sell are presented in a specific line item of the income statement "Result from non-recurring transactions", as discussed further in the previous section "Format of financial statements".

Employee benefits

The employees' leaving entitlement (TFR) and pension provisions are determined using actuarial methods; the rights accrued by employees during the year are recognized in the income statement as "labour costs", whereas the figurative financial cost that the company would have to bear if it were to ask the market for a loan of the same amount as the TFR is recognized as part of the "financial balance". Actuarial gains and losses arising from changes in actuarial assumptions are recognized in income statement taking into account the residual average working life of the employees.

Following the introduction of Finance Law no. 296 of December 27, 2006, only the portion of accrued employees' leaving entitlement that remained in the company has been measured in accordance with IAS 19, as amounts are now paid over to a separate entity as they accrue (either to a supplementary pension scheme or to funds held by INPS). As a result of these payments the company no longer has any obligations in connection with the services employees may render in the future.

Guaranteed employee benefits paid on or after the termination of employment through defined benefit plans (energy discount, health care or other benefits) or long-term benefits (loyalty bonuses) are recognized in the period when the right vests.

The liability for defined benefit plans, net of any plan assets, is determined by independent actuaries on the basis of actuarial assumptions and recognized on an accrual basis in line with the work performed to obtain the benefits.

Gains and losses arising from actuarial calculations are recognized in a specific equity reserve.

Reverse factoring

The Group entered into factoring agreements, typically in the technical form of reverse factoring. On the basis of the contractual structures in place, the supplier has the possibility to sell at its discretion, the receivables from the company to a lending institution. In some cases, the payment terms indicated in the invoice are the subject of further deferments agreed between the supplier and the Group; these deferments can be both burdensome and not burdensome.

In the event of extensions, a quantitative analysis is carried out to verify whether or not the contractual terms have been amended. In this context, the relations, for which the primary obligation is maintained with the supplier and the possible deferment, if granted, does not involve a substantial change in payment terms, retain their nature and are therefore classified as trading liabilities.

Provisions for risks, charges and liabilities for landfills

Provisions for risks and charges regard costs of a determinate nature and of certain or probable existence which at year-end are uncertain in terms of timing or amount. Provisions are recognized when there is a legal or constructive present obligation arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits, and it is possible to make a reasonable estimate of the obligation.

Provisions are recognized at the best estimate of the amount that the company would have to pay to settle the liability or to transfer it to third parties at the balance sheet date. If the effect of discounting is significant, provisions are calculated by discounting expected future cash flows at a pre-tax discount rate that reflects the current market assessment of the time value of money. If discounting is used the increase in the provision due to the passage of time is recognized as financial expense.

If the liability relates to tangible assets (such as the dismantling and reclamation of industrial sites), the initial provision is recognized as a counter-entry to the assets to which it refers; expense is then charged to income statement as the asset in question is depreciated.

Treasury shares

Treasury shares are accounted for as a deduction from equity. In particular, treasury shares are recognized as a negative equity reserve.

Grants

Grants, both from public entities and from third party private entities, are measured at fair value when there is the reasonable certainty that they will be received and that the Group will be able to comply with the terms and conditions for obtaining them.

Grants received to provide support for the cost of specific assets are recognized as a direct deduction from the assets concerned and credited to the income statement over the life of the depreciable asset to which they refer.

Revenue grants (given to provide the company with immediate financial support or as compensation for expenses or losses incurred in a previous accounting period) are recognized in their entirety in the income statement as soon as the conditions for recognizing the grants are met.

Revenues and costs

The recognition of revenues is based on the following five steps: (i) identification of the contract with the customer; (ii) identification of the performance obligations, represented by the contractual promises to transfer goods and/or services to a customer; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations identified on the basis of the stand-alone sale price of each good or service; (v) recognition of the revenue when the relative performance obligation is satisfied, i.e. when the promised good or service is transferred to the customer; the transfer is considered completed when the customer obtains control of the good or service, which can occur continuously over time diluted and extended or at a point in time. Depending on the type of transaction, revenues are recognized on the basis of the following specific criteria:

- revenues for the sale and transport of electricity and gas are recognized at the time that the energy is supplied or the service rendered, even if invoicing has not yet taken place, and are determined by adding estimates of consumption to amounts resulting from pre- established meter-reading schedules. Where applicable, these revenues are based on the tariffs and related tariff restrictions in force during the year prescribed by the law and the Italian Regulation Authority for Energy Networks and Environment and similar foreign bodies;
- connection contributions paid by users, if not for costs incurred to extend the network, are recognized in the income statement on collection and presented as "revenues from services";
- the revenues billed to users for an extension of the gas network are accounted for as a reduction in the carrying amount of tangible assets and are recognized in the income statement as a reduction in the depreciation charged over the useful life of the cost capitalized to extend the network;
- the revenues and costs involved in withdrawing quantities that are higher or lower than the Group's share are measured at the prices envisaged in the related purchase or sale contract;
- revenues from the provision of services are recognized according to the stage of completion based on the same criteria as for contract work in progress. If it is impossible to calculate revenues on a reliable basis they are recognized up to the amount of the costs incurred providing they are expected to be recovered;
- revenues from the sale of certificates are recognized at the time of sale.

Revenues are stated net of returns, discounts, allowances and rebates, as well as directly related taxes.

Expenses relate to goods or services sold or consumed during the year or as a result of systematic allocation; if no future use is envisaged they are recognized directly in the income statement.

Result from non-recurring transactions

The item "Non-recurring transactions" consists of the gains and losses arising from the measurement at fair value less costs to sell or from the sale or disposal of non- current assets (or disposal groups) classified as held for sale within the meaning of IFRS 5, the gains or losses arising on the disposal of shareholdings in unconsolidated subsidiaries and associates and other non-operating income and expense.

Financial income and expenses

Financial income is recognized when interest income arises using the effective interest method, i.e. at the rate that exactly discounts expected future cash flows over the expected life of the financial instrument.

Financial expense is recognized in the Income Statement on an accrual basis on the basis of the effective interest.

Dividends

Dividend income is recognized when it is established that the shareholders have a right to receive payment, and is recognized as financial income in the Income Statement.

Income taxes

Current taxes

Current income taxes are based on an estimate of taxable income in compliance with tax regulations in force or substantially approved at the balance sheet date, bearing in mind any exemptions or tax credits due. Account is also taken of the fact that the Group now files for tax on a consolidated basis.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are calculated on the temporary differences between the carrying amount of assets and liabilities in the balance sheet and their tax bases, with the exception of goodwill which is not deductible for tax purposes and any differences resulting from investments in subsidiaries which are not expected to reverse in the foreseeable future. The tax rates used are those expected to apply to the period when the temporary differences reverse. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the tax benefit will be realized. The measurement of deferred tax assets takes account of the period for which business plans are available.

When transactions are recognized directly in equity, any related current or deferred tax effects are also recognized directly in equity. Deferred taxes on the undistributed profits of Group companies are only provided for if there is the real intention to distribute such profits and, in any case, if the taxation is not offset as the result of filing a Group tax return.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Taxes are only offset when they are levied by the same tax authority, when there is the legal right of set-off and when settlement of the net balance is expected.

Use of estimates

Preparing the financial statements and notes requires the use of estimates and assumptions in determining certain assets and liabilities and measuring contingent assets and liabilities. The actual results after the event could differ from such estimates.

Estimates have been used in impairment testing, to determine certain sales revenues, in provisions for risks and charges, in provisions for receivables and other write-downs, amortization and depreciation, the valuation of derivatives, employee benefits and taxes. The underlying estimates and assumptions are regularly reviewed and the effect of any change is immediately recognized in the income statement.

The following are the key assumptions made by management as part of the process of making these accounting estimates. The inherently critical element of such estimates comes from using assumptions or professional opinions on matters that are by their very nature uncertain. Changes in the conditions underlying the assumptions and opinions used could have a material impact on subsequent results.

Impairment Test

The carrying amount of non-current assets (including goodwill and other intangible assets) and of assets held for sale is reviewed periodically and whenever circumstances or events require a more frequent assessment. If it is considered that the book value of a group of fixed assets has had an impairment loss, it is subject to the application of professional judgement by management and is based on assumptions that include: the identification of the Cash Generating Units, the estimate of the future operating cash flows associated with these CGUs during the reference period of the 2019 - 2023 business plan, the estimate of the cash flows subsequent to this time horizon, the cash flow deriving from the disposal at the end of useful life of the assets, discount rates used ("Wacc"). These assumptions are complex due to their nature and imply recourse to the opinion of the directors, who are also sensitive to future trends in energy markets, macroeconomic scenarios, and the resolutions of ARERA.

For the purpose of preparing the impairment test, the company avails itself of the support of an independent expert, external to the A2A Group.

In the hypothesis in which the recoverable value is lower than the carrying amount, the latter is written down to the extent applicable. Management is of the opinion that the estimates of such recoverable amounts are reasonable, albeit subject to changes in the factors underlying the estimates on which these recoverable amounts have been calculated could produce different measurements. For further details on the way in which impairment testing was carried out and the results of such testing, reference is made to the specific paragraph below.

Revenue recognition

Revenues from sales include the estimate of accrued revenues related to gas and electricity consumed by customers and not yet subject to periodic reading at December 31, 2018 and the estimate of revenues accrued for gas and electricity consumed by customers and not yet billed at December 31, 2018, in addition to the revenues already billed to customers based on the periodic consumption readings made during the year. The processes and methods for evaluating and determining these estimates are based on sometimes complex assumptions that by their nature imply recourse to the opinion of the directors, in particular with regard to recognition of accrued revenues, as the methods used by the A2A Group to estimate the quantities of consumption between the date of the last reading and December 31, and therefore to value the revenues accrued during the year, are based on assumptions and complex calculation algorithms that concern various information systems. Furthermore, the estimate of consumption not subject to periodic reading is made by taking as reference the historical profile of each user, adjusted on the basis of climatic correction factors provided by the Regulation Authority for Energy Networks and the Environment (also "ARERA"), to incorporate other variables that can have an impact on consumption.

Provisions for risks and charges

In certain circumstances it is not easy to identify whether a legal or constructive present obligation exists. The directors assess these situations case by case, together with an estimate of the economic resources required to settle the obligation. Estimating such provisions is the result of a complex process that involves subjective judgements on the part of company management. When the directors are of the opinion that it is only possible that a liability could arise, the risks are disclosed in the section on commitments and contingent liabilities without making any provision.

Liabilities for landfills

The liabilities for landfills provision represents the amount set aside to meet the costs which will be incurred for the management of the period of closure and post-closure of landfills currently in use. The future outlays, calculated for each landfill by a specific appraisal updated annually, were discounted in accordance with the provisions of IAS 37.

Bad debts provision

The entry into force of IFRS 9 on January 1, 2018 has led to a change in the recognition of credit losses for the Group. The approach adopted is a forward-looking one, focusing on the probability of future losses on receivables, even in the absence of events that would suggest the need to write-down a credit position (Expected Losses).

Although the provision is considered adequate, the use of different assumptions or changes in prevailing economic conditions, even more so in this period of recession, could give rise to adjustments to the bad debts provision.

Amortization, depreciation

Depreciation and amortization charges are a significant cost for the company. Non-current assets are depreciated or amortized on a straight-line basis over the useful lives of the assets. The useful lives of the company's non-current assets are established by the directors, with the assistance of expert appraisers, when they are purchased. The company periodically reviews technological and sector changes, dismantling/closure charges and the recovery amount of assets to update their residual useful lives. This periodic update could lead to a change in the period of depreciation or amortization and hence also in the depreciation or amortization charge in future years.

Measurement of derivative instruments

The derivatives used are measured at fair value based on the forward market curve at the balance sheet date, if the underlying of the derivative is traded on markets that provide official, liquid forward prices. If the market does not provide forward prices, forecast price curves are used based on simulation models developed by Group companies internally. However, the actual results of derivatives could differ from the measurements made.

The serious turbulence on markets for the energy commodities traded by the company, as well the fluctuations in exchange and interest rates, could lead to greater volatility in cash flows and in expected results.

Employee benefits

The calculations of expenses and the related liabilities are based on actuarial assumptions. The full effects of any changes in these actuarial assumptions are recognized in a specific equity reserve.

Business combinations

Accounting for business combinations entails allocating the difference between purchase cost and net carrying amount to the assets and liabilities of the acquired business. For the majority of assets and liabilities this difference is allocated by recognizing the assets and liabilities at fair value. If positive, the unallocated portion is recognized as goodwill. If negative, it is recognized in the income statement. A2A S.p.A. bases its allocations on available information and, for the more significant business combinations, on external appraisals.

Current taxes and future recovery of deferred tax assets

The uncertainties that exist regarding the way of applying certain tax regulations have led the company to taking an interpretative stance when providing for current taxes in the financial statements; such interpretations could be overturned by official clarifications on the part of the tax authorities.

Deferred tax assets are accounted for on the basis of the taxable profit expected to be available in future years. Assessing the expected taxable profit for the purpose of accounting for deferred taxation depends on factors that can vary over time, and may lead to significant effects on the measurement of deferred tax assets.

Business Units

The A2A Group operates in the production, sale and distribution of gas and electricity, district heating, environmental services and the integrated water cycle.

These sectors are in turn attributable to the “Business Units” specified in the following scheme identified following the reorganization made by management:

Generation and Trading

- Thermoelectric and hydroelectric plants
- Energy Management

Waste

- Waste collection and street sweeping
- Treatment
- Disposal and energy recovery

International

- Provision of know-how and technologies for the construction of waste pre-treatment plants

Market

- Sale of Electricity and Gas
- Energy efficiency
- Electric mobility
- Public lighting

Networks and District Heating

- Electricity networks
- Gas networks
- Integrated water cycle
- District Heating services
- Heat management services

A2A Smart City

- Telecommunication services

Corporate

- Corporate services

This breakdown into Business Units reflects the organization of financial reports regularly analyzed by management and the Board of Directors in order to manage and plan the Group’s business.

Results sector by sector

millions of euro	GENERATION AND TRADING		MARKET		WASTE	
	01 01 2018 12 31 2018	01 01 2017 12 31 2017 Restated (*)	01 01 2018 12 31 2018	01 01 2017 12 31 2017 Restated (*)	01 01 2018 12 31 2018	01 01 2017 12 31 2017 Restated (*)
Revenues	**3,854**	**3,262**	**2,230**	**1,810**	**1,022**	**980**
- of which inter-sector	*1,036*	*136*	*280*	*724*	*119*	*83*
Labour costs	**88**	**89**	**46**	**39**	**304**	**298**
Gross operating income - EBITDA	**370**	**356**	**206**	**216**	**268**	**261**
% of revenues	*9.6%*	*10.9%*	*9.2%*	*11.9%*	*26.2%*	*26.6%*
Depreciation, amortization, provisions and write-downs	**(293)**	**(161)**	**(37)**	**(29)**	**(87)**	**(99)**
Net operating income - EBIT	**77**	**195**	**169**	**187**	**181**	**162**
% of revenues	*2.0%*	*6.0%*	*7.6%*	*10.3%*	*17.7%*	*16.5%*
Result from non-recurring transactions						
Financial balance						
Result before taxes						
Income taxes						
Result after taxes from operating activities						
Net result from discontinued operations						
Minorities						
Group result of the year						
Gross investments (1)	**57**	**64**	**21**	**11**	**105**	**107**

1 See the items “Investments” in the schedules on tangible and intangible assets presented in Notes 1 and 2 to the balance sheet.

(*) The values at December 31, 2017 include the economic effects deriving from the reclassification for IFRS 5 purposes of EPCG Group items.

It should be noted that the income statement data from January 1 to December 31, 2017 have been reallocated to make them homogeneous to the results by “Business Unit” from January 1 to December 31, 2018.

	NETWORKS AND DISTRICT HEATING		A2A SMART CITY		CORPORATE		INTERNATIONAL		ELIMINATIONS		INCOME STATEMENT	
	01 01 2018 12 31 2018	01 01 2017 12 31 2017 Restated (*)	01 01 2018 12 31 2018	01 01 2017 12 31 2017 Restated (*)	01 01 2018 12 31 2018	01 01 2017 12 31 2017 Restated (*)	01 01 2018 12 31 2018	01 01 2017 12 31 2017 Restated (*)	01 01 2018 12 31 2018	01 01 2017 12 31 2017 Restated (*)	01 01 2018 12 31 2018	01 01 2017 12 31 2017 Restated (*)
	1,110	**960**	**53**	**30**	**220**	**203**	**8**	**1**	**(2,003)**	**(1,450)**	**6,494**	**5,796**
	329	*301*	*31*	*24*	*208*	*182*	*-*	*-*	*(2,003)*	*(1,450)*		
	102	**98**	**9**	**5**	**115**	**105**	**1**	**1**			**665**	**635**
	410	**391**	**11**	**7**	**(34)**	**(30)**	**-**	**(2)**			**1,231**	**1,199**
	36.9%	*40.7%*	*20.8%*	*23.3%*	*(15.5%)*	*(14.8%)*	*-*	*n.s.*			*19.0%*	*20.7%*
	(200)	**(180)**	**(5)**	**(2)**	**(21)**	**(18)**	**-**	**-**			**(643)**	**(489)**
	210	**211**	**6**	**5**	**(55)**	**(48)**	**-**	**(2)**			**588**	**710**
	18.9%	*22.0%*	*11.3%*	*16.7%*	*(25.0%)*	*(23.6%)*	*-*	*n.s.*			*9.1%*	*12.2%*
											14	**-**
											(112)	**(134)**
											490	**576**
											(157)	**(192)**
											333	**384**
											21	**(85)**
											(10)	**(6)**
											344	**293**
	275	**229**	**11**	**10**	**31**	**29**	**-**	**-**			**500**	**450**

millions of euro	GENERATION AND TRADING		MARKET		WASTE	
	12 31 2018	12 31 2017 (*)	12 31 2018	12 31 2017 (*)	12 31 2018	12 31 2017 (*)
Tangible assets	1,976	2,080	36	32	703	670
Intangible assets	81	86	244	113	42	51
Trade receivables and current financial assets	778	673	772	585	333	358
Trade payables and current financial liabilities	851	792	438	322	311	319

(*) It should be noted that the balance sheet data at December 31, 2017 have been reallocated to make them homogeneous to the results by "Business Unit" at December 31, 2018.

	NETWORKS AND DISTRICT HEATING		INTERNATIONAL		A2A SMART CITY		CORPORATE		ELIMINATIONS		TOTAL GROUP	
	12 31 2018	12 31 2017 (*)	12 31 2018	12 31 2017 (*)	12 31 2018	12 31 2017 (*)	12 31 2018	12 31 2017 (*)	12 31 2018	12 31 2017 (*)	12 31 2018	12 31 2017 (*)
	1,761	1,696	-	-	39	22	184	184	(79)	(78)	**4,620**	**4,606**
	1,903	1,611	-	-	3	1	135	93	(106)	(92)	**2,302**	**1,863**
	381	375	5	1	27	17	168	147	(667)	(477)	**1,797**	**1,679**
	369	314	3	1	21	12	782	533	(668)	(475)	**2,107**	**1,818**

Notes to the balance sheet

It is noted that the consolidation scope at December 31, 2018 changed compared to December 31, 2017 for to the following operations:

- line-by-line consolidation of the ACSM-AGAM Group as of July 1, 2018;
- A2A Rinnovabili, a wholly-owned subsidiary of A2A S.p.A., completed the acquisition of two photovoltaic portfolios in Italy in 2018. Specifically, on February 28, 2018, it acquired 6 companies owning 5 photovoltaic plants from IMPAX (AIFM) Limited - part of the Impax Asset Management Group p.l.c. and on December 17, 2018, the acquisition of the Italian portfolio of the Talesun Group consisting of a holding company and nine project companies was completed.
- In addition, in 2018, A2A Rinnovabili completed the establishment, in partnership with the Ente Autonomo Fiera Internazionale di Milano, of Fair Renew S.r.l., in which it holds a 60% stake, and the establishment of 758AM S.r.l., in which it holds a 20% stake;
- incorporation and line-by-line consolidation of A2A Integrambiente S.r.l., holder of the urban hygiene contract with Gelsia Ambiente S.r.l.;
- incorporation and line-by-line consolidation of A2Abroad S.r.l. in December 2018;
- conclusion of the liquidation process of Vespia S.r.l. and Ecofert S.r.l.;
- sale of the shareholding of 39.49% in Rudnik Uglja ad Pljevlja previously consolidated using the equity method.

ASSETS

NON-CURRENT ASSETS

1) Tangible assets

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the year						Balance at 12 31 2018
			Invest.	Other changes	Disposals and sales	Write-downs	Amort.	Total changes	
Land	113	3	1	1		(1)	(1)		116
Buildings	606	16	6	10		(14)	(34)	(32)	590
Plant and machinery	3,459	139	129	106	(3)	(99)	(271)	(138)	3,460
Industrial and commercial equipment	36	1	8				(7)	1	38
Other assets	98	1	25	23	(1)		(26)	21	120
Landfills	66			16			(16)		66
Construction in progress and advances	95	6	117	(131)		(2)		(16)	85
Leasehold improvements	83		19				(11)	8	91
Leased assets	50	11		(1)			(6)	(7)	54
Total	**4,606**	**177**	**305**	**24**	**(4)**	**(116)**	**(372)**	**(163)**	**4,620**
of which:									
Historical cost	10,070	177	305	17	(49)			273	10,520
Accumulated depreciation	(4,725)			7	45		(372)	(320)	(5,045)
Write-downs	(739)					(116)		(116)	(855)

"Tangible assets" amounted to 4,620 million euro at December 31, 2018 (4,606 million euro at December 31, 2017) and include non-recurring transactions during the year of 177 million euro.

The changes for the year, net of the above effect, recorded a decrease of 163 million euro as follows:

- increase of 305 million euro for Capex made in the year as further described below;
- net increase of 24 million euro for other changes as follows: increase, for 17 million euro, of the decommissioning provision and of the closure and post-closure provisions for landfills, following the update of the appraisal estimates and discount rates used for estimates of future dismantling and restoration expenses; increase of 5 million euro for advances to suppliers for the realization of plants; increase of 5 million euro following the reclassification from intangible assets to tangible assets; other negative changes of 3 million euro for reclassification to other items of the financial statements;
- decrease of 4 million euro arising from disposals in the year, net of accumulated depreciation;
- a decrease of 116 million euro due to write-downs for the year, due to the results of the Impairment Test phase. Further details of the work carried out for the impairment test can be found in the following note;
- decrease of 372 million euro for the amortization charge for the year.

Capex may be analyzed as follows:

- Capex in the Networks and District Heating Business Unit totalled 124 million euro and concerned: 71 million euro for the development and maintenance of electricity distribution plants, the extension and reconstruction of the medium and low-voltage network and the installation of new electronic meters; 36 million euro for the development of district heating networks in the areas of Milan, Brescia and Bergamo; 2 million euro interventions on the gas transport network and 11 million euro for Capex of the LGH Group; 4 million euro for Capex of the ACSM-AGAM Group;

- for the Waste Business Unit, Capex of 102 million euro refer to: 56 million euro mainly for work on the plants of Brescia, Cavaglià, Acerra Caivano and Giugliano (Ponte Riccio), Silla 2, Corteolona, Muggiano, Bergamo, Filago, Giussago, Milan; 17 million euro for the acquisition of mobile means for waste collection; 9 million euro for the acquisition of collection facilities; 17 million euro of Capex of the LGH Group and 1 million euro for Capex of LA BI.CO DUE S.r.l. and 2 million euro for Capex of the ACSM-AGAM Group;
- for the Generation and Trading Business Unit, the increase was 53 million euro and concerned: 15 million euro for Capex made on hydroelectric plants and 37 million euro on thermoelectric plants, 1 million euro for Capex of the LGH Group;
- for the Market Business Unit, the increase amounted to 5 million euro and concerned for 3 million euro, the lighting efficiency plan with led in the municipalities of Milan, Lainate, Garbagnate, Stradella, Pero and Cornaredo, for 1 million euro, works on the electric vehicle charging network and 1 million euro the energy efficiency plan at customers;
- for A2A Smart City S.p.A., Capex of 11 million euro mainly concerned work on the fibre optic networks;
- for the Other Services and Corporate Business Unit, Capex of 10 million euro included 5 million euro for work on buildings in the Brescia and Milan areas, 3 million euro for work on the New Data Center, 1 million euro for Capex by the LGH Group and 1 million euro for Capex by the ACSM-AGAM Group.

Tangible assets include "Leased assets" totalling 54 million euro, recognized in accordance with IAS 17, for which the outstanding payable to lessors at December 31, 2018 amounted to 51 million euro.

With regard to large-scale diversion hydroelectric concessions, it is noted that when they are converted into law (Law no. 12/2019) with amendments to Decree Law December 14, 2018, no. 135 (Simplification Decree Law), the Legislator intervened in article 11-quater with overall review of the regulations governing large-scale diversion hydroelectric concessions (> 3 MW), as explained in greater detail in the Report on Operations in the section "Regulatory Changes and Impacts on the Business Units of the A2A Group - Generation and Trading Business Unit". While waiting for the Regions to regulate with their own laws the methods, procedures and criteria for awarding concessions, the Group is analysing the possible impacts of the new regulations and confirms, to date, that the values recorded in the financial statements of dry and wet works linked to hydroelectric concessions are prudent and recoverable even if they are applied.

2) Intangible assets

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the year						Balance at 12 31 2018
			Invest.	Recl./ Other changes	Disposals/ Sales	Write-downs	Amort.	Total changes	
Industrial patents and industrial property rights	19		24	(7)			(12)	5	24
Concessions, licences, trademarks and similar rights	1,130	235	114	88	(3)		(62)	137	1,502
Goodwill	457	37		(6)		(44)		(64)	444
Assets in progress	40	5	56	(57)				(1)	44
Other intangible assets	217	56	1	31			(17)	29	288
Total	**1,863**	**333**	**195**	**49**	**(3)**	**(44)**	**(91)**	**106**	**2,302**

"Intangible assets" amounted to 2,302 million euro at December 31, 2018 (1,863 million euro at December 31, 2017) and include an increase for non-recurring transactions during the year of 333 million euro.

Through the application of IFRIC 12, from financial year 2010 intangible assets also include assets in concession, which relate to gas distribution and the integrated water cycle.

The changes for the year, net of the above effect, recorded an overall increase of 106 million euro as follows:

- increase of 195 million euro for Capex made in the year as further described below;
- net increase of 49 million euro mainly due to: 116 million euro for the completion of the Purchase Price Allocation process for the ACSM-AGAM Group and the acquisition of the photovoltaic portfolio from IMPAX (AIFM) Limited; 8 million euro for the acquisition by A2A Energia S.p.A. of the "Gas & Power Business Unit" customers from X3 Energy S.p.A.; partly offset by the 71 million euro decrease in environmental certificates for the industrial portfolio and 5 million euro in reclassifications from intangible assets to tangible assets;
- decrease of 3 million euro arising from disposals in the year, net of accumulated depreciation;
- decrease of 44 million euro for write-downs related to the "A2A Reti Elettriche" Cash Generating Unit following the impairment test as further described below;
- decrease of 91 million euro for the amortization charge for the year.

More specifically, Capex of intangible assets relate to the following:

- for the Networks and District Heating Business Unit, Capex of 151 million euro are: for development and maintenance work on the plants of the gas distribution segment and the replacement of low and medium pressure underground piping for 70 million euro, work on the water transport and distribution network, on the sewage networks and on the purification plants for 45 million euro, expenses for the management of heat production plants for 1 million euro, implementation of information systems for 11 million euro and Capex of the LGH Group for 14 million euro and Capex of the ACSM-AGAM Group for 10 million euro;
- for the Market Business Unit, the increase amounted to 16 million euro and is mainly due to the implementation of information systems for 12 million euro, Capex of the LGH Group for 1 million euro and Capex of the ACSM-AGAM Group for 3 million euro;
- for the Waste Business Unit, the increase was 3 million euro and mainly relates to the implementation of information systems;
- for the Other Services and Corporate Business Unit, the increase was 21 million euro due to the implementation of IT systems for 20 million euro as well as investments of the ACSM-AGAM Group for 1 million euro;
- for the Generation and Trading Business Unit, the increase was 4 million euro and concerned the implementation of information systems.

"Other intangible assets" include customer lists arising on the acquisition of customer portfolios by Group companies. These balances are amortized on the basis of the estimated benefits expected to be obtained in future years. In particular, the amount reported in the financial statements, amounting to 192 million euro, is attributable for 121 million euro to the Customer lists of the ACSM-AGAM Group, for 41 million euro to the Customer lists of the LGH Group, for 20 million euro to the Customer lists of the companies A2A Recycling S.r.l. and LA BI. CO DUE S.r.l., for 8 million euro to the Customer List registered with A2A Energia S.p.A. following the acquisition of the "Gas & Power Business" customer portfolio and for 2 million euro to the Customer Lists of LumEnergia S.p.A..

Impairment testing in accordance with IAS 36 on the carrying amount of goodwill and tangible and intangible fixed assets

The objective of the impairment testing required by international accounting standard IAS 36 is to ensure that the carrying amount of assets does not exceed their recoverable amount.

Impairment testing is carried out whenever there is an indication that an asset may be impaired, while goodwill, which is not amortized on a systematic basis, must be tested for impairment at least on an annual basis, regardless of whether there is any indication of impairment.

A cash-generating unit (CGU) is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The definition of a CGU depends essentially on the type of activity carried out by the CGU, the business sector in which it operates and a company's organizational structure.

Impairment testing consists of comparing the carrying amount with an estimate of the recoverable amount of that asset/cash generating unit (or group of cash generating units). The recoverable amount of an asset/cash-generating unit (or group of cash generating units) is the higher of its fair value less costs to sell and its value in use.

The fair value less costs to sell of an asset/cash generating unit (or group of cash generating units) is the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

The value in use of an asset/cash-generating unit (or group of cash-generating units) is the present value of the future cash flows expected to be derived from the continuing use of an asset or cash-generating unit and from its ultimate disposal. Value in use has been calculated using the discounted cash flow method, which is based on estimating future cash flows and discounting these by applying the appropriate discount rate.

Management made a projection of the future cash flows deriving from each asset/cash generating unit (or group of cash generating units) on the basis of reasonable and supportable assumptions which reflect the value of the asset/cash generating unit (or group of cash generating units) in its present condition and with a view to maintaining the normal conditions of business activities.

More specifically, the following were considered in calculating value in use:

- the future operating cash flows, based on the 2019-2023 medium-term business plan aimed at the impairment test as approved by the A2A S.p.A. Board of Directors. Said forecasts reflect the management's best estimates in relation to the main assumptions concerning the Company performance (macro-economic and pricing trends and commodity prices, hypothesis of operation of production assets and business development);

- future operating cash flows for a period not exceeding five years, estimated by management on the basis of the most recent forecasts so as to represent the most reasonable estimate of the range of economic conditions expected over the remaining useful life of the asset;

- cash flows following this time horizon, estimated by extrapolating the explicit time horizon projections, suitably modified to normalize the results and using a nominal growth rate less than the average rate of nominal growth in the long term;

- the cash flow from disposal at the end of the useful life of an asset/cash generating unit (terminal value). Depending on the different cases analyzed, this value has prudently been forecast to be zero, to be the sum of the estimate of the future value of the assets, net working capital and provisions or else to be the present value of operating cash flows;

- the discount rate used to reflect current market assessments of the time value of money and the risks specific to the asset was estimated, consistent with the cash flows considered, by calculating the weighted average cost of capital (WACC).

An independent expert was engaged to carry out the impairment testing; among other things, the expert analyzed the components and key assumptions included in the economic and financial projections prepared by the Group's management, performed comparisons and tests as to the correctness of the sources and assumptions used and developed the assumptions about the growth rate beyond the plan's horizon to be used for calculating normalized flows through to the end of the useful lives of the plants. The discount rate of unlevered cash flows was estimated as the Weighted Average Cost of Capital (WACC), representing the expected return from the company's lenders and shareholders for use of own capital.

In crisis situations, as highlighted by the Italian Rating Board (OIV), various structures of the Capital Asset Pricing Model are suggested in order to properly reflect the country risk in the discount rate. In this context, various methodologies are referred to, among which the conditional and unconditional methodologies, which differ according to the classification of the country risk (in the Market Risk Premium, in the first case and in the Risk-free in the second).

In view of the current macro-economic context and the indications emerging from most accepted practices and national and international doctrine, it was considered necessary to apply the correction factors for the determination of the discount rates.

In particular, for the assessment, it was considered necessary to use the formulation "unconditional adjusted" of WACC rates. The unconditional adjusted WACC methodology involves the use of a risk-free rate that incorporates country risk normalized by the monetary policies implemented by the Central Banks. In particular, such an adjustment is necessary in order to mitigate the effects of short-term monetary policy that has recently characterized the money markets in the Eurozone. Therefore, the risk-free rate for Italy was determined by calculating the rate of return of the securities of a benchmark country with high rating, to which was added the Country Risk Premium of Italy.

Goodwill

At December 31, 2018, goodwill amounted to 444 million euro:

CGU *millions of euro*	Balance at 12 31 2017	Changes during the year				Balance at 12 31 2018
		First-time consolid. acquis. 2018	PPA Effect	Write-downs	Total changes	
A2A Reti Elettriche	129			(44)	(44)	85
A2A Ambiente	262					262
A2A Reti Gas	38					38
A2A Gas	7					7
A2A Calore	21					21
Total	**457**	**-**	**-**	**(44)**	**(44)**	**413**
First-time Consolidation Effects						
ACSM - AGAM Group		37	(6)		31	31
Total	**-**	**37**	**(6)**	**-**	**31**	**31**
Total Goodwill	**457**	**37**	**(6)**	**(44)**	**(13)**	**444**

In accordance with the provisions of IFRS 3, at December 31, 2018, the Group completed the Purchase price allocation process with reference to the ACSM-AGAM Group and the acquisition of the photovoltaic portfolio by IMPAX (AIFM) Limited, allocating to other intangible assets the difference between the amount transferred, measured in accordance with IFRS 3, and the net fair value attributed to assets acquired and liabilities undertaken.

Reference is made to the paragraph "Other information" for further details on acquisitions regulated by IFRS 3 and Purchase Price Allocation processes.

The operational organization and reporting structure used by management to assess the A2A Group's performance were taken into consideration in identifying cash generating units.

Since goodwill does not generate independent cash flows and cannot be sold separately, the impairment testing of recognized goodwill is carried out in a residual manner by referring to the cash-generating unit (or group of cash-generating units) to which it may be reasonably allocated.

The following table sets out the goodwill allocated to each individual cash-generating unit, specifying for each the recoverable amount and the discount and growth rates used with comparative figures of the previous year.

CGU with Goodwill	Value in millions of euro at 12 31 2018	Recoverable Value	Post-tax WACC 2018 (1)	Growth rate g 2018	Balance scenario (2)	
					WACC of reference (3)	Growth rate g
A2A Reti Elettriche	85	Use value	5.30%	0.00%	n.s.	0.00%
A2A Ambiente	262	Use value	7.30%	1.00%	14.30%	1.00%
A2A Reti gas	38	Use value	5.60%	0.00%	5.90%	0.00%
A2A Gas	7	Use value	7.90%	0.00%	88.70%	0.00%
A2A Calore	21	Use value	6.50%	1.00%	7.10%	1.00%
Total	**413**					

(1) Nominal post-tax discount rate applied to future cash flows.
(2) Rates resulting from the sensitivity assessment made by the expert in order to achieve balance between the use values and carrying amounts subjected to impairment testing.
(3) The simulation was performed on the WACC rate of reference, with the simultaneous adjustment of the terminal flow rate (if applicable).

CGU with Goodwill	Value in millions of euro at 12 31 2017	Recoverable Value	Post-tax WACC 2017 (1)	Growth rate g 2017	Balance scenario (2)	
					WACC of reference (3)	Growth rate g
A2A Reti Elettriche	129	Use value	4.70%	0.00%	4.46%	0.00%
A2A Ambiente	262	Use value	6.10%	1.00%	17.19%	1.00%
A2A Reti gas	38	Use value	5.00%	0.00%	6.16%	0.00%
A2A Gas	7	Use value	7.30%	0.00%	111.26%	0.00%
A2A Calore	21	Use value	5.90%	1.00%	6.12%	1.00%
Total	**457**					

(1) Nominal post-tax discount rate applied to future cash flows.
(2) Rates resulting from the sensitivity assessment made by the expert in order to achieve balance between the use values and carrying amounts subjected to impairment testing.
(3) The simulation was performed on the WACC rate of reference, with the simultaneous adjustment of the terminal flow rate (if applicable).

With reference to the CGU already included in the scope of consolidation of the A2A Group at December 31, 2017, and precisely "A2A Calore" CGU, "A2A Reti Gas" CGU, "A2A Reti Elettriche" CGU, "A2A Ambiente" CGU and "A2A Gas" CGU, the analysis conducted allowed achieving the estimated recoverable value at December 31, 2018 calculated using the financial method. In particular, the analysis regarding the maintenance of the value of the "A2A Calore", "A2A Reti Gas", and "A2A Reti Elettriche" CGUs was conducted by comparing the recoverable value determined as fair-weighted average of the values in use of the definite useful life scenario (consistent with the average duration of the concessions in place) and the indefinite useful life scenario. Compared to the results obtained and only for the CGUs that did not show impairment, a sensitivity analysis was conducted considering only the definite useful life scenario; said sensitivity analysis did not reveal any criticality on the recoverability of the value of the impairment test.

Further analyzes and sensitivity analyzes were conducted considering the potential effects of the changes in the reference parameters of the growth rate and WACC, which showed no particular criticality for all the CGUs subject to impairment testing.

"A2A Reti Elettriche" Cash Generating Unit

The "A2A Reti Elettriche" CGU includes the Group's electricity distribution and metering activities. In particular, it deals with the design and construction of electricity networks, their operation and maintenance, as well as the management of requests for connection and quality control and continuity of service.

The goodwill associated with this CGU, arising on the acquisition of the business units of Enel Distribuzione S.p.A. in 2002 by A2A Reti Elettriche S.p.A., amounted to 85 million euro, while it amounted to 129 million at December 31, 2017. In the "Reti Elettriche" Cash Generating Unit, goodwill relating to the agreements for the activities on the public lighting systems of the Municipality of Bergamo was also allocated, for a value of 4 million euro, which derives from the portion of goodwill recorded following the merger between BAS S.p.A. and A2A S.p.A..

During the impairment test, an impairment loss of 44 million euro was found.

"A2A Ambiente" Cash Generating Unit

The "Ambiente" CGU carries out collection and street sweeping and is involved in the treatment and disposal of waste and the waste-to-energy process and it also builds treatment plants for third parties.

The "Ambiente" CGU operates in the solid urban waste segment and in the special and hazardous waste segment, performs collection and street sweeping activities in the municipalities of Milan, Brescia, Bergamo and Como and in a number of municipalities of the relative provinces, is the owner of 5 waste-to-energy plants (in the municipalities of Milan, Brescia, Bergamo, Filago and Corteolona) and manages the Acerra waste-to-energy plant. It also has several waste treatment plants and a number of landfills.

The A2A Group's consolidated financial statements at December 31, 2018 include goodwill of 262 million euro associated with this CGU, which has been impairment tested as required by IAS 36. Of this goodwill, 227 million euro arises from the acquisition of the Ecodeco Group which took place between 2005 and 2008 (the former Ecodeco Cash Generating Unit) and 5 million euro from the merger between ASM Brescia S.p.A. (subsequently incorporated into AEM S.p.A., with simultaneous change of its name into A2A S.p.A.) and BAS S.p.A. and 30 million euro as the residual value of the goodwill of the LGH Group at the end of the PPA process for the acquisition of 51% of the Group.

No loss of value was noted during the impairment testing as the recoverable amount exceeds the net capital employed including the value of goodwill recorded.

"A2A Reti Gas" Cash Generating Unit

The "A2A Reti Gas" CGU includes the group's gas distribution and metering activities. In particular, it deals with the design and construction of electricity networks, their operation and maintenance, as well as the management of requests for connection and quality control and continuity of service.

The goodwill of 38 million euro associated to the "A2A Reti Gas" CGU arises from various acquisitions made by A2A Reti Gas S.p.A. (now Unareti S.p.A.) over the past years regarding companies operating as gas distributors in around 200 different Italian municipalities. Activities are mainly concentrated in Lombardy and Piedmont.

The recoverable value of goodwill attributed to the "A2A Reti Gas" Cash Generating Unit was calculated by referring to its value in use.

In calculating the value in use, for reasons of prudence a time horizon has been taken for the majority of the outstanding concessions, which corresponds to a shorter term than that envisaged by current legislation.

No loss of value was noted during the impairment testing as the recoverable amount exceeds the net capital employed including the value of goodwill recorded.

"A2A Gas" Cash Generating Unit

The goodwill arising from the consolidation of the Gas Business Unit, amounting to 7 million euro, refers to the area involved in selling gas to end customers (residential and business) and wholesalers and was impairment tested. It is specified that the "A2A Gas" Cash Generating Unit includes the portion of the goodwill arising on the merger between BAS S.p.A. and A2A S.p.A..

"A2A Calore" Cash Generating Unit

The goodwill arising from the consolidation of the Heat Business Unit, amounting to 21 million euro, is held by a number of companies of the A2A Group active in the production, distribution and sale of district heating. In particular, this Cash Generating Unit contains an amount of 18 million euro representing part of the goodwill arising from the merger between BAS S.p.A. and A2A S.p.A. The recoverable value of goodwill allocated to the "Calore" Cash Generating Unit, in the impairment test, was calculated with reference to the value in use using a time horizon of 30 years.

No loss of value was noted during the impairment testing as the recoverable amount exceeds the net capital employed including the value of goodwill recorded.

Assets other than goodwill

Impairment testing of the "Energia Elettrica" Cash Generating Unit

The "Energia Elettrica" cash generating unit belongs to the Generation and Trading Business Unit and Commercial Business Unit of A2A, whose activities are the generation of electricity and its sale on the wholesale and retail markets. Support for the marketing areas is assured by activities involving fuel provisioning, programming and dispatch of electricity generating plants and optimizing business portfolio management.

More specifically, the activities carried out by the "Energia Elettrica" Cash Generating Unit consist of the following:

- electricity generation: power plant management through a generation pool of hydroelectric, thermoelectric and photovoltaic plants with installed power of about 7.2 GW;
- energy management: the purchase and sale of electricity, gas and non-gas fuels on national and international wholesale markets; the provisioning of the fuel needed, and the management of the environmental certificates, to cover the needs of thermoelectric plants and customers; planning, programming and dispatch of electricity generating plants;
- sale of electricity: sale of electricity to customers on the free market.

In addition to the activities conducted directly by A2A S.p.A., the operations of the following companies also come under the "Energia Elettrica" Cash Generating Unit:

- A2A gencogas S.p.A., A2A Energiefuture S.p.A. and Ergosud S.p.A., electricity producers operating in Italy;
- A2A Energia S.p.A., providing marketing activities.

The impairment testing of the "Energia Elettrica" Cash Generating Unit solely regarded activities concerning electricity, thus excluding those relating to the "Gas" Cash Generating Unit, for which specific impairment testing was carried out as described above.

The perimeter of the "Energia Elettrica" Cash Generating Unit does not include the following:

- the San Filippo del Mela power plant, owned by A2A Energiefuture S.p.A. and operating as an Essential Unit, which constitutes autonomous CGU;
- the Monfalcone power plant, owned by A2A Energiefuture S.p.A., which constitutes an autonomous CGU;
- Protected category services[*], delivered by A2A Energia S.p.A.;
- trading carried out by A2A S.p.A..

The value of the "Energia Elettrica" Cash Generating Unit in the impairment test amounted to 1,965 million euro.

The scenario of the A2A Group Plan was prepared with reference to, for 2019, the forward curves (market prices as at September 28, 2018). For the subsequent years, and thus, from 2020 to 2023, the forecasts are based on an internal proprietary model of A2A with market prices at February 19, 2019 and the estimation of various parameters (PUN, gas, oil price, spark and dark spread, etc.) was determined using a proprietary model based on the trend of demand and supply fundamentals and the main reference commodities, as well as on the analyzes of the main market operators and research institutions. The scenario thus elaborated has led to values that are increasing for 2019 and gradually decreasing until the last year of the plan (2023). In particular, in 2023, the main reference values are as follows:

- Oil price: 83 $/bbl;
- Average PUN: 58.1 €/MWh;
- Gas to the PSV (spot market of reference for gas in Italy): 20 €/MWh.

(*) Protected category services apply to customers with low-voltage domestic utilities, utilities for other non-domestic uses and public lighting (in other words, small businesses connected to a low voltage supply, with less than 50 employees and annual turnover < 10 million euro. This category includes all users who selected the so-called Free Market and ended up without a supplier. The Protected Category service guarantees the supply of electricity at prices established by ARERA (Regulation Authority for Energy Networks and Environment).

In addition, the future economic flows of the “Energia Elettrica” CGU include the forecast increase in concession fees for hydroelectric plants, as required by the Simplification Decree Law. This increase is divided into three main drivers:

- additional fee, of a unit amount of 20€/KW, applicable only to expired concessions managed in extension;
- updating of the method for calculating the fixed component linked to the concession power and unit tariff equal to 30€/KW (approximately +50% compared to the current rules);
- obligatory free supply of a share of electricity to the Regions.

The total impact, calculated from 2020 onwards, is around 20 million euro per year.

The 2019-2023 Plan is based on projections provided by management and defines a “medium-representative” scenario on the basis of a more conservative vision in light of the risk characterizing some elements of the business, with particular reference to (i) the implementation of the capacity market and (ii) the postponement of the switch from the protected market to the free market (impacting the Retail Margin).

In particular, the analysis of the capacity market has led to a reduction in revenues related to it. This prudence is likely to reflect the uncertain political and regulatory framework, which reflects on the way in which this mechanism is implemented and the timing of its implementation.

Consistent with the aforementioned flows, discount rates were estimated by determining the weighted average cost of capital as described above.

For valuation purposes, the WACC rate deriving from the “unconditional” approach was used, in line with last year’s Impairment exercise. The methodology used for the assessment of the CGU is the post-tax methodology; therefore, the WACC has been determined in line with this approach.

The impairment test conducted did not entail value adjustments.

The table below shows net invested capital at December 31, 2018, the discount rate used, the growth rates beyond the explicit time horizon, the recoverable value obtained and the related write-down.

CGU without Goodwill Electricity	Net capital employed in millions of euro at 12 31 2018	Post-tax WACC	Growth rate g	Recoverable Value (use value)	Write-down
12 31 2018	1,955	7.4%	0.0%	1,965	-

CGU without Goodwill Electricity	Net capital employed in millions of euro at 12 31 2017	Post-tax WACC	Growth rate g	Recoverable Value (use value)	Write-down
12 31 2017	1,995	6.6%	between 0%-1%	2,009	-

Further analyzes and sensitivity analyzes were conducted considering the potential effects of the changes in the reference parameters of the growth rate and WACC. Additionally, in support of the impairment assessments, sensitivity analyzes were carried out on the 2019-2023 Plan, in particular to determine the effect on the revenues and costs envisaged in the Plan of some changes in electricity demand. Said sensitivity analysis was set on the basis of the assumption that any peaks in demand, both positive and negative, are met by the CCGT plants as the most suitable to meet sudden demands.

The impact on the EBITDA of the “Energia Elettrica” CGU of a 1% change in electricity demand, both positive (“Increase Scenario”) and negative (“Decrease Scenario”) was then estimated based on the clean spark spread of the Plan. For the purposes of the sensitivity analysis, a probability of 60% was attributed to the Decrease Scenario and 40% to the Increase Scenario. The result obtained from the sensitivity confirms the result of the basic case.

With regard to sensitivity to WACC, a change of plus/minus 0.1% in WACC results in a change in value in use of plus/minus 21 million euro.

"Monfalcone" Cash Generating Unit

The Monfalcone power plant, belonging to the company A2A Energiefuture S.p.A., is located along the eastern bank of the Valentinis Canal, in the province of Gorizia in Friuli-Venezia Giulia and covers an area of approximately 30 hectares. The plant consists of 2 thermoelectric sections with a total gross installed capacity of 336 MW. Sections 1 and 2, which are fuelled by both coal and diesel for the start-up phase and have a capacity of 165 and 171 MW respectively, entered into operation in 1965 and 1970 respectively.

Compared with the considerations made in previous years regarding the inclusion of all production plants in the "Energia Elettrica" CGU, the changed economic and regulatory context has led A2A's management to review the possibility of keeping the Monfalcone power plant within the "Energia Elettrica" CGU.

The reasons that led A2A's management to the creation of the "Monfalcone" CGU, and therefore to its separation from the "Energia Elettrica" CGU, were:

- in 2018, the Renewables Directive was adopted with the aim of reducing air pollution, reaffirming the commitment at European level to contain harmful emissions;
- the Ministry of Economic Development published a proposal for a National Integrated Energy and Climate Plan 2021-2030 which, once adopted (by December 31, 2019), will be binding on Italy. This document promotes the gradual abandonment of coal for electricity generation in favour of an electricity mix based on an increasing share of renewables and, for the remaining part, on gas. In particular, the coal phase out is expected by 2025 throughout the country;
- the Integrated Environmental Authorization (AIA) expires in March 2025;
- A2A's management , in accordance with the regulatory indications, will cease coal production within the planned timeframe (2025);
- A2A's management, in line with the Group's decarbonization objectives, which are also aimed at improving the environmental impact of its industrial activities, does not exclude the possibility of anticipating the cessation of energy production from coal compared to 2025. This path has been activated by involving the main institutional stakeholders (Municipality of Monfalcone, Friuli Region and Ministry of Economic Development), in order to identify a solution for the industrial reconversion of the site that allows to better exploit the expertise of A2A with respect to the needs of the territory in areas related to renewable energy and circular economy, preserving where possible local employment and industry.

From a management point of view, the plant now has a baseload operating profile, resulting in a pure "price taker": therefore, for this plant the dispatching criteria in the portfolio are less relevant than in the past with regard to the integration of Combined Gas Cycles (CCGT) and Hydroelectric, characterized by high flexibility.

Moreover, the forecast of a significant decline in margins due to an energy scenario that sees a trend in the main commodities that impact on the operation of the plant, towards a drastic reduction in the Clean Dark Spread (about 2-3 €/MWh) that does not allow full coverage of operating costs, suggests that for such small spread values, although positive, not to be excluded is a change in the operating profile that provides for periods of downtime, for example in the spring season usually characterized by low loads, due to economic criteria.

The priority focus for the plant is to identify a perspective that maintains the industrial connotation of the site, making the most of the distinctive expertise of A2A (which has engineering expertise and technical and managerial know-how in the energy and environment supply chains) with solutions that meet the needs of the system in terms of clean energy, flexibility and environmental solutions for the circular economy.

In view of the above, management believes that the Monfalcone power plant has lost strategic importance as an integral part of its generation assets and should be considered as a separate production unit, mainly destined for conversion.

Therefore, with reference to the explicit time horizon, the cash flows deriving from the business plan prepared by management up to 2025 have been considered; regarding cash flows, account has been taken of the severance costs relating to personnel that will be incurred in the following three years after the closure of the plant.

For the purposes of the impairment test on the book value of the tangible assets relating to the Monfalcone power plant, recorded in the separate financial statements of A2A Energiefuture S.p.A., the Enterprise Value of Monfalcone (Value in Use) was compared with the relative book value at the Reference Date (Carrying Amount). The impairment test conducted resulted in a write-down of 116 million euro.

It is noted that, for the purposes of discounting the cash flows, the mid-year temporal logic was followed, thus assuming the generation of flows at mid-year, rather than at year-end.

The following table shows the discount rate and growth rate used.

CGU - Monfalcone	Pre-impairment test book value in millions of euro at 12 31 2018	WACC	Growth rate g	Recoverable Value (use value)	Write-down
12 31 2018	116	7.4%	0.0%	-	(116)

"San Filippo del Mela" Cash Generating Unit

The power plant in San Filippo del Mela includes two plants: SFM 150 kV (group 1) and SFM 220 kV (groups 2, 5 and 6).

The impairment tests carried out in previous years assumed to be able to keep the essence regime of the plants of the power plant in San Filippo del Mela until the end of 2016.

With Resolution no. 803/2016 of December 28, 2016, the Authority recognized the San Filippo del Mela plant as one of the essential plants eligible for the reintegration of costs for the period of contracting with Terna, which will concern the five-year period 2017-2021; from the point of view of plants, the Group's request for admission to reintegration concerned only the 220 kV plant (UP SF2, UP SF5, UP SF6) with the provision of the 150 kV (UP SF1) plant as reserve of UP SF2.

In 2016, considering the improvement scenario with respect to as assumed for the impairment tests performed in previous years, it was deemed appropriate to subject the "San Filippo del Mela" CGU to impairment testing to verify whether the assessment of the independent expert of 2014 and 2015 is still valid in light of the profitability prospects of Resolution no. 803/2016, which recognizes the essentiality of the plants for the five-year period 2017-2021. In determining the value in use of the "San Filippo del Mela" CGU, the 2017-2021 Plan had been used. The estimated value in use is based on a definite useful life scenario until 2021.

The result of the impairment test carried out on the CGU in 2016 led to a reversal of 50,600 thousand euro.

For the "San Filippo del Mela" CGU, there were no specific assumptions on the performance of revenues from capacity payments in view of the incompatibility between the current mechanism of cost reinstatement and potential mechanism of capacity market.

In 2018, an impairment test was carried out to verify the value in use recorded in the previous year; the result of the impairment test confirmed the book value recorded.

It is noted that, for the purposes of discounting the cash flows, the mid-year temporal logic was followed, thus assuming the generation of flows at mid-year, rather than at year-end.

The result of the impairment test carried out on the CGU in 2018 did not entail any value adjustment.

CGU - Thermoelectric plant San Filippo del Mela	Pre-impairment test values in millions of euro at 12 31 2018	Post-tax WACC	Growth rate g	Recoverable Value (use value)	Difference between carrying value and value in use
12 31 2018	102	7.4%	0.5%	103	1

CGU - Thermoelectric plant San Filippo del Mela	Pre-impairment test values in millions of euro at 12 31 2017	Pre-tax WACC	Growth rate g	Recoverable Value (use value)	Reversal
12 31 2017	108	6.6%	0.5%	108	-

3) Shareholdings and other non-current financial assets

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the year	Balance at 12 31 2018	*of which included in the NFP*	
					12 31 2017	*12 31 2018*
Shareholdings carried according to equity method	63	4	(51)	16	-	-
Other non-current financial assets	44	1	(16)	29	*36*	*22*
Total shareholdings and other non-current financial assets	**107**	**5**	**(67)**	**45**	***36***	***22***

The following table provides details of the changes in the value of "Shareholdings carried according to equity method":

Shareholdings carried according to equity method *millions of euro*	TOTAL
Balance at December 31, 2017	**63**
First-time consolidation effect acquisitions 2018	**4**
Changes during the year:	
- acquisitions and capital increases	
- valuations at equity	4
- write-downs	
- dividends received from shareholdings in companies carried at equity	(2)
- sales	(7)
- other changes	
- reclassifications	(46)
Total changes for the year	**(51)**
Balance at December 31, 2018	**16**

The change, net of the first-time consolidation effect of 4 million euro, in "Shareholdings carried according to equity method" is negative and equal to 51 million euro and mainly refers to the reclassification of the investment in ACSM-AGAM S.p.A. at the end of the industrial partnership transaction that has been fully consolidated since July 1, 2018, as better described in the section "Significant events during the year" of the Report on Operations. The other changes refer to the negative change of 7 million euro for the sale of the shareholding in Rudnik Uglja Ad Pljevlja, the negative change of 2 million euro from the collection of dividends, the negative change of 3 million euro referred to the reclassification to the item "Assets held for sale" of the shareholdings in Commerciale Gas & Luce S.r.l. and Energy Trade S.p.A., as well as the positive valuation of 4 million euro of the shareholding in ACSM-AGAM S.p.A. at June 30, 2018 and other minor shareholdings.

The details of the shareholdings are provided in annex no. 4 "List of shareholdings in companies carried at equity".

"Other non-current financial assets" had a balance of 29 million euro at December 31, 2018 (44 million euro at December 31, 2017). At December 31, 2018, "Other non-current financial assets" refer for 22 million euro to medium/long-term financial receivables of which 6 million euro related to the LGH Group, 4 million euro related to the subsidiary A2A Illuminazione Pubblica with respect to the Municipality of Brescia, concerning the management of public lighting in application of IFRIC 12, and 7 million euro million related to the subsidiary Bioase, as well as 6 million euro of shareholdings in other companies; for details, reference is made to annex no. 5 "List of shareholdings in other companies".

4) Deferred tax assets

millions of euro	Balance at 12 31 2017	First-time consolidation effect acquisitions 2018	Changes during the year	Balance at 12 31 2018
Deferred tax assets	**301**	**(15)**	**(22)**	**264**

"Deferred tax assets" amounted to 264 million euro (301 million euro at December 31, 2017) and, net of the 15 million euro decrease arising from the first-time consolidation of acquisitions in 2018, show a decrease of 22 million euro. This item consists of the net balance of IRES and IRAP deferred tax assets and liabilities arising from changes and accruals made solely for fiscal purposes. The recoverability of "Deferred tax assets" recorded in the financial statements is considered likely, as the future plans envisage taxable income sufficient to use the deferred tax assets.

At December 31, 2018, the amounts relative to deferred tax assets/deferred tax liabilities have been expressed as net ("offsetting") as per IAS 12 standards.

The following tables sets out the main deferred tax assets and liabilities.

millions of euro	Consoli-dated financial statements 12 31 2017	First-time consolid. effect acquisit. 2018	Accruals (A)	Utilizations (B)	Adjust. Rates (C)	Total (A+B+C)	IFRS 9 at Equity Net	IAS 19 Revised at Equity Net	Other changes/ Reclass.	Consoli-dated financial statements 12 31 2018
Detail of deferred tax assets and liabilities										
Deferred tax liabilities										
Measurement differences for tangible assets	633	7	2	(40)		(38)			(52)	550
Application of the leasing standard (IAS 17)	6									6
Application of the financial instrument standard (IFRS 9)	-						2			2
Measurement differences for intangible assets	22	18		(4)		(4)			40	76
Deferred capital gains	-									-
Employee leaving entitlement (TFR)	4									4
Goodwill	41			(12)		(12)				29
Other deferred tax liabilities	(41)								44	3
Total deferred tax liabilities (A)	**665**	**25**	**2**	**(56)**	**-**	**(54)**	**2**	**-**	**32**	**670**
Deferred tax assets										
Taxed risk provisions	96	2	14	(15)		(1)		1		98
Measurement differences for tangible assets	628	3	42	(44)		(2)				629
Application of the financial instrument standard (IFRS 9)	5						(2)			3
Bad debts provision	13	3	7	(6)		1				17
Measurement differences for intangible assets	5									5
Grants	20	1								21
Goodwill	183			(21)		(21)			(1)	161
Other deferred tax assets	16	1	2	(12)		(10)			(7)	-
Total deferred tax assets (B)	**966**	**10**	**65**	**(98)**	**-**	**(33)**	**(2)**	**1**	**(8)**	**934**
NET EFFECT DEFERRED TAX ASSETS/LIABILITIES (B-A)	**301**	**(15)**	**63**	**(42)**	**-**	**21**	**(4)**	**1**	**(40)**	**264**

5) Other non-current assets

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the year	Balance at 12 31 2018	*of which included in the NFP* 12 31 2017	*of which included in the NFP* 12 31 2018
Non-current derivatives			8	8	-	8
Other non-current assets	8	4	-	12	-	-
Total other non-current assets	**8**	**4**	**8**	**20**	**-**	**8**

At December 31, 2018 , net of the positive change relating to the effect of the first-time consolidation of acquisitions in 2018 for 4 million euro, this item increased by 8 million euro.

"Non-current derivative instruments" amounted to 8 million euro, which refer to the valuation of a financial instrument, while at the end of the previous year they had no value.

"Other non-current assets" amounted to 12 million euro, including the effect of the first-time consolidation in 2018 of 4 million euro. The item essentially consists of security deposits and costs already incurred, but pertaining to future years.

CURRENT ASSETS

6) Inventories

millions of euro	Balance at 12 31 2017	First-time consolidation effect acquisitions 2018	Changes during the year	Balance at 12 31 2018
- Materials	71	4	(6)	69
- Material obsolescence provision	(20)		3	(17)
Total materials	51	4	(3)	52
- Fuel	91		38	129
- Others	1	1		2
Raw and ancillary materials and consumables	**143**	**5**	**35**	**183**
Third-party fuel	**4**			**4**
Total inventory	**147**	**5**	**35**	**187**

"Inventories" amounted to 187 million euro (147 million euro at December 31, 2017), net of the related obsolescence provision for 17 million euro (20 million euro at December 31, 2017).

The decrease of 3 million euro in the obsolescence provision mainly refers to the inventory of materials related to the San Filippo del Mela power plant.

Inventories, net of the first 2018 consolidations, amounted to 5 million euro, an overall increase of 35 million euro, as detailed below:

- 38 million euro related to the increase in fuel stocks, which at December 31, 2017 totalled 91 million euro;
- reduction of 3 million euro due to a decrease in inventories.

7) Trade receivables

millions of euro	Balance at 12 31 2017	First-time consolidation effect acquisitions 2018	Changes during the year	Balance at 12 31 2018
Trade receivables invoices issued	929	38	63	1,030
Trade receivables invoices to be issued	897	46	(29)	914
(Bad debts provision)	(155)	(15)	7	(163)
Total trade receivables	**1,671**	**69**	**41**	**1,781**

At December 31, 2018, "Trade receivables" amounted to 1,781 million euro (1,671 million euro at December 31, 2017), with an increase of 41 million euro, net of the first-time consolidation effect of acquisitions in 2018, positive for 69 million euro. In detail, the changes were as follows:

- for 45 million euro, the increase in trade receivables from customers, which at December 31, 2018, showed a balance of 1,687 million euro;
- for 6 million euro, the decrease in receivables from the Municipalities of Milan and Brescia; this item had an overall balance of 77 million euro (83 million euro in the previous year);
- for 2 million euro, the increase in work in progress, which amounted to 4 million euro compared to 2 million euro at December 31, 2017.

Note that the Group occasionally performs non-recourse credit assignments. At December 31, 2018 the receivables that have not yet expired, assigned by the Group outright and written-off from the assets in compliance with the requirements of IFRS 9, amounted to a total of 2 million euro (33 million euro at December 31, 2017). At the date of publication of the Consolidated Financial Statements, these receivables amounted to 2 million euro (10 million euro at December 31, 2017). The disposal was related to trade receivables. The Group has no rotating factoring programs.

The "Bad debts provision" calculated in compliance with the IFRS 9 standard amounted to 163 million euro and, excluding the first-time consolidation effect of acquisitions in 2018, amounted to 15 million euro, a net decrease of 7 million euro compared to December 31, 2017. This provision is considered adequate to cover the risks to which it relates.

The changes in the Bad debts provision are outlined in the following table:

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Accruals	Utilizations	Other changes	Balance at 12 31 2018
Bad debts provision	**155**	**15**	**25**	**(30)**	**(2)**	**163**

The following is the aging of trade receivables:

millions of euro	12 31 2018	12 31 2017
Trade receivables of which:	**1,781**	**1,671**
Current	**728**	**615**
Past due of which:	**302**	**314**
- Past due up to 30 days	75	56
- Past due from 31 to 180 days	57	67
- Past due from 181 to 365 days	29	37
- Past due over 365 days	141	154
Invoices to be issued	**914**	**897**
Bad debts provision	**(163)**	**(155)**

8) Other current assets

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the year	Balance at 12 31 2018	*of which included in the NFP*	
					12 31 2017	*12 31 2018*
Current derivatives	**96**		**67**	**163**	**-**	**-**
Other current assets of which:	**120**	**57**	**(27)**	**150**		
- receivables from Cassa per i Servizi Energetici e Ambientali	49		(3)	46		
- advances to suppliers	25	2	8	35		
- receivables from employees	1			1		
- tax receivables	6	12	(8)	10		
- receivables related to future years	14	1	7	22		
- receivables from Ergosud	2			2		
- receivables from social security entities	3			3		
- Stamp office	1			1		
- receivables for damage compensation	1			1		
- receivables for COSAP advances	3		(3)	-		
- receivables for security deposits	1		1	2		
- receivables for RAI fee	3		(1)	2		
- sundry receivables for hedging	-			-		
- other sundry receivables	11	42	(28)	25		
Total other current assets	**216**	**57**	**40**	**313**	**-**	**-**

"Other current assets" showed a balance of 313 million euro compared to 216 million euro at December 31, 2017, an increase of 40 million euro, net of the first-time consolidation effect of acquisitions in 2018, positive for 57 million euro.

"Current derivatives" evidenced an increase of 67 million euro related to the increase in commodity derivatives due to both the change in the fair value measurement at the end of the reporting year and the change in quantities covered.

Receivables from Cassa per i Servizi Energetici e Ambientali, amounting to 46 million euro (49 million euro at December 31, 2017), mainly refer to receivables for equalizations pertaining to both 2018 and to outstanding receivables for equalizations pertaining to previous years, net of collections made in the current year.

Tax receivables, amounting to 10 million euro, mainly relate to tax receivables from the tax authorities for excise and withholding taxes.

Receivables from Ergosud, amounting to 2 million euro, unchanged over the previous year, refer to the receivable due for new entry plants (Scandale Plant), regarding portions of emission allowances as provided by ARERA Resolutions no. ARG/elt 194/10 and no. 117/10.

9) Current financial assets

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the year	Balance at 12 31 2018	*of which included in the NFP*	
					12 31 2017	*12 31 2018*
Other financial assets	7	88	(80)	15	7	*15*
Financial assets from related parties	1			1	*1*	*1*
Financial assets from assets held for sale	-			-	-	-
Total current financial assets	**8**	**88**	**(80)**	**16**	***8***	***16***

"Current financial assets" amounted to 16 million euro (8 million euro at December 31, 2017). The change in the scope of consolidation has led to an increase of 88 million euro, mainly relating to the security deposit in favor of creditors of the companies involved in the merger project following the completion of the merger/partial demerger deed before the deadline set for opposition of creditors (article 2503, paragraph 1, Civil Code), released during the second half of the year, resulting in an overall decrease of 80 million euro. This item mainly refers to financial receivables of the LGH Group from minority shareholders and third parties.

10) Current tax assets

millions of euro	Balance at 12 31 2017	First-time consolidation effect acquisitions 2018	Changes during the year	Balance at 12 31 2018
Current tax assets	**107**	**1**	**(59)**	**49**

At December 31, 2018, this item amounted to 49 million euro (107 million euro at December 31, 2017) and refers to IRES and IRAP receivables for amounts requested for reimbursement on payments of previous years, and the remaining credit for Robin Tax paid in previous years and that will be recovered in subsequent years.

The first 2018 consolidations brought 1 million euro.

11) Cash and cash equivalents

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the year	Balance at 12 31 2018	*of which included in the NFP*	
					12 31 2017	*12 31 2018*
Cash and cash equivalents	**691**	**26**	**(93)**	**624**	***691***	***624***

"Cash and cash equivalents" at December 31, 2018 represent the sum of the Group's active bank and postal balances; the positive change related to the first-time consolidation effect of 2018 acquisitions was equal to 26 million euro.

Bank deposits include interest accrued even if it was not credited by the end of the financial year under review.

12) Non-current assets held for sale

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the year	Balance at 12 31 2018	*of which included in the NFP*	
					12 31 2017	*12 31 2018*
Non-current assets held for sale	**224**	**-**	**(112)**	**112**	**-**	**-**

At December 31, 2018, "Non-current assets held for sale" showed a balance of 112 million euro and refer:

- for 109 million euro to the fair value of the shareholding in EPCG (224 million euro at December 31, 2017), held 18.7% by A2A S.p.A., which was reclassified as a discontinued operation in compliance with the provisions of IFRS 5, following the decision of July 3, 2017 of the management to exercise the sale put option on the entire shareholding package. The decrease compared to December 31, 2017 is due to the collections in the year under review by virtue of a new agreement negotiated with the Government of Montenegro, and approved by the same on April 27, 2018, which provides for the execution of the put option exercised by A2A S.p.A. on July 3, 2017 in four tranches in the period between May 1, 2018 and July 31, 2019, with an acceleration compared to the terms set by the Shareholders' Agreement of August 29, 2016 (i.e. 7 tranches from May 1, 2018 to May 1, 2024).
- for 3 million euro to the reclassification of the shareholdings in Commerciale Gas & Luce S.r.l. and Energy Trade S.p.A. of the ACSM-AGAM Group.

EQUITY AND LIABILITIES

EQUITY

Equity, which amounted to 3,523 million euro at December 31, 2018 (3,013 million euro at December 31, 2017), is set out in the following table:

millions of euro	Balance at 12 31 2017	Changes during the year	Balance at 12 31 2018
Equity pertaining to the Group:			
Share capital	1,629	-	1,629
(Treasury shares)	(54)	-	(54)
Reserves	1,010	206	1,216
Group result of the year	293	51	344
Total equity pertaining to the Group	**2,878**	**257**	**3,135**
Minority interests	135	253	388
Total equity	**3,013**	**510**	**3,523**

The net change in Shareholders' equity was positive for a total of 510 million euro. The result of the year had a positive effect of 344 million euro offset by the dividend distribution for 180 million euro, the net increase in minority interests of 253 million euro, of which 248 million deriving from the first-time consolidation method of ACSM-AGAM, and valuations in accordance with IFRS 9 of Cash flow hedge derivatives and bad debt provision.

13) Share capital

"Share capital" amounted to 1,629 million euro and consists of 3,132,905,277 ordinary shares each of nominal value 0.52 euro.

14) Treasury shares

"Treasury shares", which amounted to 54 million euro, unchanged over December 31, 2017, consist of 23,721,421 own shares held by the parent company A2A S.p.A..

15) Reserves

millions of euro	Balance at 12 31 2017	Changes during the year	Balance at 12 31 2018
Reserves	**1,010**	**206**	**1,216**
of which:			
Change in the fair value of cash flow hedge derivatives and fair value Bond	(27)	18	(9)
Tax effect	7	(5)	2
Cash flow hedge reserves	**(20)**	**13**	**(7)**
Change in the IAS 19 Revised reserve - Employee Benefits	(72)	2	(70)
Tax effect	19	(1)	18
IAS 19 Revised reserve - Employee Benefits	**(53)**	**1**	**(52)**

"Reserves", which amounted to 1,216 million euro (1,010 million euro at December 31, 2017), consist of the legal reserve, extraordinary reserves, and the retained earnings of subsidiaries.

This item also includes the cash flow hedge reserve, negative for 7 million euro, which refers to the year-end measurement of derivatives qualifying for hedge accounting, and the fair value measurement of the Bonds in foreign currency net of the tax effect.

The balance also includes negative reserves of 52 million euro arising from the adoption of IAS 19 Revised "Employee Benefits" which requires actuarial profits and losses to be recognized directly in an equity reserve. The Reserves also include the effects of the first-time consolidation of the ACSM-AGAM Group.

Lastly, the item includes the equity reserve deriving from the first application of IFRS 9, and in particular the impairment of trade receivables according to the expected losses model.

Reconciliation between the result of the year of A2A S.p.A. and the Group result of the year

millions of euro	2018	2017
Result of the year of A2A S.p.A.	**373**	**268**
Intra-group dividends eliminated from the consolidated financial statements	(404)	(379)
Result of subsidiaries, associates and joint ventures not included in the financial statements of A2A S.p.A.	287	405
Subsidiary shareholdings written down in the financial statements of A2A S.p.A.	73	2
Other consolidation adjustments	15	(3)
Group result of the year	**344**	**293**

Reconciliation between the equity of A2A S.p.A. and equity pertaining to the Group

millions of euro	12 31 2018	12 31 2017
Equity pertaining to A2A S.p.A.	**2,636**	**2,430**
- Elimination of the portion of the equity reserve resulting from profit on intra-group operations for the transfer of business units	(394)	(402)
- Retained earnings/(accumulated losses)	848	827
- Intra-group dividends eliminated from the consolidated financial statements	(404)	(379)
- Result of subsidiaries not included in the financial statements of A2A S.p.A.	287	405
- Subsidiary shareholdings written down in the financial statements of A2A S.p.A.	73	2
- Other consolidation adjustments	89	(5)
Equity pertaining to the Group	**3,135**	**2,878**

16) Result of the year

This item consists of a profit of 344 million euro, representing the result for the year.

17) Minority interests

millions of euro	Balance at 12 31 2017	Changes during the year	Balance at 12 31 2018
Minority interests	**135**	**253**	**388**

"Minority interests" amounted to 388 million euro (135 million euro at December 31, 2017) and mainly represent the portion of capital, reserves and result pertaining to minority shareholders related to minority shareholders of the LGH Group and of the ACSM-AGAM Group.

The net increase of 253 million euro for the year is due primarily to the first-time consolidation of ACSM-AGAM, which had a positive effect of 248 million euro.

LIABILITIES

NON-CURRENT LIABILITIES

18) Non-current financial liabilities

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the year	Balance at 12 31 2018	*of which included in the NFP*	
					12 31 2017	*12 31 2018*
Non-convertible bonds	2,650	30	(500)	2,180	*2,650*	*2,180*
Payables to banks	807	73	(125)	755	*807*	*755*
Finance lease payables	40	11	(5)	46	*40*	*46*
Payables to other lenders	4	1	(2)	3	*4*	*3*
Total non-current financial liabilities	**3,501**	**115**	**(632)**	**2,984**	***3,501***	***2,984***

"Non-current financial liabilities" amounted to 2,984 million euro (3,501 million euro at December 31, 2017), with a decrease of 632 million euro, net of the first-time consolidation effect of acquisitions in 2018 for 115 million euro.

"Non-convertible bonds" regard the following bonds, accounted for at amortized cost:

- 350 million euro, maturing in January 2021 and coupon of 4.375%, the nominal value of which is equal to 351 million euro;
- 498 million euro, maturing in January 2022 and coupon of 3.625%, the nominal value of which is equal to 500 million euro;
- 299 million euro, Private Placement maturing in December 2023 and coupon of 4.00%, the nominal value of which is equal to 300 million euro;
- 299 million euro, Private Placement maturing in December 2024 and coupon of 1.25%, the nominal value of which is equal to 300 million euro;
- 298 million euro, maturing in February 2025 and coupon of 1.75%, the nominal value of which is equal to 300 million euro;
- 295 million euro, maturing in December 2027 and coupon of 1.625%, the nominal value of which is equal to 300 million euro;
- 111 million euro, Private Placement in yen maturing in August 2036 and fixed rate of 5.405%, the nominal value of which is equal to 14 billion yen;
- 30 million euro relating to the long-term portion of the bond issued by TS Energy Italy S.p.A. maturing in June 2032 and with a nominal value of 32 million euro.

The net decrease in the non-current component of "Non-convertible bonds", amounting to 500 million euro compared with December 31, 2017, is mainly due to the reclassification under "Current financial liabilities" of the bond maturing in 2019, net of the increase in the ECB exchange rate applied to the bond in yen.

Non-current "Payables to banks" amounted to 755 million euro, a decrease of 125 million euro compared to the previous year-end, excluding the first-time consolidation effect of acquisitions in 2018 equal to 73 million euro due to the reclassification under current liabilities of the portions of capital maturing within the following year.

"Payables for finance leases" amounted to 46 million euro, a decrease of 5 million euro compared to the previous year-end, excluding the first-time consolidation effect of acquisitions in 2018 equal to 11 million euro.

Lastly, "Payables to other lenders" amounted to 3 million euro and referred mainly to the LGH Group.

The following table shows the comparison, for each long-term debt category, between the book value and the fair value, including the portion falling due in the next 12 months. For listed debt instruments, the fair value is determined using stock prices, while for unlisted securities the fair value is determined using valuation models for each category of financial instrument and using market data relating to the closing date of the financial year, including the credit spreads of the A2A Group.

millions of euro	Nominal value	Book value	Current portion	Non-current portion	Fair Value
Bonds	2,708	2,738	558	2,180	2,871
Bank loans and other lenders	885	887	129	758	851
Total	**3,593**	**3,625**	**687**	**2,938**	**3,722**

19) Employee benefits

The balance on this item amounted to 314 million euro (319 million euro at December 31, 2017) with changes as follows during the period:

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Provisions	Utilizations	Other changes	Balance at 12 31 2018
Employee leaving entitlement (TFR)	168	8	31	(11)	(31)	165
Employee benefits	151	-	-	(7)	5	149
Total employee benefits	**319**	**8**	**31**	**(18)**	**(26)**	**314**

The change during the year, net of the first-time consolidation effect (8 million euro), is due to a decrease of 18 million euro due to net disbursements for the year, and a net decrease of 26 million euro due mainly to payments made to pension funds during the period. In addition, actuarial valuations for the year include the increase of 1 million euro deriving from the service cost, the increase of 4 million euro deriving from the interest cost and the decrease of 1 million euro deriving from actuarial gains/losses.

Technical valuations were carried out on the basis of the following assumptions:

	2018	2017
Discount rate	from 0.1% to 1.6%	from 0.0% to 1.3%
Annual inflation rate	1.5%	1.5%
Annual seniority bonus increase rate	2.0%	2.0%
Annual additional months increase rate	0.0%	0.0%
Annual cost of electricity increase rate	2.0%	2.0%
Annual cost of gas increase rate	0.0%	0.0%
Annual salary increase rate	1.0%	1.0%
Annual TFR increase rate	2.6%	2.6%
Average annual increase rate of supplementary pensions	1.1%	1.1%
Annual turnover frequencies	from 4.0% to 5.0%	from 4.0% to 5.0%
Annual TFR advance frequencies	from 2.0% to 2.5%	from 2.0% to 2.5%

It is noted that:

- the discount rate used by the Group varies from company to company on the basis of the average financial term of the bond. The discount rate used is that corresponding to Iboxx Corporate AA;
- the annual rate of salary increase applied exclusively to companies with fewer than 50 employees on average in 2006 was determined on the basis of the reference data communicated by Group companies;

- the annual rate of TFR increase, according to art. 2120 of the Civil Code, is equal to 75% of inflation plus 1.5 percentage points;
- the annual advance and turnover frequencies are derived from historical experiences of the Group and the frequencies arising from the experience of the Actuary on a significant number of similar companies;
- for the demographic technical bases, it is noted that:
  - for "death", the tables AG62 (Electricity and gas discount), RG48 (TFR and other plans) and TG62 (Premungas) were used;
  - for "inability", the INPS tables divided by age and gender were used;
  - for "retirement", the 100% parameter was used upon reaching the requirements of AGO (Obligatory General Insurance);
  - for the "probability of leaving the family", the table in the INPS model was used for projections to 2010;
  - for the "frequency of the various structures of surviving nuclei and average age of members", the table in the INPS model was used for projections to 2010.

20) Provisions for risks, charges and liabilities for landfills

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Provisions	Releases	Utilizations	Other changes	Balance at 12 31 2018
Decommissioning provisions	226	-	8	-	(5)	9	238
Landfill closing and post-closing expense provisions	188	-	5	(5)	(5)	13	196
Tax provisions	50	-	3	(15)	(4)	-	34
Personnel lawsuits and disputes provisions	61	-	7	(8)	(4)	-	56
Other risk provisions	100	4	21	(21)	(3)	17	118
Provisions for risks, charges and liabilities for landfills	**625**	**4**	**44**	**(49)**	**(21)**	**39**	**642**

"Decommissioning provisions", which amounted to 238 million euro, include charges for costs of dismantling and recovery of production sites mainly related to thermoelectric plants and waste-to-energy plants. The changes for the year concerned allocations for 8 million euro related to the effects of updating the appraisal for the Brindisi Plant, uses for 5 million euro, to cover the expenses incurred during the reporting year and other increases for 9 million euro, which refer mainly to the effects of the update of the appraisal for the Piacenza and Cassano plants and of the discount rates used to estimate the future costs of dismantling and restoration of the sites having "Tangible assets" as balancing entry.

The "Landfill closing and post-closing expense provisions", which amounted to 196 million euro, refer to all the costs that will have to be incurred in the future for the sealing of the landfills in cultivation at the reporting date and for the subsequent post-operative management, thirty-year and fifty-year, provided by the AIA (Integrated Environmental Authorization). The changes for the year concerned provisions of 5 million euro related to the effects of the updates of some appraisals, uses for 5 million euro, which represent the actual disbursements in the year, and other increases of 13 million euro, mainly relating to the effects of the updates of the discount rates of assets not fully depreciated and that have "Tangible assets" as balancing entry and related estimate appraisals.

"Tax Provisions", which amounted to 34 million euro, refer to provisions for pending or potential litigation with the tax authorities or territorial entities for direct and indirect taxes, levies and excises. Provisions for the year, for 3 million euro, were mainly related to the ICI/IMU and COSAP dispute with territorial entities as well as new tax audits opened in the year under review. Releases of 15 million euro mainly refer to the positive conclusion of disputes with the Puglia Region by the subsidiary A2A Ambiente.

The "Personnel lawsuits and disputes provisions" amounted to 56 million euro and mainly refer to lawsuits pending with social security institutions, for 8 million euro, related to social security contributions that the Group believes it is not required to pay and for which specific disputes are pending, to lawsuits with third parties, for 44 million euro, and with employees, for 4 million euro, for the liabilities that could arise from litigations in progress. Provisions for the year for 7 million euro refer to provisions relating to litigation with third parties, while releases for the year for 8 million euro mainly refer to current litigation with Social Security Institutions and with third parties. Uses, for 4 million euro, refer to disputes with third parties.

"Other provisions", which amounted to 118 million euro, refer to provisions relating to public water derivation fees for 43 million euro, to the mobility provision for the costs arising from the corporate restructuring plan, for 1 million euro, to the provision for extraordinary maintenance of the waste-to-energy plant in Acerra, for 6 million euro, as well as other provisions for 68 million euro. This item includes the first-time consolidation effects of 4 million euro. Allocations for the year amounted to 21 million euro and mainly refer to provisions for public water derivation fees. Releases, which totaled 21 million euro, refer mainly to the absence of the risk of non-recognition by the provider of the contractually-agreed services for the Acerra waste-to-energy plant.

21) Other non-current liabilities

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the year	Balance at 12 31 2018	*of which included in the NFP*	
					12 31 2017	*12 31 2018*
Other non-current liabilities	125	7	2	134	-	-
Non-current derivatives	23	5	(14)	14	*23*	*14*
Total other non-current liabilities	**148**	**12**	**(12)**	**148**	***23***	***14***

At December 31, 2018, this item showed a decrease of 12 million euro compared to the previous year, excluding the first-time consolidation effects of acquisitions in 2018, for 12 million euro.

"Other non-current liabilities", which showed a balance of 134 million euro, refer to security deposits from customers, for 67 million euro, to liabilities pertaining to future years for 8 million euro, to medium/long-term payables to suppliers for 3 million euro, as well as other non-current liabilities for 56 million euro, which mainly include long-term financial payables, contracts for acquisitions completed in the photovoltaic sector by the subsidiary A2A Rinnovabili in 2017 and 2018.

"Non-current derivative instruments" amounted to 14 million euro and, net of the 5 million euro increase deriving from the first-time consolidation effect of 2018 acquisitions, a decrease of 14 million euro deriving from the fair value measurement of financial instruments at the end of the year.

CURRENT LIABILITIES

22) Trade payables and other current liabilities

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the year	Balance at 12 31 2018	*of which included in the NFP*	
					12 31 2017	*12 31 2018*
Advances	2	-	1	3		
Payables to suppliers	1,379	44	(13)	1,410		
Total trade payables	**1,381**	**44**	**(12)**	**1,413**	**-**	**-**
Payables to social security institutions	38	2	3	43		
Current derivatives	86	-	70	156		
Other current liabilities of which:	397	66	(81)	382		
- Payables to personnel	69	2	6	77		
- Payables to Cassa per i Servizi Energetici e Ambientali	85	7	(12)	80		
- Tax payables	80	14	(52)	42		
- Payables for tax transparency	7	-	-	7		
- Payables for energy tariff components	85	-	(10)	75		
- Payables for A.T.O.	7	-	-	7		
- Payables to customers for work to be performed	11	-	3	14		
- Payables to customers for interest on security deposits	3	1	(1)	3		
- Payables to third-party shareholders	-	-	4	4		
- Payables for the purchase of equity investments	-	-	8	8		
- Payables for auxiliary services	1	9	2	12		
- Payables for collections to be allocated	8	-	(1)	7		
- Payables to insurance companies	4	-	1	5		
- Payables for excise compensation	6	-	-	6		
- Payables for environmental compensation	2	-	1	3		
- Payables for RAI fee	6	-	(1)	5		
- Sundry payables	23	33	(29)	27		
Total other current liabilities	**521**	**68**	**(8)**	**581**	**-**	**-**
Total trade payables and other current liabilities	**1,902**	**112**	**(20)**	**1,994**	**-**	**-**

“Trade payables and other current liabilities” amounted to 1,994 million euro (1,902 million euro at December 31, 2017), representing a decrease of 20 million euro, excluding the first-time consolidation effect of acquisitions in 2018 for 112 million euro.

“Trade payables” amounted to 1,413 million euro and compared to the closing of the previous year, represent a decrease of 12 million euro, excluding the first-time consolidation effect of acquisitions in 2018 for 44 million euro.

“Payables to social security institutions” amounted to 43 million euro (38 million euro at December 31, 2017) and relate to the Group’s debt position with social security and pension institutions, related to contributions of the month of December 2018 not yet paid.

“Current derivative instruments” amounted to 156 million euro (86 million euro at December 31, 2017) and refer to the fair value valuation of commodity derivatives. The increase is due both to the increase in the fair value valuation of the year and to the change in the amounts covered.

“Other current liabilities” mainly refer to:

- payables to employees for 77 million euro (69 million euro at December 31, 2017), relating to payables to employees for the productivity bonus accrued during the year, as well as the expense for holidays accrued but not taken at December 31, 2018;
- payables to the CSEA - Cassa per i Servizi Energetici e Ambientali for 80 million euro (85 million euro at December 31, 2017) regarding the payable for the tariff components, invoiced and not yet paid, as well as the payable for equalization liabilities related both to prior years and the year under review;
- tax liabilities for 42 million euro (80 million euro at December 31, 2017) and mainly refer to payables to the tax authorities for excise, withholding taxes and VAT;
- payables for fiscal transparency for 7 million euro to the associate Ergosud S.p.A., unchanged compared to December 31, 2017;
- payables for electricity tariff components for 75 million euro (85 million euro at December 31, 2017);
- payables for the purchase of equity investments amounting to 8 million euro (no value at December 31, 2017), contracts for the acquisition of companies in the photovoltaic sector;
- payables for ATO for 7 million euro, unchanged over the previous year relating to the payment of the fee for concessions regarding the management of the water service;
- payables to customers for work to be performed for 14 million euro (11 million euro at December 31, 2017) related to estimates already collected from customers for work that has not been completed yet;
- payables to customers for interest on security deposits accrued but not yet paid for 3 million euro, a decrease of 1 million euro compared with the previous year, net of the effects of the first-time consolidation of 2018 acquisitions for 1 million euro.

23) Current financial liabilities

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the year	Balance at 12 31 2018	*of which included in the NFP*	
					12 31 2017	*12 31 2018*
Non-convertible bonds	345	2	211	558	*345*	*558*
Payables to banks	82	93	(47)	128	*82*	*128*
Finance lease payables	5	1	(1)	5	*5*	*5*
Financial payables to related parties	1	-	1	2	*1*	*2*
Payables to other lenders	4	41	(44)	1	*4*	*1*
Total current financial liabilities	**437**	**137**	**120**	**694**	**437**	**694**

“Current financial liabilities” amounted to 694 million euro compared to 437 million euro recorded at December 31, 2017 and, net of the first-time consolidation effect of acquisitions in 2018, showed an increase of 137 million euro.

“Non-convertible bonds” increased by 211 million euro, net of the first-time consolidation in 2018 of 2 million euro. The change is due to the contrasting effect of: reclassification from long-term to short-term of an A2A bond maturing in 2019 (increase of 510 million euro) and redemption of the LGH bond in 2018 (decrease of 299 million euro).

Current “Payables to banks” amounted to 128 million euro and showed, excluding the first-time consolidation effect of 2018 acquisitions of 93 million euro, a decrease of 47 million euro, mainly due to repayment of credit lines and loan instalments.

“Finance lease payables” amounted to 5 million euro, unchanged compared to the previous year.

Lastly, “Payables to other lenders” amounted to 1 million euro and, excluding the first-time consolidation in 2018 of 41 million euro, showed a decrease of 44 million euro.

24) Tax liabilities

millions of euro	Balance at 12 31 2017	First-time consolidation effect acquisitions 2018	Changes during the year	Balance at 12 31 2018
Tax liabilities	**4**	**2**	**28**	**34**

“Tax payables” amounted to 34 million euro (4 million euro at December 31, 2017), an increase of 28 million euro compared to the previous year-end, excluding the first-time consolidation effect of acquisitions in 2018 equal to 2 million euro.

Net debt

25) Net debt (pursuant to CONSOB Communication no. DEM/6064293 of July 28, 2006 and ESMA/2013/319)

The following table provides details of net debt:

millions of euro	Note	12 31 2018	First-time consolidation effect acquisitions 2018	12 31 2017
Bonds - non-current portion	18	2,180	30	2,650
Bank loans - non-current portion	18	755	73	807
Finance leases - non-current portion	18	46	11	40
Non-current amounts due to other providers of finance	18	3	1	4
Other non-current liabilities	21	14	5	23
Total medium/long-term debt		**2,998**	**120**	**3,524**
Non-current financial assets - related parties	3	(6)	-	(8)
Non-current financial assets	3	(16)	-	(28)
Financial receivables due from companies held for sale	3	-	-	-
Other non-current assets	5	(8)	(1)	-
Total medium/long-term financial receivables		**(30)**	**(1)**	**(36)**
Total non-current net debt		**2,968**	**119**	**3,488**
Bonds - current portion	23	558	2	345
Bank loans - current portion	23	128	93	82
Finance leases - current portion	23	5	1	5
Current amounts due to other providers of finance	23	1	41	4
Current financial liabilities - related parties	23	2	-	1
Total short-term debt		**694**	**137**	**437**
Other current financial assets	9	(15)	(88)	(7)
Current financial assets - related parties	9	(1)	-	(1)
Total short-term financial receivables		**(16)**	**(88)**	**(8)**
Cash and cash equivalents	11	(624)	(26)	(691)
Cash and cash equivalents included in assets held for sale	12	-	-	-
Total current net debt		**54**	**23**	**(262)**
Net debt		**3,022**	**142**	**3,226**

The Group's net financial position amounted to 3,022 million euro and includes the effect of the first consolidation of the 2018 acquisitions for 142 million euro.

Pursuant to IAS 7 “Cash Flow Statement”, the following are the changes in financial assets and liabilities:

millions of euro	12 31 2017	Cash flow	Non-cash flow			12 31 2018
			First-time consolid. effect acquisitions 2018	Change in fair value	Other changes	
Bonds	2,995	(299)	32	7	3	2,738
Financial payables	943	(160)	220	-	(63)	940
Other liabilities	23	-	5	(14)	-	14
Financial assets	(44)	16	(89)	-	79	(38)
Other assets	-	-	-	(8)	-	(8)
Net liabilities deriving from financing activities	**3,917**	**(443)**	**168**	**(15)**	**19**	**3,646**
Cash and cash equivalents	(691)	93	(26)	-	-	(624)
Net debt	**3,226**	**(350)**	**142**	**(15)**	**19**	**3,022**

Notes to the income statement

The consolidation scope at December 31, 2018 changed compared to the corresponding year due to the following operations:

- line-by-line consolidation of the ACSM-AGAM Group as of July 1, 2018;
- line-by-line consolidation of a group of companies that own 5 photovoltaic plants in Italy through A2A Rinnovabili S.p.A. and Fair Renew S.r.l. held (60%), incorporated in July 2018;
- line-by-line consolidation of A2A Integrambiente S.r.l., 74% owned by A2A Ambiente S.p.A., 25% by Amsa S.p.A. and 1% by Aprica S.p.A., in order to provide environmental sanitation services;
- line-by-line consolidation of the NewCo A2Abroad S.p.A., incorporated in December 2018;
- sale of the shareholdings in Rudnik Uglja to Pljevlja (previously consolidated using the equity method) and completion of the liquidation process of Vespia S.r.l. and Ecofert S.r.l..

Moreover, the economic data at December 31, 2018 are not homogeneous with respect to the previous year due to the following contributions:

- incorporation, in July 2017, of A2A Rinnovabili S.p.A., which progressively acquired during the last quarter of 2017 a portfolio of 13 companies owning photovoltaic plants;
- line-by-line deconsolidation of the Montenegrin subsidiary EPCG as from July 1, 2017, the results of which as at December 31, 2017 are shown under the item "Results from assets held for sale";
- line-by-line consolidation of LumEnergia S.p.A., as a result of the increase to 92.7%, starting from July 2017, of the investment held by the subsidiary A2A Energia S.p.A.;
- establishment and line-by-line consolidation, in the second half of 2017, of the consortium A2A Security S.c.p.a., of the company A2A Energy Solutions S.r.l. and of the company A2A IDRO4 S.r.l.;
- increase in the stake held in Azienda Servizi Valtrompia S.p.A. and consequent line-by-line consolidation, as from March 1, 2017.

26) Revenues

Revenues for the year amount to 6,494 million euro (5,796 million euro at December 31, 2017), representing an increase of 698 million euro (+12%), of which 187 million euro attributable to the first-time consolidation of the ACSM-AGAM Group.

Details of the more significant items are as follows:

Revenues *millions of euro*	12 31 2018	12 31 2017	CHANGE	% 2018/2017
Revenues from the sale of goods	5,268	4,633	635	13.7%
Revenues from services	1,003	957	46	4.8%
Total revenues from the sale of goods and services	**6,271**	**5,590**	**681**	**12.2%**
Other operating revenues	**223**	**206**	**17**	**8.3%**
Total revenues	**6,494**	**5,796**	**698**	**12.0%**

Net of the contribution of the ACSM-AGAM Group, the increase in revenues is mainly due to revenues from the sale of electricity and gas - following the growth in wholesale volumes and the rise in prices - the increase in sales on the free market, particularly to customers, and the increase in Green Certificate revenues.

Further details of the main items are as follows:

millions of euro	12 31 2018	12 31 2017	CHANGE	% 2018/2017
Sale and distribution of electricity	3,094	2,806	288	10.3%
Sale and distribution of gas	1,594	1,300	294	22.6%
Sale of heat	180	161	19	11.8%
Sale of materials	43	45	(2)	(4.4%)
Sale of water	71	58	13	22.4%
Sales of environmental certificates	255	235	20	8.5%
Connection contributions	31	28	3	10.7%
Total revenues from the sale of goods	**5,268**	**4,633**	**635**	**13.7%**
Services to customers	1,003	957	46	4.8%
Total revenues from services	**1,003**	**957**	**46**	**4.8%**
Total revenues from the sale of goods and services	**6,271**	**5,590**	**681**	**12.2%**
Reintegration of costs plant S. Filippo del Mela (plant essential Unit)	78	66	12	18.2%
Damage compensation	9	6	3	50.0%
Contributions - Cassa Servizi Energetici ed Ambientali	9	9	-	0.0%
Rents receivable	2	1	1	100.0%
Contingent assets	27	59	(32)	(54.2%)
Incentives for production from renewable sources (feed-in tariff)	70	42	28	66.7%
Other revenues	28	23	5	21.7%
Other operating revenues	**223**	**206**	**17**	**8.3%**
Total revenues	**6,494**	**5,796**	**698**	**12.0%**

Revenues from the sale of heat increased by 19 million euro compared with December 31, 2017, due mainly to an increase in the average sales price and, to a lesser extent, to higher unit sales.

Revenues from environmental certificates rose by 20 million euro compared with December 31, 2017, mainly due to the sale of the long position of Green Certificates in the A2A Group portfolio.

"Revenues for services" amounted to 1,003 million euro, representing an increase of 46 million euro over the previous year.

The item "Other operating revenues" showed an increase of 17 million euro mainly due to higher revenues for the reinstatement of generation costs incurred for the San Filippo del Mela plant (essential plant) pursuant to Resolution 803/2016 for 12 million euro, higher revenues linked to incentives on net production from renewable sources, for 28 million euro, and lower contingent assets for 32 million euro.

Further details on the reasons for the performance of revenues relating to the various Business Units can be found in the paragraph "Result by sector".

27) Operating expenses

Operating expenses amount to 4,598 million euro (3,962 million euro at December 31, 2017), therefore representing an increase of 636 million euro, of which 133 million euro attributable to the first-time consolidation of the ACSM-AGAM Group.

The main components of this item are as follows:

Operating expenses *millions of euro*	12 31 2018	12 31 2017	CHANGE	% 2018/2017
Expenses for raw materials and consumables	3,346	2,831	515	18.2%
Expenses for services	986	850	136	16.0%
Total expenses for raw materials and services	**4,332**	**3,681**	**651**	**17.7%**
Other operating expenses	**266**	**281**	**(15)**	**(5.3%)**
Total operating expenses	**4,598**	**3,962**	**636**	**16.1%**

Expenses for raw materials and services amount to 4,332 million euro (3,681 million euro at December 31, 2017), representing an increase of 651 million euro, of which 122 million euro, gross of intercompany eliminations, attributable to the first-time consolidation of the ACSM-AGAM Group.

This increase was due to the combined effect of the following factors:

- an increase of 534 million euro in the purchase of raw materials and consumables, mainly due to an increase in costs for the purchase of power and fuel of 505 million euro, an increase in the costs relating to the purchase of environmental certificates of 12 million euro, an increase in purchase of materials of 20 million euro and a net decrease of 3 million euro arising from hedging gains and losses on operating derivatives;
- an increase of 136 million euro in costs for delivery, subcontracted work and services;
- the increase in inventories of fuel and materials for 19 million euro.

For further information, the following table sets out details of the more significant components:

millions of euro	12 31 2018	12 31 2017	CHANGE	% 2018/2017
Purchases of power and fuel	3,076	2,571	505	19.6%
Purchases of materials	105	85	20	23.5%
Purchases of water	2	2	-	0.0%
Hedging losses on operating derivatives	16	7	9	n.s.
Hedging gains on operating derivatives	(26)	(14)	(12)	85.7%
Purchases of emission certificates and allowances	208	196	12	6.1%
Total expenses for raw materials and consumables	**3,381**	**2,847**	**534**	**18.8%**
Delivery and transmission costs	453	364	89	24.5%
Maintenance and repairs	166	159	7	4.4%
Services from associates	1	1	-	0.0%
Other services	366	326	40	12.3%
Total expenses for services	**986**	**850**	**136**	**16.0%**
Change in inventories of fuel and materials	(35)	(16)	(19)	n.s.
Total expenses for raw materials and services	**4,332**	**3,681**	**651**	**17.7%**
Leasehold improvements	93	105	(12)	(11.4%)
Concession fees distribution networks Municipality of Milan and Brescia	10	11	(1)	(9.1%)
Water derivation concession fees	58	65	(7)	(10.8%)
Contributions to territorial entities, consortia and ARERA	9	6	3	50.0%
Taxes and duties	33	33	-	0.0%
Damages and penalties	2	2	-	0.0%
Contingent liabilities	31	35	(4)	(11.4%)
Other costs	30	24	6	25.0%
Other operating expenses	**266**	**281**	**(15)**	**(5.3%)**
Total operating expenses	**4,598**	**3,962**	**636**	**16.1%**

Trading margin

The following table sets out the results arising from the trading portfolio; these figures relate to trading in electricity, gas and environmental certificates.

Trading margin *millions of euro*	NOTES	12 31 2018	12 31 2017	CHANGE
Revenues	26	1,406	1,527	(121)
Operating expenses	27	(1,402)	(1,525)	123
Total trading margin		**4**	**2**	**2**

The "Trading margin" was up by 2 million euro compared to December 31, 2017. Consistent with the previous year, trading activities were carried out mainly on a systematic basis, focusing on strategies of relative values between different energy commodities and on geographical and temporal differentials, minimizing the use of more expensive assets for energy transport and natural gas storage. Transactions with options on energy contracts and volatility trading were also particularly important, with a positive margin also thanks to a context of favourable and volatile market prices.

28) Labour costs

Excluding capitalized costs, labour costs at December 31, 2018 amounted to 665 million euro (635 million euro at December 31, 2017), of which 22 million euro related to the first-time consolidation of the ACSM-AGAM Group.

"Labour costs" may be analysed as follows:

Labour costs *millions of euro*	12 31 2018	12 31 2017	CHANGE	% 2018/2017
Wages and salaries	494	471	23	4.9%
Social security charges	173	160	13	8.1%
Employee leaving entitlement (TFR)	31	29	2	6.9%
Other costs	33	27	6	22.2%
Total labour costs before capitalizations	**731**	**687**	**44**	**6.4%**
Capitalized labour costs	(66)	(52)	(14)	26.9%
Total labour costs	**665**	**635**	**30**	**4.7%**

The table below shows the average number of employees by category:

	12 31 2018	12 31 2017	CHANGE
Managers	201	174	27
Supervisors	861	584	277
White-collar workers	5,112	4,661	451
Blue-collar workers	5,962	5,861	101
Total	**12,136**	**11,280**	**856**

At December 31, 2018, the average labour cost per capita, not considering the effects of the consolidation of the ACSM-AGAM Group, amounted to 57.17 thousand euro (56.29 thousand euro at December 31, 2017).

At December 31, 2018, the Group had 12,080 employees, of whom 865 related to the consolidation of the ACSM-AGAM Group. At December 31, 2017, the Group had 11,436 employees.

The item "Other labour costs" includes early retirement incentives for a value less than 1 million euro (1 million euro at December 31, 2017).

29) Gross operating income

As a result of the above movements, consolidated "Gross operating income" at December 31, 2018 amounted to 1,231 million euro (1,199 million euro at December 31, 2017), of which 32 million euro arising from the first-time consolidation of the ACSM-AGAM Group.

Further details may be found in the section "Results sector by sector".

30) Depreciation, amortization, provisions and write-downs

"Depreciation, amortization provisions and write-downs" totaled 643 million (489 million euro at December 31, 2017), of which 24 million euro from the first-time consolidation of the ACSM-AGAM Group, representing an increase of 154 million euro.

The following table provides details of the individual items:

Depreciation, amortization, provisions and write-downs *millions of euro*	12 31 2018	12 31 2017	CHANGE	% 2018/2017
Amortization of intangible assets	91	72	19	26.4%
Depreciation of tangible assets	372	338	34	10.1%
Write-downs of fixed assets	160	34	126	n.s.
Total amortization, depreciation and write-downs	**623**	**444**	**179**	**40.3%**
Provisions for risks	(5)	10	(15)	n.s.
Bad debts provision on receivables recognized as current assets	25	35	(10)	(28.6%)
Total depreciation, amortization, provisions and write-downs	**643**	**489**	**154**	**31.5%**

"Depreciation, amortization and write-downs" totalled 623 million euro (444 million euro at December 31, 2017), representing an overall increase of 179 million euro of which 18 million euro deriving from the first-time consolidation of the ACSM-AGAM Group.

Amortization of intangible assets amounted to 91 million euro (72 million euro at December 31, 2017). Amortization totaled 19 million euro, including 9 million euro relating to the first-time consolidation of the ACSM-AGAM Group, 4 million euro relating to the effects of the purchase price allocations of companies operating in the photovoltaic sector acquired in the previous year and those acquired in 2018, 3 million euro relating to the effects of the purchase price allocations of the ACSM-AGAM Group, 1 million euro relating to the water distribution network and 2 million euro relating to the implementation of information systems.

Depreciation of tangible assets show an increase of 34 million euro compared to December 31, 2017 and mainly includes:

- higher depreciation, for 5 million euro, resulting from the change in the useful life of the assets related to the electricity grid made last year;
- higher depreciation resulting from the consolidation of the companies operating in the photovoltaic sector acquired starting from the second half of 2017 for 7 million euro;
- higher depreciation of 9 million euro, mainly relating to the investments which went into production after December 31, 2017;
- higher depreciation of 6 million euro, relating to the first-time consolidation of the ACSM-AGAM Group;
- higher depreciation, for 3 million euro, related to the implementation of the New Data Center.

Write-downs in the year amounted to 160 million euro and mainly refer to the write-down of the Monfalcone plant and the write-down of goodwill relating to the "A2A Reti Elettriche" CGU. The write-downs were made as a result of the findings of the Impairment Test process performed by an independent external expert; for further clarifications relating to the impairment activities, reference is made to note 2) of these Notes.

With regard to large-scale diversion hydroelectric concessions, reference should be made to note 1) Tangible assets for further information about the regulatory developments in the sector.

The balance of "Provisions for risks" shows a net negative effect of 5 million euro (positive for 10 million euro at December 31, 2017) due to allocations in the year of 44 million euro, offset by the surpluses of 49 million euro since some ongoing disputes have ceased to exist.

Provisions for the year concerned 8 million euro for the provision for public water derivation fees, 8 million euro for provisions relating to the effect of updating he appraisal for the Brindisi Plant, 7 million euro for provisions for funds for personnel lawsuits and disputes, 2 million euro for provisions for tax funds and 5 million euro for provisions for expenses funds for closure and post-closure of landfills, 7 million euro provisions for other disputes and 7 million provisions deriving from the first-time consolidation of the ACSM-AGAM Group. Surpluses of risks provisions amounted to 49 million euro.

For further information, reference is made to Note 20 "Provisions for risks, charges and liabilities for landfills".

The "Bad debt provision" amounted to 25 million euro (35 million euro at December 31, 2017), consisting of the accrual for the year.

31) Net operating result

"Net operating result" amounted to 588 million euro (710 million euro at December 31, 2017).

32) Result from non-recurring transactions

The item "Result from non-recurring transactions" amounted to 14 million euro (it had no value at December 31, 2017) and refers for about 6 million euro to the income from the sale of the equity investment held in Rudnik Uglja to Pljevlja and for 8 million euro to the income from the acquisitions made during the year of the companies of the Rinnovabili Group.

33) Financial balance

The "Financial balance" closed with net expense of 112 million euro (net expense of 134 million euro at December 31, 2017).

Details of the more significant items are as follows:

Financial balance *millions of euro*	12 31 2018	12 31 2017	CHANGE	% 2018/2017
Financial income	16	19	(3)	(15.8%)
Financial expenses	(132)	(158)	26	(16.5%)
Affiliates	4	5	(1)	(20.0%)
Total financial balance	**(112)**	**(134)**	**22**	**(16.4%)**

"Financial income" amounted to 16 million euro (19 million euro at December 31, 2017) and may be analyzed as follows:

Financial income *millions of euro*	12 31 2018	12 31 2017	CHANGE	% 2018/2017
Income from dividends in other companies	-	4	(4)	(100.0%)
Gains from disposal Financial assets	-	1	(1)	(100.0%)
Other financial income of which:	16	14	2	14.3%
- Financial income from the Municipality of Brescia (IFRIC 12)	*6*	*6*	*-*	*0.0%*
- Foreign exchange gains	*3*	*1*	*2*	*n.s.*
- Other income	*7*	*7*	*-*	*0.0%*
Total financial income	**16**	**19**	**(3)**	**(15.8%)**

"Financial expenses", which amounted to 132 million euro, decreased by 26 million euro over the balance at December 31, 2017, and may be analyzed as follows:

Financial expenses *millions of euro*	12 31 2018	12 31 2017	CHANGE	% 2018/2017
Interest on bond loans	102	104	(2)	(1.9%)
Interest charged by banks	6	9	(3)	(33.3%)
Fair value of financial derivatives	-	-	-	-
Realized on financial derivatives	8	8	-	0.0%
Decommissioning costs	2	2	-	0.0%
Other financial expenses of which:	14	35	(21)	(60.0%)
- Discounting charges	*6*	*6*	-	*0.0%*
- Financial expenses (IFRIC 12)	*3*	*3*	-	*0.0%*
- Foreign exchange losses	*3*	*1*	*2*	*n.s.*
- Other expenses	*2*	*25*	*(23)*	*(92.0%)*
Total financial expenses before capitalizations	**132**	**158**	**(26)**	**(16.5%)**
Capitalized financial expenses	-	-	-	-
Total financial expenses	**132**	**158**	**(26)**	**(16.5%)**

"Other expenses" amounted to 2 million euro, compared with 25 million euro in the previous year and included 17 million euro in charges incurred by A2A S.p.A. for the partial repurchase of bonds maturing in 2019 and 2021.

The equity method valuation of shareholdings was positive for 4 million euro (positive for 5 million euro at December 31, 2017), and is mainly attributable to the positive valuations of the shareholding in ACSM-AGAM S.p.A consolidated with equity method until June 30, 2018 and other minor shareholdings.

34) Income taxes

Income taxes *millions of euro*	12 31 2018	12 31 2017	CHANGE
Current IRES	146	107	39
Current IRAP	30	26	4
Effect of differences - taxes of previous years	2	(1)	3
Total current taxes	**178**	**132**	**46**
Deferred tax assets	33	88	(55)
Deferred tax liabilities	(54)	(28)	(26)
Total losses/gains for income taxes	**157**	**192**	**(35)**

"Income taxes" for the year amounted to 157 million euro (192 million euro at December 31, 2017).

It is noted that the Parent Company A2A determines IRAP taxes for the year according to art. 6, paragraph 9, of Legislative Decree December 15, 1997, no. 446 ("industrial holding" method), under which the taxable amount is determined by taking into account also financial income and expenses (excluding those related to shareholdings).

The reconciliation between the tax burden posted in the Consolidated Financial Statements and theoretical tax liabilities, calculated on the basis of theoretical rates applicable in Italy, is as follows:

millions of euro	2018	2017
Pre-tax result	**490**	**576**
Write-downs of assets	160	34
Pre-tax result adjusted by write-downs and the result of assets held for sale	**650**	**610**
Theoretical rates based on applicable tax rates (1)	156	146
Tax effect of write-downs	(38)	(8)
Permanent differences	9	28
Differences between international tax rates and theoretical Italian rates	-	-
Total taxes charged to income statement (excluding IRAP)	**127**	**166**
Current IRAP	30	26
Total taxes charged to income statement	**157**	**192**

(1) Taxes were calculated using a theoretical IRES rate of 24%.

35) Net result from discontinued operations

The “Net result from discontinued operations” was positive for 21 million euro and includes for 16 million euro the collection of dividends by the investee company EPCG and for 5 million euro the discounting proceeds to adjust the value of equity investment of EPCG at fair value following the renegotiation of the agreement with the Government of Montenegro, and approved by the same on April 27, 2018, which provides for the execution of the put option exercised by A2A S.p.A. on July 3, 2017 in four tranches in the period between May 1, 2018 and July 31, 2019, with an acceleration compared to the terms set by the Shareholders’ Agreement of August 29, 2016 (i.e. 7 tranches from May 1, 2018 to May 1, 2024).

In the previous year, this item showed a negative value of 85 million euro mainly related to the net result, less than 1 million euro and relating to the first six months of 2017 of EPCG, in addition to the write-down of 60 million euro and the discounting charge of 26 million euro to adjust the value of the shareholding to fair value.

36) Result of minorities

The “Result of minorities” is negative for the Group for 10 million euro and mainly includes the portion attributable to minority interests of the LGH Group and the ACSM-AGAM Group. In the previous year, the item showed a negative balance for the Group for 6 million euro.

37) Group result of the year

The “Group result of the year” was positive for 344 million euro (positive for 293 million euro at December 31, 2017).

Earnings per share

38) Earnings per share

	01 01 2018 12 31 2018	01 01 2017 12 31 2017
Earnings (loss) per share (in euro)		
- basic	0.1106	0.0944
- basic from continuing operations	0.1040	0.1215
- basic from assets held for sale	0.0066	(0.0271)
- diluted	0.1106	0.0944
- diluted from continuing operations	0.1040	0.1215
- diluted from assets held for sale	0.0066	(0.0271)
Weighted average number of outstanding shares for the calculation of earnings (loss) per share		
- basic	3,109,183,856	3,109,183,856
- diluted	3,109,183,856	3,109,183,856

Note on related party transactions

39) Note on related party transactions

"Related parties" are those indicated by the international accounting standard that concerns Related Party Disclosures (IAS 24 revised).

Relationships with parent companies and their subsidiaries

On October 5, 2007, the Municipalities of Milan and Brescia signed a Shareholders' Agreement to regulate the ownership structure of A2A S.p.A.; this gave the Municipalities joint control over the company.

Specifically, the merger effective January 1, 2008, regardless of the legal structure established, was considered a joint venture, whose joint control was exercised by the Municipalities of Milan and Brescia, each of which owned a share equal to 27.5%.

On June 13, 2014, the Shareholders' Meeting modified the company's governance system, passing from the original two-tier system, adopted in 2007, to a "traditional" system of management and control through the appointment of the Board of Directors.

In December 2014, the Municipalities of Milan and Brescia sold a total shareholding of 0.51% of A2A S.p.A., while in the first two months of 2015, the Municipalities of Milan and Brescia sold an additional shareholding of 4.5% of A2A S.p.A..

On October 4, 2016, the Municipalities of Milan and Brescia renewed for another three years, with effect from January 1, 2017, the Shareholders' Agreement signed on December 30, 2013, concerning 1,566,452,642 ordinary shares representing 50% plus two shares of the share capital of A2A S.p.A.. On May 20, 2016, the two Municipalities had proceeded to sign an appendix to the Agreement, which envisaged reducing from six months to three months the term of the agreement, during which it is possible to terminate the same.

On October 26, 2016, the Municipality of Milan received from the Municipality of Brescia the proposal, approved by the Council of said Municipality on October 25, 2016, to partially amend the shareholders' agreement relating to A2A S.p.A. existing between the two Municipalities. In particular, said proposal requires the commitment of the two Municipalities to maintain syndicated and bound, in the new agreement, a number of shares held by them in equal measure, equal to 42% of the share capital of A2A S.p.A.. On November 4, 2016, the Council of the Municipality of Milan, after having favourably examined the proposal of the Municipality of Brescia of a partial amendment to the shareholders' agreement, submitted to the Municipal Council the proposal of the new shareholders' agreement for the final determinations of competence.

On January 23, 2017, the Milan City Council approved the new Shareholders' Agreement between the Municipality of Milan and the Municipality of Brescia regarding the shareholding in A2A S.p.A. and has undertaken the commitment not to proceed with the disposal of any shares owned by the Municipality of Milan.

At the date of approval of these consolidated financial statements at December 31, 2018, the two shareholders held a shareholding of 50% plus two shares that enables the two municipalities to maintain control over the company.

The A2A Group companies and the Municipalities of Milan and Brescia routinely entertain commercial relationships related to the supply of electricity, gas, heat, and potable water, management of public lighting systems and street lights, management of water purification and sewers, garbage collection and street sweeping and video surveillance.

Similarly, the A2A Group companies entertain commercial relationships with the companies controlled by the Municipalities of Milan and Brescia, for example, Metropolitana Milanese S.p.A., ATM S.p.A., Brescia Mobilità S.p.A., Brescia Trasporti S.p.A. and Centrale del Latte di Brescia S.p.A., supplying them with electrical energy, gas, heat, water purification and sewer service at market rates appropriate to the supply conditions and providing the services required. Note that these companies are considered related parties in the preparation of the financial statement schedules pursuant to Consob Resolution 17221 of March 12, 2010.

The relationships between the Municipalities of Milan and Brescia and the A2A Group, in relation to granting the services associated with public lighting, street lights, management and supply of electricity, gas, heat, and water purification and sewer service are regulated by special conventions and specific contracts.

The relationships between the companies controlled by the Municipalities of Milan and Brescia, which refer to the supply of electricity, are at arm's length conditions.

On April 12, 2017, Amsa S.p.A., a subsidiary of A2A S.p.A., signed a contract with the Municipality of Milan for the management of environmental protection services for the period January 1, 2017 - February 8, 2021.

Relationships with subsidiaries and affiliates

The parent company A2A S.p.A., operates like a centralized treasury for the majority of the subsidiaries.

Relations between the companies are regulated through current accounts between the parent company and the subsidiaries, on which rates are applied, at market conditions, based on variable Euribor, with specific spreads for companies. For the financial year 2018, A2A S.p.A. and its subsidiaries have adopted the VAT procedure of the Group.

Note that for IRES purposes, A2A S.p.A. files for tax on a consolidated basis, together with its main subsidiaries, in accordance with arts. 117-129 of DPR 917/86. To this end, with each of the subsidiaries joining, a special contract was drawn up to regulate the tax advantages/disadvantages transferred, with specific reference to the current entries. These contracts also govern the transfer of any excess of ROL as set forth by prevailing legislation.

The parent company provides the subsidiaries and affiliates with administrative, fiscal, legal, management and technical services in order to optimize the resources available in the company and to use the existing expertise in terms of economic convenience. These services are governed by specific service contracts stipulated annually. A2A S.p.A. also makes office space and operating areas at its own premises available to subsidiaries and associates, as well as associated services. These are provided at market conditions.

The companies A2A gencogas S.p.A. and A2A Energiefuture S.p.A., for a monthly fee related to the actual availability of the thermoelectric plants, provide to the Parent Company the power generation service.

Telecommunication services are provided by the subsidiary A2A Smart City S.p.A..

As of July 1, 2018, the ACSM-AGAM Group's related-party transactions with related parties of the A2A Group are shown as related parties.

Finally, note that pursuant to the Consob communication issued on September 24, 2010, bearing the provisions regarding related party transactions in accordance with Consob Resolution no. 17221 of March 12, 2010, as amended, on November 11, 2010, the Group had approved the procedure for related party transactions which took effect on January 1, 2011, and which aims to ensure the transparency and substantial fairness of the related party transactions executed by A2A S.p.A. directly, or through subsidiaries, identified in accordance with the IAS 24 revised accounting standard. The Board of Directors of June 20, 2016 resolved, with the approval of the Risk Control Committee, the review of the procedure "Regulation of transactions with Related Parties". The review of the procedure particularly involves the reduction, introduced optionally, of the threshold for transactions with subsidiaries of the Municipalities of Milan and Brescia, regarding which to provide for the application of the Procedure. Finally, the procedure was updated on June 22, 2017, following Consob Resolution no. 19925 of March 22, 2017.

Below are the tables with detail of the related party transactions, in accordance with the Consob Resolution no. 17221 of March 12, 2010:

Balance sheet *millions of euro*	Total 12 31 2018	Of which with related parties								
		Associated companies	Related companies	Municipality of Milan	Subsidiaries Municipality of Milan	Municipality of Brescia	Subsidiaries Municipality of Brescia	Related parties individuals	Total related parties	% effect on the balance sheet item
TOTAL ASSETS OF WHICH:	**10,333**	**122**	**27**	**65**	**13**	**17**	**1**	**-**	**245**	**2.4%**
Non-current assets	*7,251*	*4*	*14*	*-*	*-*	*4*	*-*	*-*	*22*	*0.3%*
Shareholdings	16	4	12	-	-	-	-	-	16	100.0%
Other non-current financial assets	29	-	2	-	-	4	-	-	6	20.7%
Current assets	*2,970*	*9*	*13*	*65*	*13*	*13*	*1*	*-*	*114*	*3.8%*
Trade receivables	1,781	9	13	65	13	12	1	-	113	6.3%
Other current assets	313	-	-	-	-	-	-	-	-	0.0%
Current financial assets	16	-	-	-	-	1	-	-	1	6.3%
Non-current assets held for sale	*112*	*109*	*-*	*-*	*-*	*-*	*-*	*-*	*109*	*97.3%*
TOTAL LIABILITIES OF WHICH:	**6,810**	**24**	**9**	**4**	**2**	**6**	**-**	**-**	**45**	**0.7%**
Non-current liabilities	*4,088*	*1*	*-*	*-*	*-*	*-*	*-*	*-*	*1*	*0.0%*
Provisions for risks and charges	642	1	-	-	-	-	-	-	1	0.2%
Current liabilities	*2,722*	*23*	*9*	*4*	*2*	*6*	*-*	*-*	*44*	*1.6%*
Trade payables	1,413	14	3	4	2	6	-	-	29	2.1%
Other current liabilities	581	7	6	-	-	-	-	-	13	2.2%
Current financial liabilities	694	2	-	-	-	-	-	-	2	0.3%

Income statement *millions of euro*	Total 12 31 2018	Of which with related parties								
		Associated companies	Related companies	Municipality of Milan	Subsidiaries Municipality of Milan	Municipality of Brescia	Subsidiaries Municipality of Brescia	Related parties individuals	Total related parties	% effect on the balance sheet item
REVENUES	**6,494**	**5**	**32**	**318**	**44**	**35**	**1**	**-**	**435**	**6.7%**
Revenues from the sale of goods and services	6,271	5	31	318	44	35	1	-	434	6.9%
Other operating revenues	223	-	1	-	-	-	-	-	1	0.4%
OPERATING EXPENSES	**4,598**	**25**	**2**	**2**	**4**	**8**	**-**	**-**	**41**	**0.9%**
Expenses for raw materials and services	4,332	1	2	-	4	-	-	-	7	0.2%
Other operating expenses	266	24	-	2	-	8	-	-	34	12.8%
LABOUR COSTS	**665**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**2**	**0.3%**
AMORTIZATION, DEPRECIATION, PROVISIONS AND WRITE-DOWNS	**643**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.0%**
RESULT FROM NON-RECURRING TRANSACTIONS	**14**	**6**	**-**	**-**	**-**	**-**	**-**	**-**	**6**	**42.9%**
FINANCIAL BALANCE	**(112)**	**3**	**1**	**-**	**-**	**6**	**-**	**-**	**10**	**(8.9%)**
Financial expenses	132	-	-	-	-	-	-	-	-	0.0%
Financial income	16	-	-	-	-	6	-	-	6	37.5%
Affiliates	4	3	1	-	-	-	-	-	4	100.0%
NET RESULT FROM DISCONTINUED OPERATIONS	**21**	**21**	**-**	**-**	**-**	**-**	**-**	**-**	**21**	**100.0%**

The complete financial statements are included in the section "Consolidated financial statements" of this report pursuant to Consob Resolution no. 17221 of March 12, 2010.

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With regard to the compensation paid to the corporate governance bodies, reference shall be made to the document "Remuneration Report – 2019" available on the website www.a2a.eu.

Consobb Communication no. DEM/6064293 of July 28, 2006

40) Consob Communication no. DEM/6064293 of July 28, 2006

On July 1, 2018, the Merger and Demerger transactions were effective between ACSM-AGAM, Aspem, AEVV, Lario Reti Holding and A2A S.p.A., which constituted the “Multi-utility of the North” as better described in the section “Significant events during the year” in the Report on Operations.

Since July 1, the A2A Group has fully consolidated the new ACSM-AGAM Group.

Guarantees and commitments with third parties

millions of euro	12 31 2018	12 31 2017
Guarantees received	706	670
Guarantees provided	1,182	1,152

Guarantees received

Guarantees received amounted to 706 million euro (670 million euro at December 31, 2017) and included 290 million euro for sureties and security deposits issued by subcontractors to guarantee the proper execution of the work assigned and 405 million euro for sureties and security deposits received from customers to guarantee the regularity of payments and guarantees received by the ACSM-AGAM Group for 11 million euro.

Guarantees provided and commitments with third parties

Guarantees provided amounted to 1,182 million euro (1,152 million euro at December 31, 2017), of which for obligations undertaken in the loan agreements of 91 million euro. These guarantees have been issued by banks for 693 million euro, insurance companies for 91 million euro and the parent company A2A S.p.A., as parent company guarantee, for 364 million euro and guarantees provided by the ACSM-AGAM Group for 34 million euro.

* * *

Group companies hold third party assets under concession, relating mainly to the integrated water cycle, amounting to 66 million euro.

Other information

1) Significant events for the Group after December 31, 2018

For a description, reference is made to the paragraph "Significant events after December 31, 2018" of the Report on operations.

2) Information on treasury shares

At December 31, 2018, A2A S.p.A. held 23,721,421 treasury shares, being 0.757% of share capital which consists of 3,132,905,277 shares, unchanged from the end of December 31, 2017.

At December 31, 2018, no treasury shares were held through subsidiaries, finance companies or nominees.

3) Transactions as per IFRS 3 revised

In 2018, the A2A Group completed the following acquisitions of investments, which fall within the provisions of IFRS 3:

- on July 1, 2018 was the effectiveness of the incorporation of the "Multi-utility of the North" through the merger and demerger operations between ACSM-AGAM, Aspem, AEVV, Lario Reti Holding and A2A S.p.A.;
- A2A Rinnovabili, a wholly-owned subsidiary of A2A S.p.A., completed the acquisition of two photovoltaic portfolios in Italy consisting respectively of 6 companies owning 5 photovoltaic plants, acquired from IMPAX (AIFM) Limited, and a holding company, owning 9 project companies, acquired from the Talesun Group.

The transactions summarized above are classified as business combinations in accordance with international standard IFRS 3 "Business Combinations"; the Group fully consolidated the companies through the application of the acquisition method prescribed by IFRS 3, by virtue of the control obtained on the entities acquired.

IFRS 3 requires all business combinations to be accounted for using the acquisition method within twelve months from acquisition. The acquirer must therefore recognize all the identifiable assets, liabilities and contingent liabilities relating to the acquisition at their fair values at the acquisition date and highlight the eventual recognition of goodwill.

The fee transferred in a business combination is determined at the date of acquisition of control and is equal to the fair value of assets transferred, liabilities incurred, and any equity instruments issued by the acquirer. Costs directly attributable to the transaction are recognized in the income statement when incurred. At the date of acquisition of control, the net equity of the investee companies is determined by attributing to individual assets and liabilities their fair value, except in cases where the IFRS provisions provide a different valuation criterion. Any residual difference with respect to the purchase cost, if positive, is recognized under the item "Goodwill" (hereinafter also goodwill); if negative, it is recognized in the income statement.

ACSM-AGAM Operation

On January 23, 2018, the shareholders A2A S.p.A., Lario Reti Holding, ACSM-AGAM S.p.A., Aspem S.p.A., Azienda Energetica Valtellina Valchiavenna S.p.A., signed a framework agreement, subsequently amended on February 15, 2018, containing the main terms for an industrial and corporate partnership project to be carried out, through a series of corporate transactions promoted by ACSM-AGAM, as specified below:

- mergers by incorporation into ACSM-AGAM S.p.A. of: A2A IDRO4 S.r.l., Aspem S.p.A., AEVV Energie S.r.l., Acel Service S.r.l., AEVV S.p.A. and Lario Reti Gas S.r.l.;
- partial demerger of A2A Energia in favour of ACSM-AGAM mainly concerning a business unit consisting of contractual relationships with customers in the province of Varese in the energy sector.

Subsequently, on March 30, 2018, A2A S.p.A., Lario Reti Holding, the Municipality of Como, the Municipality of Monza, the Municipality of Sondrio and the Municipality of Varese signed a shareholders' agreement, in the form already substantially agreed by the parties and annexed to the Framework Agreement, concerning the shares of ACSM-AGAM after the merger project.

A2A S.p.A. participated in this transaction through the following transactions:

- the merger of A2A IDRO4 S.r.l. (wholly owned by A2A S.p.A.) in ACSM-AGAM S.p.A.;
- the partial demerger, to the benefit of ACSM-AGAM, of A2A Energia S.p.A. (wholly owned by A2A S.p.A.), concerning the business unit composed of "energy customers" in the province of Varese;
- the merger of Aspem S.p.A. (90% owned by A2A S.p.A.) in ACSM-AGAM S.p.A..

In return for these transactions, A2A S.p.A. received a total of 59,522,732 shares deriving from the capital increase promoted by ACSM-AGAM S.p.A. for a total of 147 million euro. In addition, A2A valued the interest previously held in ACSM-AGAM, equal to 23.94% of the share capital, at its fair value at the effective date of the combination, in accordance with paragraphs 41 and 42 of IFRS 3 (Business combinations carried out in stages). Overall, the transferred consideration measured at fair value amounted to 188 million euro. Therefore, following the above transactions, as of July 1, 2018 A2A S.p.A. obtained a 38.9% stake in the capital of ACSM-AGAM post-combination. This percentage was subsequently increased following the mandatory takeover bid promoted jointly by the shareholders A2A S.p.A. and Lario Reti pursuant to and for the purposes of articles 102 and 106, paragraphs 1 and 109, of the Consolidated Finance Act, as explained below.

This combination can be identified as a business combination within the meaning of IFRS 3 "Business combinations", for A2A S.p.A., which has fully consolidated the ACSM-AGAM Group as of July 1, 2018 by virtue of the legal control it obtained over the acquired entities, as a result of the agreements signed by the shareholders.

IFRS 3 requires all business combinations to be accounted for using the acquisition method within twelve months from acquisition. The acquirer must therefore recognize all the identifiable assets, liabilities and contingent liabilities relating to the acquisition at their fair values at the acquisition date and highlight the eventual recognition of goodwill. Business combination transactions are recognized using the acquisition method. The fee transferred in a business combination is determined at the date of acquisition of control and is equal to the fair value of assets transferred, liabilities incurred, and any equity instruments issued by the acquirer. Costs directly attributable to the transaction are recognized in the income statement when incurred. At the date of acquisition of control, the net equity of the investee companies is determined by attributing to individual assets and liabilities their fair value, except in cases where the IFRS provisions provide a different valuation criterion. Any residual difference with respect to the purchase cost, if positive, is recognized under the item "Goodwill" (hereinafter also goodwill); if negative, it is recognized in the income statement.

At December 31, 2018, the final allocation of the price paid by A2A S.p.A. at the fair value of the assets and liabilities of ACSM-AGAM (Purchase Price Allocation - PPA) was completed. The purpose of the PPA process is to allocate, at the acquisition date, the cost of the business combination to the assets, liabilities and contingent liabilities of the acquiring company. The valuation, carried out by an independent expert, was based on projections of the economic and financial plans and the assumption of realization of such plans. For the purpose of accounting the results of the Purchase Price Allocation process, the acquisition method was used with the recognition of partial goodwill. In order to identify the assets and liabilities involved in the transaction, the criteria for identifying tangible and intangible assets provided for respectively in IAS 38 and IAS 16, as well as IFRS 13 that provides the definition of fair value of an asset as the price for the sale of an asset or payable for the transfer of a liability in a regular transaction in the main market at the valuation date, at current market conditions, irrespective of whether said price is directly observable or is estimated using another market technique. Assets and liabilities identified following compliance with the above criteria, were valued using methods that correlate the capital value of the asset to the ability to generate cash flows for the remuneration of third-party lenders and shareholders.

Operating assets are valued using: i) the income method (definite useful life of assets); ii) market value. Non-operating assets (land and buildings) were valued at market value (cadastral records of assets valued); lastly, customer lists, the waste-to-energy plant and the district heating of Monza were evaluated through the Multi Period Excess Earnings Method (MPEE), residual method based on the principle that since the entire income of the acquired company must be allocated to the assets identified in the PPA, the income attributable to the dominant strategic asset (the customer network) can be obtained by difference, deducting from the total income the ordinary remuneration of all other tangible and intangible assets. The Purchase Price Allocation process resulted in an increase of 87 million euro in customer lists, 32 million euro in concessions and agreements and 33 million euro in deferred taxes. In the PPA, the value of shareholders' equity of ACSM-AGAM pertaining to minorities was also set at 247 million euro subsequently modified following the TOB. Lastly, residual goodwill of 31 million euro was recognized.

Totalitarian takeover bid and recovery of the free float

In accordance with the agreement, A2A S.p.A. and Lario Holding have jointly promoted the total takeover bid pursuant to and for the purposes of articles 102 and 106, paragraphs 1 and 109, of the Consolidated Finance Act on 26,264,874 ordinary shares of ACSM-AGAM S.p.A., corresponding to 13.31% of the share capital, at a price of 2.47 euro per share.

A2A took over 73.41% of the total residual shares and Lario Reti Holding took over the remaining 26.59%. As a result of the procedure, a total of 17,247,921 shares, equal to 8.74% of the remaining share capital, were tendered, for a total value of 42,602,365 euro, of which 73.41% is attributable to A2A, which thus rose to 45.33% of the total number of shares. Subsequently, on December 12, 2018, the recovery of the free float was concluded through the sale of 10,717,426 ordinary shares of ACSM-AGAM, representing 5.43% of the share capital of ACSM-AGAM, through an Accelerated Bookbuilding procedure reserved for qualified investors in Italy and institutional investors abroad. The sale price per share was 1.46 euro for a total value of 15,647,442 euro. Of the total 5.43% sold, 3.98% is attributable to A2A which, ultimately, currently holds 41.34% of the total shares of ACSM-AGAM. From the operation to recover the free float, A2A S.p.A. realised a loss of 7.7 million euro.

Business Combinations Rinnovabili Group

In the first half of 2018, A2A Rinnovabili S.p.A. completed the acquisition of 100% of 6 companies owning 5 photovoltaic plants from IMPAX (AIFM) Limited.

The transaction was concluded for a value of 17.7 million euro, of which 14.6 million euro for the purchase of shareholdings and 1.5 million euro for the entry of the loan of the former shareholders. Contractually, the payment of 3.58% of the shareholding purchase portion occurred at closing, on February 28, 2018, and the remaining is expected by December 31, 2021.

On closing, the transaction generated goodwill of 14 million euro for A2A Rinnovabili S.p.A..

The Group completed the Purchase Price Allocation process for the acquisition of the photovoltaic portfolio from the IMPAX Group within the timeframe set out in IFRS 3.

The PPA process determined the allocation of the highest amount paid, recognized by A2A Rinnovabili S.p.A. at the date of acquisition, under Other intangible assets for 20 million euro and the related deferred taxes for 6 million euro.

The second transaction was concluded for a value of 40 million euro, of which 1 million euro for the purchase of shareholdings and 39 million euro for the settlement of the loan of the former shareholders. The value of the transaction was fully settled at the time of closing.

At the acquisition date, December 17, 2018, the shareholders' equity of the acquired company, TS Energy Italy, amounted to 9 million euro, against the recognition of a value of the investment in A2A Rinnovabili S.p.A. of 1 million euro; the transaction thus generated a badwill recorded in the income statement, for 8 million euro.

4) information on non-current assets held for sale and discontinued operations (IFRS 5)

The item "Non-current assets held for sale" had a balance of 112 million euro at December 31, 2018 (224 million euro at December 31, 2017). This item includes 109 million euro relating to the fair value of the shareholding in EPCG, 18.70% of which is held by A2A S.p.A. (41.75% at December 31, 2017), since this was a discontinued operation in compliance with IFRS 5 following management's decision of July 3, 2017 to exercise the put option on the entire share package. The decrease compared to December 31, 2017 is due to the collections in the year under review by virtue of a new agreement negotiated with the Government of Montenegro, and approved by the same on April 27, 2018, which provides for the execution of the put option exercised by A2A S.p.A. on July 3, 2017 in four tranches in the period between May 1, 2018 and July 31, 2019, with an acceleration compared to the terms set by the Shareholders' Agreement of August 29, 2016 (i.e. 7 tranches from May 1, 2018 to May 1, 2024). Also included are 3 million euro for the reclassification of the shareholdings in Commerciale Gas & Luce S.r.l. and Energy Trade S.p.A. of the ACSM-AGAM Group.

Summarized figures relating to these assets and liabilities are as follows.

Figures at December 31, 2018 *millions of euro*	EPCG	ACSM-AGAM Group	Total
ASSETS AND LIABILITIES HELD FOR SALE			
Non-current assets	109	3	112
Current assets	-	-	-
Total assets	**109**	**3**	**112**
Non-current liabilities	-	-	-
Current liabilities	-	-	-
Total liabilities	**-**	**-**	**-**

5) Rules on public funding (Compliance with art. 1, paragraphs 125 et seq. of Law 124/17)

The information given in the following table, annexed to the explanatory notes to the consolidated financial statements, is provided in compliance with art. 1, paragraphs 125 et seq. L. 124/17, which is the subject of this year's first application, despite the well-founded belief that, having regard to their rationale (and location), the purpose of the rules in question is to highlight only the "economic advantages" that the public administration attributes to certain subjects and not in general terms and that, therefore, the rules themselves concern only "advantages" granted ad hoc (and not by virtue of general rules) to specific subjects.

Notwithstanding the above, the information below is the result of an effort to interpret the regulatory data, which is not clear both in its subjective and objective perimeter. This lack of clarity has already been highlighted by the competent ministries themselves, who have also considered it necessary to seek an opinion from the Council of State, in order first to settle the same time period as the obligations provided for in the aforementioned rules.

Requirements pursuant to article 1, paragraphs 125-128, Law 124/17

RECEIVING PARTY	DISBURSING PARTY	TYPE OF CONTRIBUTION	UNIT OF MEASURE	VALUE
A.S.R.A.B. S.r.l.	GSE	All-inclusive rate	Euro	440,162
A2A Ambiente S.p.A.	CDP	Facilitated financing	Euro	1,818,393
A2A Ambiente S.p.A.	CIAL	Contribution for the recovery of aluminium	Euro	403,007
A2A Ambiente S.p.A.	COREPLA	Contribution for the selection of plastic	Euro	4,544,004
A2A Ambiente S.p.A.	GSE	All-inclusive rate	Euro	2,139,457
A2A Ambiente S.p.A.	GSE	CIP 6/92 incentive	Euro	72,466,895
A2A Ambiente S.p.A.	GSE	Withdrawal regime	Euro	108,087
A2A Ambiente S.p.A.	GSE	Guarantee of origin	MW/h	417,301
A2A Ambiente S.p.A.	RICREA	Contribution for the recovery of steel from treatment plants	Euro	93,788
A2A Calore & Servizi S.r.l.	GSE	White Certificates	No.	57,994
A2A Calore & Servizi S.r.l.	GSE	Thermal Account	Euro	94,918
A2A Calore & Servizi S.r.l.	GSE	Withdrawal regime	Euro	229,808
A2A Calore & Servizi S.r.l.	GSE	All-inclusive rate (former Green Certificates)	Euro	3,197,125
A2A Calore & Servizi S.r.l.	Ministry of the Environment	Free PNA assignments	No.	68,526
A2A Ciclo Idrico S.p.A.	Mountain community Sand Valley	Contribution to the plant	Euro	154,857
A2A Ciclo Idrico S.p.A.	Ambit Office of Brescia	Contribution to the plant	Euro	218,386
A2A Energiefuture S.p.A.	GSE	Energy account	Euro	362,755
A2A Energy Solutions S.r.l.	GME	White Certificates	No.	2,359
A2A gencogas S.p.A.	GSE	Energy account	Euro	432,809
A2A gencogas S.p.A.	GSE	Free PNA assignments	Ton	3,590
A2A IDRO4 S.r.l.	GSE	Withdrawal regime	Euro	53,278
A2A IDRO4 S.r.l.	GSE	All-inclusive rate	Euro	190,581
A2A Illuminazione Pubblica S.r.l.	Brescia Infrastrutture S.r.l.	Contribution to the plant	Euro	27,853
A2A Illuminazione Pubblica S.r.l.	Municipality of Brescia	Contribution to the plant	Euro	39,518
A2A Illuminazione Pubblica S.r.l.	Istituti ospedalieri bresciani S.p.A.	Contribution to the plant	Euro	7,560
A2A Illuminazione Pubblica S.r.l.	Nuovi assetti urbani S.p.A.	Contribution to the plant	Euro	22,890
A2A Illuminazione Pubblica S.r.l.	Lombardy Region	Contribution to the plant	Euro	96,000
A2A Illuminazione Pubblica S.r.l.	Rete ferroviaria italiana S.p.A.	Contribution to the plant	Euro	7,800
A2A S.p.A.	CDP-MPS	Decree Law 74/2012-Decree Law 95/2012	Euro	181,911

A2A S.p.A.	GSE	Former Green Certificates	Euro	47,589,429
A2A S.p.A.	GSE	Green Certificates	MW/h	180,948
A2A S.p.A.	GSE	Guarantees of origin	MW/h	4,617,893
A2A S.p.A.	GSE	Withdrawal regime	Euro	243,001
A2A S.p.A.	GSE	All-inclusive rate	Euro	377,684
A2A S.p.A.	Lombardy Region	2002 T 12 - Interventions for the network management of services and for the Electronic Government in the PA expiry 06/30/2025	Euro	15,043
A2A S.p.A.	Lombardy Region	2000 B 203 - House of Energy expiry 06/30/2023	Euro	271,915
Amsa S.p.A.	CIAL	Contribution for the recovery of aluminium	Euro	265,662
Amsa S.p.A.	COMIECO	Contribution for the recovery of paper	Euro	4,025,225
Amsa S.p.A.	COREPLA	Contribution for the recovery of plastic	Euro	11,344,680
Amsa S.p.A.	FONSERVIZI	FONSERVIZI Services Training Fund	Euro	98,160
Amsa S.p.A.	RICREA	Contribution for the recovery of steel	Euro	309,178
Amsa S.p.A.	RILEGNO	Contribution for the recovery of wood	Euro	63,281
Aprica S.p.A.	CIAL	Contribution for the recovery of aluminium	Euro	27,683
Aprica S.p.A.	COMIECO	Contribution for the recovery of paper	Euro	1,938,192
Aprica S.p.A.	COREPLA	Contribution for the recovery of plastic	Euro	2,738,992
Aprica S.p.A.	Lombardy Region	1996 F 1 - Mountain expiry 06/30/2020	Euro	139,963
Aprica S.p.A.	RILEGNO	Contribution for the recovery of wood	Euro	70,605
Bellariva Enertel 01 S.r.l.	GSE	Energy account	Euro	412,595
Bellariva Enertel 01 S.r.l.	GSE	Guarantees of origin	MW/h	1,440
Bellariva Enertel 06 S.r.l.	GSE	Energy account	Euro	408,440
Bellariva Enertel 06 S.r.l.	GSE	Guarantees of origin	MW/h	1,411
Bellariva Enertel 10 S.r.l.	GSE	Energy account	Euro	416,759
Bellariva Enertel 10 S.r.l.	GSE	Guarantees of origin	MW/h	1,449
Consul System S.p.A.	GME	White Certificates	No.	146,718
Consul System S.p.A.	European Union	Contribution for the year	Euro	47,125
Free Energy S.r.l.	GSE	Energy account	Euro	1,990,104
Free Energy S.r.l.	GSE	Guarantees of origin	MW/h	8,739
Helios 1 S.r.l.	GSE	Energy account	Euro	1,742,706
Helios 1 S.r.l.	GSE	Guarantees of origin	MW/h	8,289
I.FOTOGUIGLIA S.r.l.	GSE	Energy account	Euro	1,824,932
I.FOTOGUIGLIA S.r.l.	GSE	Guarantees of origin	MW/h	7,710
INTHE1 S.r.l.	GSE	Energy account	Euro	1,699,519
INTHE1 S.r.l.	GSE	Guarantees of origin	MW/h	12,169
INTHE2 S.r.l.	GSE	Energy account	Euro	500,052
INTHE2 S.r.l.	GSE	Guarantees of origin	MW/h	2,566
renewA21 S.r.l.	GSE	Energy account	Euro	875,827
renewA21 S.r.l.	GSE	Guarantees of origin	MW/h	2,688
renewA22 S.r.l.	GSE	Energy account	Euro	311,559
renewA22 S.r.l.	GSE	Guarantees of origin	MW/h	914
renewA23 S.r.l.	GSE	Energy account	Euro	363,116
renewA23 S.r.l.	GSE	Guarantees of origin	MW/h	1,141
renewA24 S.r.l.	GSE	Energy account	Euro	1,399,148
renewA24 S.r.l.	GSE	Guarantees of origin	MW/h	3,242
renewA25 S.r.l.	GSE	Energy account	Euro	1,189,121
renewA25 S.r.l.	GSE	Guarantees of origin	MW/h	3,726
renewA26 S.r.l.	GSE	Energy account	Euro	632,537
renewA26 S.r.l.	GSE	Guarantees of origin	MW/h	2,154

renewA27 S.r.l.	GSE	Energy account	Euro	1,457,122
renewA27 S.r.l.	GSE	Guarantees of origin	MW/h	5,268
renewA28 S.r.l.	GSE	Energy account	Euro	301,318
renewA28 S.r.l.	GSE	Guarantees of origin	MW/h	1,129
Retragas S.r.l.	Municipality of Irma	Contribution to the plant	Euro	7,500
Retragas S.r.l.	Mountain Community Valle Trompia	Contribution to the plant	Euro	50,000
Retragas S.r.l.	Lombardy Union of Mountain Municipalities	Contribution to the plant	Euro	67,500
Sicura S.r.l.	GSE	Withdrawal regime	Euro	97,757
T.F.V. 1 S.r.l.	GSE	Energy account	Euro	1,023,536
T.F.V. 1 S.r.l.	GSE	Guarantees of origin	MW/h	7,190
T.F.V. 2 S.r.l.	GSE	Energy account	Euro	172,105
T.F.V. 2 S.r.l.	GSE	Guarantees of origin	MW/h	1,854
LA BI.CO DUE S.r.l.	COREPLA	Contribution for the recovery of plastic	Euro	806,164
Linea Ambiente S.r.l.	GSE	CIP 6/92 incentive	Euro	264,290
Linea Ambiente S.r.l.	GSE	Former Green Certificates	Euro	135,651
Linea Ambiente S.r.l.	GSE	All-inclusive rate	Euro	403,146
Linea Green S.p.A.	GSE	White Certificates	No.	4,930
Linea Green S.p.A.	GSE	CIP 6/92 incentive	Euro	233,247
Linea Green S.p.A.	GSE	Energy account	Euro	172,521
Linea Green S.p.A.	GSE	Former Green Certificates	Euro	1,762,731
Linea Green S.p.A.	ARERA	Free PNA assignments	No.	10,155
Linea Green S.p.A.	GSE	Guarantees of origin	MW/h	134,942
Linea Green S.p.A.	GSE	Withdrawal regime	Euro	239,333
Linea Green S.p.A.	GSE	All-inclusive rate	Euro	4,687,681
Linea Green S.p.A.	Lombardy Region	Non-repayable and repayable grants	Euro	7,500
Linea Reti e Impianti S.r.l.	GSE	White Certificates	No.	2,592
Linea Reti e Impianti S.r.l.	ARERA	Free PNA assignments	No.	13,486
Linea Reti e Impianti S.r.l.	GSE	All-inclusive rate	Euro	572,698
Linea Gestioni S.r.l.	Municipality of Cremona	Non-repayable and repayable grants	Euro	33,593
Lomellina Energia S.r.l.	GSE	CIP 6/92 incentive	Euro	8,407,192
Lomellina Energia S.r.l.	GSE	Former Green Certificates	Euro	776,371
ACSM-AGAM S.p.A.	GSE	Energy account	Euro	160,966
ACSM-AGAM S.p.A.	GSE	Former Green Certificates	Euro	150,000
ACSM-AGAM S.p.A.	GME	Guarantees of origin	MW/h	25,000
ACSM-AGAM S.p.A.	GSE	All-inclusive rate	Euro	281,554
ACSM-AGAM S.p.A.	Fondimpresa	Non-repayable and repayable grants	Euro	17,598
ACSM-AGAM S.p.A.	GSE	Withdrawal regime	Euro	63,967
AEVV Impianti S.r.l.	GSE	Energy account	Euro	160,662
AEVV Impianti S.r.l.	GSE	Withdrawal regime	Euro	18,423
Varese Risorse S.r.l.	GSE	White Certificates	No.	866
Varese Risorse S.r.l.	GSE	Energy account	Euro	12,500
Varese Risorse S.r.l.	GSE	Former Green Certificates	Euro	150,000
Comocalor S.r.l.	Ministry of the Environment	Free PNA assignments	No.	3,316
Reti VV S.r.l.	Ministry of the Interior	Contributions under Law 138/84	Euro	28,048
AEVV Farmacie S.r.l.	Ministry of the Interior	Contributions under Law 138/84	Euro	14,024
Acsm Agam Ambiente S.r.l.	CONAI	Contribution for separate collection	Euro	15,185
Acsm Agam Ambiente S.r.l.	COMIECO	Contribution for paper packaging	Euro	3,000
AARGA S.p.A.	GSE	White Certificates	No.	72

Despite the above conviction, the data in the table has been indicated solely on the basis of the exegesis of the bare literal data of the rules, since to date there have been no interpretative aids from the ministerial side for companies, as desired by several parties. The information contained in the above table is therefore the result of a mere reading of the standards and the explanations received from some trade associations.

Again in the context of the vagueness referred to above, it seemed reasonable and proportionate at times to refer, as an analogical criterion of interpretation, to the State aid scheme, thus excluding from the scope of the disclosure, as set out in the annexed table, measures which certainly do not qualify as such.

The only forms of contribution that appear in the table are those that, in this instance of first-time application of the rules, seemed reasonable (art. 3 Cost.) and proportionate (art. 5 TFUE) to classify as subsidies, contributions and/or advantages, it being understood that other information is (also in the wake of the principle pursuant to art. 18 L. 241/1990) available elsewhere, including the State Aid Register.

Therefore, the amounts that can be classified as *consideration* for services or other forms that do not result in the giving of a good or a quantity of money or other negotiable title and that therefore cannot be considered as having been *received* (such as, for example, tax relief) have not been indicated: also in order to avoid offering irrelevant data, according to the criterion stigmatized in paragraph 127 of the same Article 1 Law 124/17, which precisely prescribes "*to avoid the accumulation of irrelevant information*".

It should also be noted that the companies of the A2A Group operate (for the most part) in regulated sectors. Therefore, some sums are recognized by public bodies, but not as subsidies/contributions, but as recognition of the activities they provide or as forms of compensation for costs incurred to meet specific regulatory obligations[(1)]. Also all these forms of payment have not been indicated in the annexed table: also in compliance both with the principles of proportionality and reasonableness and with the interpretation criteria that the company has identified (see above).

The rules in question do not even clarify on what basis (whether on a cash basis or on an accrual basis) information should be collected. Given the absence of indications, also in relation to this profile, the company opts for the accrual basis, considering that this is the basis for the entire financial statements to which this document refers.

Despite the above doubtful situation, some cases of "plant contributions" have also been identified. The amounts, shown in the table above, relating to this case, refer to contributions recorded in 2018, reducing the value of plants owned by the company in 2018.

From another point of view, it should be noted - also within the framework mentioned above - that certain contributions/benefits/incentives indicated in the table are then (sometimes pro-rata) transferred to other parties on the basis of precise contractual relationships. In this case, it was considered that the company that *materially* receives the contribution/benefit/incentive is required to disclose, without subsequent events (precisely of a contractual nature).

Given the framework outlined and the extreme severity of the penalties provided for by the rules under discussion, it was decided to also indicate the contributions received on the basis of agreements entered into with consortia belonging to the chain CONAI (COMIECO, COREVE , etc..), although these contributions (a) correspond, on the one hand to an asset and, on the other hand (b) are sometimes transferred, possibly with mechanisms of adjustment, to other bodies/subjects, on the basis of precise contractual provisions, not subject to the disclosure required by the rules.

It is to be hoped that, even in view of the very serious penalties provided for, the provisions in question will be the subject of regulatory measures that will make it possible to understand their exact scope.

6) IFRS 16 Leases:

As already explained in the section of this Report entitled "Changes in International Financial Reporting Standards ," in 2018, the Group completed the analyses required to adopt the standard as of January 1, 2019.

1 This is the case, for example, with the capacity payment mechanism and the scheme to support essential plants in the electricity generation sector or the tariff contribution for the fulfilment of energy efficiency obligations by electricity and gas distributors.

The Group decided to apply the standard retroactively without restating the comparative data and accounting for the cumulative effect of the initial application of the standard as from January 1, 2019, recognising, within the Statement of Financial Position, the assets consisting of the right to use leased assets and the lease liabilities at the present value of the remaining payments due.

It should be noted that the discount rate used to determine the present values of assets and liabilities deriving from lease contracts is that corresponding to the average rate of financing of the Group.

It should be noted that, as a practical expedient, the Group has made use of the option provided for in paragraph 6 of the standard not to apply the provisions of paragraphs 22 to 49 of the standard to the following categories:

a) short-term leases;

b) leases whose underlying assets are of low value.

The analyses carried out have identified the impacts on the economic and financial situations. The table below provides details of the estimated impacts for the Group:

millions of euro	**01/01/2019**
Assets	
Tangible assets	112.6
Deferred tax assets	0.3
Deferred assets	(0.1)
Liabilities	
Other current liabilities	(3.0)
Lease liabilities	116.4
Net impact on equity	**(0.6)**

millions of euro	**2019**
Amortization, depreciation	19.9
Operating lease costs (included in administrative expenses)	(20.7)
Operating result	**0.8**
Financial expenses	(0.4)
Pre-tax	**0.4**
Current taxes	(0.1)
Profit for the year	**0.3**

7) Financial risk management

The A2A Group operates in the electricity, natural gas and district heating industry and is exposed to various financial risks in performing its activity:

a) commodity risk;

b) interest rate risk;

c) exchange rate risk not related to commodities;

d) liquidity risk;

e) credit risk;

f) equity risk;

g) default and covenant non-compliance risk.

The commodity price risk, related to the volatility of energy commodity prices (gas, electricity, fuel oil, coal, etc.) and prices of environmental securities (EUA/ETS emission rights, white certificates, etc.), consists of the possible negative effects that a change in the market price of one or more commodities may have on the cash flows and income prospects of the company, including the exchange rate risk related to the same commodities.

Interest rate risk is the risk of additional financial costs as the result of an unfavourable change in interest rates.

Currency risk not related to commodities is the risk of higher costs or lower revenues because of an unfavourable change in exchange rates between currencies.

Liquidity risk is the risk that financial resources will not be sufficient to meet established financial and business obligations in a timely manner.

Credit risk is the exposure to potential losses deriving from non-performance of commitments by commercial, trading and financial counterparties.

Equity risk is the possibility of incurring losses due to an unfavourable change in the price of shares.

Default and covenant non-compliance risk represent the possibility that loan agreements or bond regulations to which one or more Group companies are party contain provisions allowing the counterparties, banks or bondholders, to ask the debtor for immediate reimbursement of the amounts lent if certain events take place.

Details on the risks to which the A2A Group is exposed are provided below.

a. Commodity risk

a.1) Commodity price risk and exchange rate risk involved in commodity activities

The Group is exposed to price risk, including the related currency risk, on all of the energy commodities that it handles, namely electricity, natural gas, heat, coal, fuel oil and environmental certificates; the results of production, purchases and sales are similarly affected by fluctuations in the prices of such energy commodities. These fluctuations act both directly and indirectly, through formulas and indexing in the pricing structure.

To stabilize cash flows and to assure the Group's economic and financial stability, A2A S.p.A. has an Energy Risk Policy that sets out clear guidelines to manage and control the above risks, based on guidance by the Committee of Chief Risk Officers Organizational Independence and Governance Working Group ("CCRO") and the Group on Risk Management of Euroelectric. Reference was also made to the Accords of the Basel Committee on bank supervision and the requirements laid down in international accounting standards on how to recognize the volatility of commodity price and financial derivatives in the income statement and balance sheet.

In the A2A Group, assessment of this kind of risk is centralized at the holding company, which has established a Group Risk Management Organizational Unit as part of the Planning, Finance and Control Organizational Unit. This unit has the task to manage and monitor market and commodity risks, to create and evaluate structured products, to propose financial energy risk hedging strategies, and to support senior management in defining the Group's energy risk management policies.

Each year, the Board of Directors of A2A S.p.A. sets the Group's commodity risk limits approving the PaR and VaR proposed (prepared in the Risk Committee) in conjunction with approval of the Budget/ Business Plan; Group Risk Management supervises the situation to ensure compliance with these limits and proposes to senior management the hedging strategies designed to bring risk within the set limits, if exceeded.

The activities that are subject to risk management include all of the positions on the physical market for energy products, both purchasing/production and sales, and all of the positions in the energy derivatives market taken by Group companies.

For the purpose of monitoring risks, industrial and trading portfolios have been separated and are managed in different ways. The industrial portfolio consists of the physical and financial contracts directly relating to the Group's industrial operations, namely where the objective is to enhance production capacity also through the wholesaling and retailing of gas, electricity and heat.

The trading portfolio comprises all contracts, both physical and financial, entered into to supplement the profits made from the industrial activities, i.e. all contracts that are ancillary though not strictly necessary to the industrial activity.

In order to identify trading activity, the A2A Group follows the Capital Adequacy Directive and the definition of assets held for trading provided by International Accounting Standard (IFRS) 9: namely assets held for the purpose of short-term profit taking on market prices or margins, without being for hedging purposes, and designed to create a high-turnover portfolio.

Given that they exist for different purposes, the two portfolios have been segregated and are monitored separately with specific tools and limits. More specifically, the trading portfolio is subject to particular risk control and management procedures as laid down in Deal Life Cycle documents.

Senior management is systematically updated on changes in the Group's commodity risk by the Group Risk Management Unit, which controls the Group's net exposure. This is calculated centrally on the entire asset and contract portfolio and monitors the overall level of economic risk assumed by the industrial and trading portfolios (Profit at Risk - PaR, Value at Risk - VaR, Stop Loss).

a.2) Commodity derivatives, analysis of transactions

Derivatives of the industrial portfolio considered hedges

The hedging of price risk by means of derivatives focuses on protecting against the volatility of energy prices on the power exchange (IPEX-EEX), stabilizing electricity price margins on the wholesale market with particular attention being paid to fixed price energy sales and purchases and stabilizing price differences deriving from various indexing mechanisms for the pricing of gas and electricity. To that end, hedging contracts were executed during the year on electricity purchase and sale agreements and on contracts to hedge the fee for the use of electricity transport capacity between the areas of the IPEX market (CCC contracts); hedging contracts were concluded with leading banks on contracts for the purchase of coal so as to protect sales margins and at the same time keep the risk profile to within the limits set by the Group's energy risk policy.

As part of the optimization of the portfolio of greenhouse gas emission allowances (see Directive 2003/87/EC), the A2A Group has stipulated Future contracts on the ICE ECX (European Climate Exchange) price. These are considered hedging transactions from an accounting point of view in the event of demonstrable surplus/deficit quotas.

The fair value at December 31, 2018 was 10.2 million euro (1.4 million euro at December 31, 2017).

Derivatives of the industrial portfolio not considered hedges

Again with a view to optimising the Industrial Portfolio, Future contracts have been entered into on the ICE ECX (European Climate Exchange) stock exchange price. These do not qualify as hedging transactions from an accounting point of view as they fail to meet the requirement set out in the accounting standards.

The fair value at December 31, 2018 was 0.0 million euro (-0.1 million euro at December 31, 2017).

Derivatives of the Trading Portfolio

As part of its trading activity, the A2A Group has taken out Future contracts on major European energy stock exchanges (EEX, ICE, Powernext) and forward contracts on the price of electricity with delivery in Italy and neighboring countries such as France, Germany and Switzerland. The Group has also stipulated Future, Forward and Option contracts on the ICE ECX (European Climate Exchange) stock exchange price. Also as part of trading activities, both Future and Forward contracts were also stipulated for the market price of gas (ICE-Endex, CEGH).

The fair value at December 31, 2018 was -2.7 million euro (8.4 million euro at December 31, 2017).

a.3) Energy Derivatives, risk assessment of Industrial Portfolio derivatives

PaR[2] or Profit at Risk, is used to assess the impact that fluctuations in the market price of the underlying have on the financial derivatives taken out by the A2A Group that are attributable to the industrial portfolio. It is the change in the value of a financial instruments portfolio within set probability assumptions as the result of a shift in the market indices. The PaR is calculated using the Montecarlo Method (at least 10,000 trials) and a 99% confidence level. It simulates scenarios for each relevant price driver depending on the volatility and correlations associated with each one, using as the central level the forward market curves at the balance sheet date, if available. By means of this method, after having obtained a distribution of probability associated with changes in the result of outstanding financial contracts, it is possible to extrapolate the maximum change expected over a time horizon given by the accounting period at a set level of probability. Based on this methodology,

2 Profit at Risk: statistical measurement of the maximum potential negative deviation of the margin of an asset portfolio in case of unfavourable market changes over a given time horizon and with a defined confidence interval.

over the time horizon of the accounting period and in the event of extreme market movements and at a 99% confidence level, the expected maximum negative change in financial derivatives outstanding at June 30, 2018 was 32.250 million euro (28.839 million euro at December 31, 2017).

The following are the results of the simulation with the related maximum variances:

millions of euro	12 31 2018		12 31 2017	
Profit at Risk (PaR)	*Worst case*	*Best case*	*Worst case*	*Best case*
Confidence level 99%	**(75.530)**	**89.251**	**(28.839)**	**35.046**

The A2A Group therefore expects, with a 99% probability, not to have changes compared to the fair value at December 31, 2018 exceeding 75.530 million euro of its entire portfolio of financial instruments due to commodity price fluctuations in the 12 months following.

If there are any negative changes in the fair value of derivatives, these would be compensated by changes in the underlying as the result of changes in market prices.

a.4) Energy Derivatives, risk assessment of Trading Portfolio derivatives

VaR (Value at Risk)[3] is used to assess the impact that fluctuations in the market price of the underlying have on the financial derivatives taken out by the A2A Group that are attributable to the trading portfolio. It is the negative change in the value of a financial instruments portfolio within set probability assumptions as the result of an unfavourable shift in the market indices. VaR is calculated using the RiskMetrics method with a holding period of 3 days and a confidence level of 99%. Alternative methods are used for contracts where it is not possible to perform a daily estimate of VaR such as stress test analysis

Under this method, in the case of extreme market movements, with a confidence level of 99% and a holding period of 3 days, the maximum estimated loss on the derivatives in question was 0.251 million euro at December 31, 2018 (0.314 million at December 31, 2017). In order to ensure closer monitoring of activities, VaR and Stop Loss limits are also set, understood as the sum of VaR, P&L Realized and P&L Unrealized.

The following are the results of the assessments:

millions of euro	12 31 2018		12 31 2017	
Value at Risk (VaR)	*VaR*	*Stop loss*	*VaR*	*Stop loss*
Confidence level 99%, holding period 3 days	**(0.251)**	**(0.251)**	**(0.314)**	**(0.314)**

b. Interest rate risk

The volatility of financial expenses associated to the performance of interest rates is monitored and mitigated through a policy of interest rate risk management aimed at identifying a balanced mix of fixed-rate and floating rate loans and the use of derivatives that limit the effects of fluctuations in interest rates.

At December 31, 2018, the structure of gross debt is as follows:

millions of euro	DECEMBER 31, 2018			DECEMBER 31, 2017		
	Before hedging	After hedging	% after hedging	Before hedging	After hedging	% after hedging
Fixed rate	2,706	2,993	81%	3,076	3,236	82%
Floating rate	972	685	19%	862	702	18%
Total	**3,678**	**3,678**	**100%**	**3,938**	**3,938**	**100%**

3 Value at Risk: statistical measurement of the maximum potential drop in the fair value of an asset portfolio in the event of unfavourable movements in the market with a given time horizon and confidence level.

At December 31, 2018, the following are the hedging instruments for interest rate risk:

millions of euro

HEDGING INSTRUMENT	HEDGED ASSET	DECEMBER 31, 2018		DECEMBER 31, 2017	
		Fair value	Notional	Fair value	Notional
IRS	Variable rate financing	(0.6)	36.4	(0.9)	19.4
IRS	Floating rate lease	(5.1)	31.4	(4.1)	26.2
Collar	Variable rate financing	(8.0)	95.2	(10.6)	114.3
Totale		**(13.7)**	**163.0**	**(15.6)**	**159.9**

With reference to the accounting treatment, hedging derivatives for interest rate risk can be classified as follows:

millions of euro

ACCOUNTING TREATMENT	DERIVATIVES	NOTIONAL		FAIR VALUE ASSETS		NOTIONAL		FAIR VALUE LIABILITIES	
		at 12/31/2018	at 12/31/2017	at 12/31/2018	at 12/31/2017	at 12/31/2018	at 12/31/2017	at 12/31/2018	at 12/31/2017
Cash flow hedge	Collar	-	-	-	-	95.2	114.3	(8.0)	(10.6)
Cash flow hedge	IRS	-	-	-	-	67.8	43.7	(5.7)	(5.0)
Fair value hedge	IRS	-	-	-	-	-	-	-	-
Fair value	Capped IRS	-	-	-	-	-	1.9	-	-
Fair value	Collar	-	-	-	-	-	-	-	-
Total				**-**	**-**			**(13.7)**	**(15.6)**

Derivatives on interest rates at December 31, 2018 in cash flow hedge refer to the following loans:

Loan	Derivative	Accounting
A2A S.p.A. loan with BEI: expiring in November 2023, residual balance at December 31, 2018 amounting to 95.2 million euro, at floating rate interest.	Collar to fully cover the loan and the same maturity, with a floor on Euribor rate 2.99% and 4.65% cap. At December 31, 2018, the fair value was negative for 8.0 million euro.	The loan is measured at amortized cost. The collar is a cash flow hedge, with 100% recognized in a specific equity reserve.
Linea Green loan with Unicredit: maturity May 2021, residual balance at December 31, 2018 amounting to 12.9 million euro, at floating rate.	IRS on 100% of the amount of the loan until maturity thereof. At December 31, 2018, the fair value was negative for 0.4 million euro.	The loan is measured at amortized cost. The IRS is a cash flow hedge, with 100% recognized in a specific equity reserve.
ACSM-AGAM loan with Intesa Sanpaolo: maturity June 2021, residual debt at December 31, 2018 amounting to 14.4 million euro, at floating rate.	IRS on 100% of the amount of the loan until maturity thereof. At December 31, 2018, the fair value was negative for 0.1 million euro.	The loan is measured at amortized cost. The IRS is a cash flow hedge, with 100% recognized in a specific equity reserve.
ACSM-AGAM loan with Unicredit: maturity June 2023, residual balance at December 31, 2018 amounting to 9.0 million euro, at floating rate.	IRS on 100% of the amount of the loan until maturity thereof. At December 31, 2018, the fair value was negative for 0.1 million euro.	The loan is measured at amortized cost. The IRS is a cash flow hedge, with 100% recognized in a specific equity reserve.
17 Leases of A2A Rinnovabili with various credit institutions and maturities, total debt at December 31, 2018 of 47.9 million euro, at variable rate.	IRS on 85% of the lease amount. At December 31, 2018, the fair value was negative for 5.1 million euro.	The IRS are in cash flow hedge, with 100% recognized in a specific equity reserve.

In order to provide a better understanding of the risks of interest rate fluctuations to which the Group is subjected annually at December 31, a sensitivity analysis was conducted of net financial expenses and valuation items of derivative financial contracts as a result of interest rate fluctuations.

A sensitivity analysis is provided relating to possible changes in the fair value of derivatives (excluding cross currency swaps) on shifting the forward rate curve by +50 bps and -50 bps:

millions of euro	12 31 2018 (*base case*: -15.4)		12 31 2017 (*base case*: -15.6)	
	-50 bps	+50 bps	-50 bps	+50 bps
Change in fair value of derivatives	**(2.1)**	**2.0**	**(2.8)**	**2.7**

This sensitivity analysis is calculated to determine the effect of the retrospective change of the forward interest rate curve of the fair value of derivatives ignoring any impact of the adjustment due to counterparty risk – “Bilateral Credit Value Adjustment” (bCVA) – introduced in the calculation of fair value in accordance with international accounting standard IFRS13.

c. Exchange rate risk not related to commodities

In relation to exchange rate risk other than that included in the price of commodities, the hedging instrument at December 31, 2018 is as follows:

millions of euro

HEDGING INSTRUMENT	HEDGED ASSET	DECEMBER 31, 2018		DECEMBER 31, 2017	
		Fair value	Notional (*)	Fair value	Notional (*)
Cross Currency IRS	Fixed rate loan in foreign currency	7.7	111.2	(7.9)	103.7

(*) the notional of the CCS is valued at the year-end ECB exchange rate.

With regard to the accounting treatment, it is specified that the hedging derivative above is in cash flow hedge with full recognition in the equity reserve.

In particular, the underlying of the Cross Currency IRS derivative refers to the bond at fixed rate of 14 billion yen with maturity 2036 bullet issued in 2006.

A cross currency swap contract was stipulated for the entire duration of this loan, which converts the principal and interest payments from yen into euro.

At December 31, 2018, the fair value of the hedge was positive for 7.7 million euro. This fair value would improve by 19.8 million euro in the event of a 10% decline in the forward curve of the euro/yen exchange rate (appreciation of the yen) and would worsen by 16.2 million euro in the event of a 10% rise in the forward curve of the euro/yen exchange rate (depreciation of the yen). The sensitivity analysis was performed with the aim of calculating the effect of changes in the forward curve of the euro/yen exchange rate on the fair value ignoring any impact on the adjustment due to the bCVA.

d. Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations in a timely manner or that it is able to do so under unfavourable economic conditions.

The profile of the Group's gross debt maturities is as follows:

millions of euro	Accounting balance 12 31 2018	Portions maturing within 12 months	Portions maturing after 12 months	Portions maturing by				
				12 31 2020	12 31 2021	12 31 2022	12 31 2023	After
Bonds	2,738	558	2,180	2	353	501	302	1,022
Finance lease payables	51	5	46	4	4	5	4	29
Financial payables to related parties	2	2	-					
Bank loans	887	129	758	147	97	86	84	344
TOTAL	**3,678**	**694**	**2,984**	**153**	**454**	**592**	**390**	**1,395**

The risk management policy is realized through (i) a debt management strategy diversified by funding sources and maturities, and (ii) maintenance of financial resources sufficient to meet scheduled and unexpected commitments over a given time horizon.

At December 31, 2018, the Group had a total of 1,284 million euro, as follows:
(i) revolving committed credit lines for 540 million euro, of which 140 maturing in 2021 and 400 in 2023, unused; (ii) unused long-term financing for a total of 120 million euro; (iii) cash and cash equivalents totalling 624 million euro of which 510 million at parent company level.

The Group also maintains a Bond Issue Program (Euro Medium Term Note Programme) of 4 billion euro, of which nominal 1,438 million euro still available.

The following table analyses the worst case for financial liabilities (including trade payables) in which all of the flows shown are undiscounted future nominal cash flows determined on the basis of residual contractual maturities for both principal and interest; they also include the undiscounted nominal flows of derivative contracts on interest rates.

12 31 2018 *millions of euro*	1-3 MONTHS	4-12 MONTHS	AFTER 12 MONTHS
Bonds	45	557	2,516
Payables and other financial liabilities	40	102	856
Total financial flows	**85**	**659**	**3,372**
Payables to suppliers	464	9	1
Total trade payables	**464**	**9**	**1**

12 31 2017 *millions of euro*	1-3 MONTHS	4-12 MONTHS	AFTER 12 MONTHS
Bonds	45	354	3,066
Payables and other financial liabilities	10	89	920
Total financial flows	**55**	**443**	**3,986**
Payables to suppliers	461	89	1
Total trade payables	**461**	**89**	**1**

e. Credit risk

Credit risk relates to the possibility that a counterparty, commercial or trading, may be in default, or fail to respect its commitment in the manner and timing provided by contract. This type of risk is managed by the Group through specific procedures (Credit Policy, Energy Risk Management procedure) and appropriate mitigation actions.

This risk is overseen by both the Credit Management function allocated centrally (and the corresponding functions of the operating companies) and the Group Risk Management Organizational Unit responsible for supporting the Group companies with reference to both commercial and trading activities. Risk mitigation is through the prior assessment of the creditworthiness of the counterparty and the constant verification of compliance with exposure limit as well as through the request for adequate guarantees.

The credit terms granted to customers as a whole have a variety of deadlines, in accordance with applicable law and market practice. In cases of delayed payment, default interest is charged as explicitly prescribed by the underlying supply contracts or by current law (application of the default rate as per Legislative Decree 231/2002).

Trade receivables are stated in the balance sheet net of any write-downs; the amount shown is considered to be a correct reflection of the realizable value of the receivables portfolio. For the aging of trade receivables, reference is made to note 7 "Trade receivables".

f. Equity risk

The A2A Group is exposed to equity risk limited to the holding of treasury shares held by A2A S.p.A., which at December 31, 2018 amounted to 23,721,421 shares corresponding to 0.757% of the share capital, which is made up of 3,132,905,277 shares.

From an accounting standpoint, as provided by IAS/IFRS, the purchase cost of treasury shares is recorded as decrease in shareholders' equity and not even if transferred will the eventual positive or negative difference, with respect to the purchase cost, have effects on the income statement. The purchase of treasury shares has been made to pursue development objectives such as transactions related to business projects consistent with the strategies that the company intends to pursue, in relation to which there is the opportunity of stock exchanges.

g. Covenants compliance risk

Bonds, loans, leases and committed revolving bank lines present Terms and Conditions in line with the market for each type of instrument. In particular, they envisage: (i) negative pledge clauses under which the parent company undertakes not to pledge, with exceptions, guarantees on its assets or those of its directly held subsidiaries over and above a specific threshold; (ii) cross- default/acceleration clauses which entail immediate reimbursement of the loans in the event of serious non-performance; and (iii) clauses that provide for immediate repayment in the event of declared insolvency on the part of certain Group companies.

Bonds include (i) 2,562 million euro (book value) issued as part of the EMTN Programme, which provide to investors a Change of Control Put in the event of a change of control of the company resulting in a rating downgrade at sub-investment grade level in the following 180 days (if within said 180 days, the company's rating should return to investment grade, the option may not be exercised); (ii) 113 million euro (book value) relating to the private bond in yen with maturity 2036 with a Put right clause in favour of the investor in the event that the rating is lower than BBB- or equivalent level (sub-investment grade); (iii) 32 million euro (book value) related to the bond of Talesun Energy Solution, with maturity 2032 with a Change of Control Put clause in the event of a change in control of the company and a series of real guarantees. The bond issue also requires compliance with financial covenants, as shown in the table below.

The loans stipulated with the European Investment Bank, with book value of 689 million euro, of which 344 million with maturity beyond 2023, contain a Credit Rating clause (if rating below BBB- or equivalent level to sub-investment grade), and include a change of control clause of the parent company, with the right for the bank to invoke, upon notice to the company containing indication of the reasons, the early repayment of the loan.

With regard to loans of the subsidiaries, the loan of A2A gencogas S.p.A. for a book value of 20 million euro is backed by a secured guarantee (mortgage) for a maximum of 120 million euro and contains two financial covenants, as shown in the table below.

The loan between Linea Green and Unicredit of 13 million euro is secured by real guarantees on the Company's properties and plants and includes a financial covenant, as shown in the table below.

Some finance lease of A2A Rinnovabili and some bank loans of ACSM-AGAM envisage financial covenants, as shown in the table below.

With reference to the bank lines revolving committed available, the line for 400 million euro with maturity August 2023 and the bilateral line for 100 million euro with maturity February 2021, include a Change of Control clause which in the event of a change of control of the company causing a Material Adverse Effect allows the banks to request the facility to be extinguished and early repayment of any amounts drawn.

At December 31, 2018, there was no situation of non-compliance with the covenants of the A2A Group companies.

A2A S.p.A. - Main financial covenants at December 31, 2018

COMPANY	BANK	LEVEL OF REFERENCE	LEVEL RECOGNIZED	DATE OF RECOGNITION
A2A gencogas	Intesa San Paolo	NFP/Equity <=2 NFP/EBITDA<=6	0.0 0.3	12/31/2018 12/31/2018
Linea Green	Unicredit	Residual debt/Equity <=1.4	0.2	12/31/2018
A2A Rinnovabili	ICCREA	ADSCR (Operating Cash Flow/ Lease Fees) =>1.10	2.34	12/31/2018
A2A Rinnovabili	UBI	ADSCR (Operating Cash Flow/ Lease Fees) =>1.25	2.79	12/31/2018
A2A Rinnovabili	Leasint	ADSCR (Operating Cash Flow/ Lease Fees) =>1.20	1.49	12/31/2018
Talesun	Bondholders	Consolidated Annual Debt Service Coverage Ratio =>1.20 Consolidated Loan Life Coverage Ratio =>1.20	2.04 1.96	12/31/2018 12/31/2018
ACSM-AGAM	UBI	Debt Service Coverage Ratio <=4.50 Gearing <=1.50	1.41 0.15	12/31/2018 12/31/2018
ACSM-AGAM	Intesa San Paolo	Debt Service Coverage Ratio <=4.35 Gearing <=1.10	1.41 0.15	12/31/2018 12/31/2018
Acsm Agam Reti	Unicredit	Debt Service Coverage Ratio <=4.50 Gearing <=1.10	1.41 0.15	12/31/2018 12/31/2018
Acsm Agam Reti	Cassa DDPP	Debt Service Coverage Ratio <=4.50 Gearing <=1.20	1.41 0.15	12/31/2018 12/31/2018

Analysis of forward transactions and derivatives

Tests were performed to determine whether these transactions qualify for hedge accounting in accordance with International Accounting Standard IFRS 9.

In particular:

1) transactions qualifying for hedge accounting under IFRS 9: can be analyzed between transactions to hedge cash flows (cash flow hedges) and transactions to hedge fair value of assets and liabilities (fair value hedges). For the cash flow hedges, the accrued result is included in gross operating margin when realized on commodity derivatives and in the financial balance for interest rate and currency derivatives, whereas the future value is shown in equity. For fair value hedge transactions, the impacts in the Income Statement are recorded within the same line of the financial statements;

2) transactions not considered as hedges for the purposes of IFRS 9, can be:

    a. margin hedges: for all hedging transactions of cash flows or the market value in line with internal risk policies, the accrued result and future value are included in gross operating margin for commodity derivatives and in the financial balance for interest rate and currency derivatives;

    b. trading transactions: the accrued result and future value are recognized above gross operating margin for commodities transactions and in financial income and expense for interest rate and currency transactions.

The use of derivatives in the A2A Group is governed by a coordinated set of procedures (Energy Risk Policy, Deal Life Cycle) which are based on industry best practices and designed to limit the risk of the Group being exposed to commodity price fluctuations, based on a cash flow hedging strategy.

The derivatives are measured at fair value based on the forward market curve at the balance sheet date, if the asset underlying the derivative is traded on markets with a forward pricing structure. In the absence of a forward market curve, fair value is measured on the basis of internal estimates using models that refer to industry best practices.

The A2A Group uses "continuous-time" discounting to measure fair value. As a discount factor, it uses the interest rate for risk-free assets, identified in the Euro Overnight Index Average (EONIA) rate and represented in its forward structure by the Overnight Index Swap (OIS) curve. The fair value of the cash flow hedges has been classified on the basis of the underlying derivative contracts in accordance with IFRS 9.

In compliance with the provisions of IFRS 13, the fair value of an over-the-counter (OTC) financial instrument is determined taking into account the non-performance risk. To quantify the fair value adjustment attributable to this risk, A2A has, in line with best market practices, developed a proprietary model called the "bilateral Credit Value Adjustment" (bCVA), which takes into account changes in the creditworthiness of the counterpart as well as the changes in its own creditworthiness.

The bCVA has two addends, calculated by considering the possibility that both counterparties go bankrupt, known as the Credit Value Adjustment (CVA) and the Debit Value Adjustment (DVA):

- the CVA is a negative component and contemplates the probability that the counterparty will default and at the same time that A2A has a receivable due from the counterparty;
- the DVA is a positive component and contemplates the probability that A2A will default and at the same time that the counterparty has a receivable due from A2A.

The bCVA is therefore calculated with reference to the exposure, measured on the basis of the market value of the derivative at the time of the default, the probability of default (PD) and the loss given default (LGD). This latter item, which represents the non- recoverable portion of the receivable in the case of default, is measured on the basis of the IRB Foundation Methodology as stated in the Basel 2 accords, whereas the PD is measured on the basis of the rating of the counterparties (internal rating based where not available) and the historic probability of default associated with this and published annually by Standard & Poor's.

Applying the above method did not result in significant changes in fair value measurements.

Instruments outstanding at December 31, 2018

A) On interest and exchange rates

millions of euro	Notional value (a) expiring within 1 year		Notional value (a) expiring within 1 and 5 years		Notional value (a) expiring over 5 years	Balance sheet value (b)	Progressive effect to income statement at 12 31 2018 (c)
	to be received	to be paid	to be received	to be paid			
Interest rate risk management							
- cash flow hedges as per IFRS 9		28		93	19	(14)	
- not considered hedges as per IFRS 9		-		-	-	-	
Total derivatives on interest rates	**-**	**28**	**-**	**93**	**19**	**(14)**	**-**
Exchange rate risk management							
- considered hedges as per IFRS 9 on commercial transactions on financial transactions				111	8		
- not considered hedges as per IFRS 9 on commercial transactions on financial transactions							
Total exchange rate derivatives	**-**	**-**	**-**	**111**	**8**	**-**	**-**

(a) Represents the sum of the notional value of the elementary contracts that derive from any dismantling of complex contracts.

(b) Represents the net receivable (+) or payable (-) recognized in the balance sheet following the measurement of derivatives at fair value.

(c) Represents the adjustment of derivatives to fair value recognized progressively over time in the income statement from the stipulation of the contract to the present day.

B) On commodities

The following is an analysis of the commodity derivative contracts outstanding at the balance sheet date set up for the purpose of managing the risk of the fluctuations in the market prices of commodities.

	Notional value millions of euro	Unit of measurement of the notional value	Notional value expiring within 1 year	Notional value expiring within 2 years	Notional value expiring within 5 years	Balance sheet value (*) millions of euro	Progressive effect to income statement (**) millions of euro
Energy product price risk management							
A. Cash flow hedges as per IFRS 9, including:						**10.2**	**-**
- Electricity	306.6	TWh	8.4	1.1		1.4	
- Oil		Bbl					
- Coal	32.9	Tons	360,358			(2.4)	
- Natural Gas	10.4	TWh	0.417			(1.3)	
- Natural Gas		Millions of cubic metres					
- Exchange rate		Millions of dollars					
- CO_2 Emission rights	48.6	Tons	2,464,000			12.5	
B. Considered fair value hedges as per IFRS 9						**-**	**-**
C. Not considered hedges as per IFRS 9 of which:						**(2.7)**	**(10.9)**
C.1 hedge margin						**0.0**	**0.1**
- Electricity		TWh					0.1
- Oil		Bbl					
- Natural Gas		MWh					
- Natural Gas		Millions of cubic metres					
- CO_2 Emission rights	1.3	Tons	50,000				
- Exchange rate		Millions of dollars					
C.2 Trading transactions						**(2.7)**	**(11.0)**
- Electricity	1,318.5	TWh	19.8	2.8		(5.5)	(13.1)
- Natural Gas	1,666.4	TWh	59.6	10.4		3.1	2.4
- CO_2 Emission rights	22.0	Tons	717,000	340,000		(0.3)	(0.3)
- Environmental Certificates		MWh					
- Environmental Certificates		Tep					
Total						**7.5**	**(10.9)**

(*) Represents the net receivable (+) or payable (-) recognized in the balance sheet following the measurement of derivatives at fair value.

(**) Represents the adjustment of derivatives to fair value recognized progressively over time in the Income statement from stipulation of the contract until the current date.

Financial and operating results for derivative transactions at December 31, 2018

Effects on the balance sheet

The following table shows the balance sheet figures at December 31, 2018, for derivative transactions.

millions of euro	NOTES	TOTAL
ASSETS		
NON-CURRENT ASSETS		**8**
Other non-current assets - Derivatives	5	8
CURRENT ASSETS		**163**
Other current assets - Derivatives	8	163
TOTAL ASSETS		**171**
LIABILITIES		
NON-CURRENT LIABILITIES		**14**
Other non-current liabilities - Derivatives	21	14
CURRENT LIABILITIES		**156**
Trade payables and other current liabilities - Derivatives	22	156
TOTAL LIABILITIES		**170**

Effect on the income statement

The following table sets out the income statement figures at December 31, 2018 arising from the management of derivatives.

millions of euro	Notes	Realised during the year	Change in fair value during the year	Amounts recognized in the income statement
REVENUES	26			
Revenues from the sale of goods				
Energy product price risk management and exchange rate risk management on commodities				
- considered hedges as per IFRS 9		39	-	39
- not considered hedges as per IFRS 9		58	103	161
Total revenues from the sale of goods		**97**	**103**	**200**
OPERATING EXPENSES	27			
Expenses for raw materials and services				
Energy product price risk management and exchange rate risk management on commodities				
- considered hedges as per IFRS 9		10	-	10
- not considered hedges as per IFRS 9		(20)	(114)	(134)
Total costs for raw materials and services		**(10)**	**(114)**	**(124)**
Total recognized in Gross operating income (*)		**87**	**(11)**	**76**
FINANCIAL BALANCE	33			
Financial income				
Interest rate risk management and equity risk management				
Income on derivatives				
- considered hedges as per IFRS 9		-	-	-
- not considered hedges as per IFRS 9		-	-	-
Total		**-**	**-**	**-**
Total financial income		**-**	**-**	**-**
Financial expenses				
Interest rate risk management and equity risk management				
Expenses on derivatives				
- considered hedges as per IFRS 9		(8)	-	(8)
- not considered hedges as per IFRS 9		-	-	-
Total		**(8)**	**-**	**(8)**
Total financial expenses		**(8)**	**-**	**(8)**
TOTAL RECOGNIZED IN FINANCIAL BALANCE		**(8)**	**-**	**(8)**

(*) These figures do not include the effect of the net presentation of the trading margin.

Classes of financial instruments

To complete the analyses required by IFRS 7 and IFRS 13, the following table sets out the various types of financial instrument that are to be found in the various balance sheet items, with an indication of the accounting policies used and, in the case of financial instruments measured at fair value, an indication of where changes are recognized (income statement or equity).

The last column of the table shows the fair value of the instrument at December 31, 2018, where applicable.

millions of euro	Criteria to measure the reported amount of financial instruments						
	Note	Financial instruments measured at fair value with changes recognized in:			Financial instruments measured at amortized cost	Amount as stated in the consolidated balance sheet at 12 31 2018	Fair value at 12 31 2018 (*)
		Income statement	Equity				
		(1)	(2)	(3)	(4)		
ASSETS							
Other non-current financial assets							
Financial assets measured at fair value of which:							
- unlisted		7				7	n.a.
- listed						-	-
Financial assets held to maturity						-	-
Other non-current financial assets					22	22	22
Total other non-current financial assets	3					**29**	
Other non-current assets	5				12	12	12
Trade receivables	7				1,781	1,781	1,781
Other current assets	8	145	18		150	313	313
Current financial assets	9				16	16	16
Cash and cash equivalents	11				624	624	624
Assets held for sale	12	112				112	112
LIABILITIES							
Financial liabilities							
Non-current and current bonds	18 and 23		111		2,627	2,738	2,738
Other non-current and current financial liabilities	18 and 23				940	940	940
Other non-current liabilities	21		14		134	148	148
Trade payables	22				1,413	1,413	1,413
Other current liabilities	22	148	8		425	581	581

(*) The fair value has not been calculated for receivables and payables not related to derivative contracts and loans as the corresponding carrying amount is a good approximation to this.

(1) Financial assets and liabilities measured at fair value with the changes in fair value recognized in the income statement.

(2) Cash flow hedges.

(3) Financial assets available for sale measured at fair value with profit/loss recognized in equity.

(4) Loans and receivables and financial liabilities measured at amortized cost.

Fair value hierarchy

IFRS 7 and IFRS 13 require that fair value classification of financial instruments to be based on the quality of the input source used to calculate the fair value.

In particular, IFRS 7 and IFRS 13 set out three levels of fair value:

- level 1: this level consists of financial assets and liabilities for which fair value is based on (unadjusted) prices for identical assets or liabilities quoted on active official or over-the-counter markets;
- level 2: this level consists of financial assets and liabilities for which fair value is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly;
- level 3: this level consists of financial assets and liabilities for which fair value is based on unobservable market data. This level includes instruments measured on the basis of internal estimates made using proprietary methods based on best sector practice.

An analysis of the assets and liabilities included in the three fair value levels is set out in the following fair value hierarchy table.

millions of euro	NOTES	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets measured at fair value	3		6		6
Other non-current assets	5		8		8
Other current assets	8	163			163
TOTAL ASSETS		**163**	**14**	**-**	**177**
Non-current financial liabilities	18	111			111
Other non-current liabilities	21		14		14
Other current liabilities	22	153	2	1	156
TOTAL LIABILITIES		**264**	**26**	**1**	**281**

Sensitivity analysis for financial instruments included in level 3

As required by IFRS 13, the following table sets out the effects arising from changes in the unobservable parameters used in calculating fair value for financial instruments included in level 3 of the hierarchy.

FINANCIAL INSTRUMENT	PARAMETER	PARAMETER CHANGE	SENSITIVITY (MILLIONS OF EURO)
Commodity Derivatives	Probability of Default (PD)	1%	0.00
Commodity Derivatives	Loss Given Default (LGD)	25%	0.14
Commodity Derivatives	Underlying interconnection capacity zonal Italy	1%	0.00

8) Main regulatory provisions regarding concessions and agreements in the sectors of activity in which the A2A group operates

Large hydroelectric derivation concessions (> 3 MW)

The national regulations governing hydroelectric concessions were originally dictated by the Royal Decree December 11, 1933, no. 1775, which was based on the granting of concessions by the State in a long-term logic, also in order to allow the concessionaires to amortize the significant investments necessary for the construction of the plants. With a view to transferring the concessions and the ownership of the relative works to the State, Article 25 of the R.D. 1775/1933 cit. provided that:

- all the collection, regulation and forced duct works and the discharge channels (wet works) passed free of charge on state property;
- any other building, machinery, plant for the use, transformation and distribution of the concession (dry works) could be acquired by the State by means of payment of a price equal to the estimated value of the work material, calculated at the time of entry into possession, abstracting from any assessment of the income that can be derived from it.

This regulatory framework was subsequently superseded first by electricity sector nationalization Law no. 1643/1962, which resulted in Enel taking over the majority[4] of hydroelectric concessions with the relative recognition of an unlimited duration, and then by the liberalisation of the electricity market as a result of Legislative Decree no. 79/1999(implementing Directive 96/92/EC), which introduced with art. 12 (and subsequent amendments) the principles of:

- the temporariness of the concessions, establishing a validity period (2029) for concessions without expiration because they are owned by Enel and assigning the term of December 31, 2010 for concessions that have already expired or are expiring by that date;
- contestability of concessions in the event of expiration, forfeiture or renunciation, providing, no later than 5 years before the expiration, the call for tenders by the competent administration (i.e. the Region) for the allocation of the same for consideration.

These regulations were subsequently amended by art. 37, paragraphs 4 and following, of Decree Law 83/2012 converted by Law 134/2012[5] that partially amended Legislative Decree no. 79/1999. The requirements, parameters and deadlines for carrying out the competitive procedure should have been set out in a specific ministerial decree (Tender MD) that was never issued. The time limit for the invitation to tender for the reallocation of the concession was set at 5 years before the concession expired.

Pending the reallocation of concessions, Legislative Decree 79/1999 (article 12, paragraph 8bis) provides that the outgoing concession holder is to continue to operate the concession under the same conditions as those laid down in the regulations and specifications in force.

In this stalemate, some Regions have enacted laws aimed at regulating the “temporary continuation of operations” for expired concessions, also providing for the imposition of an additional fee.

The recent Conversion Law no. 12/2019 of Decree Law December 14, 2018, no. 135 (Simplification DL) with article 11-quater has led to a significant boost to regionalization for regulations on large-scale derivation hydroelectric concessions.

In fact, the Regions have the power to regulate the procedures and criteria for the allocation of concessions by means of their own laws, the process for which must be completed by 2023 with the award of economic operators through tenders or public/private companies or through forms of partnership. The duration of the new concessions will be between 20 and 40 years, with the possibility of extending the maximum period by a further 10 years depending on the complexity of the project proposal and the amount of investment.

With specific regional measure (after consultation with ARERA), the following will be defined:

- a State fee to be paid on a six-monthly basis to the Regions, comprising a fixed component linked

4 With the exception of derivations in the ownership of self-producers, municipal companies and local authorities.

5 On September 26, 2013, as part of infringement procedure no. 2011/2026, the European Commission sent Italy a letter of formal notice contesting the non-compatibility of part of article 37 of Law 134/2012 with EU legislation. The procedure is still in progress.

to the average nominal power of the concession and a variable calculated as a percentage of normalized revenues;

- the possible obligation for the concessionaires to supply annually and free of charge 220 kWh per kW of concession power for at least 50% destined to public services of the provincial territories involved in the derivation.

For concessions expired or expiring on December 31, 2023, which are temporarily continued, an additional fee is also charged.

In terms of compensation to outgoing operators, the rule prescribes:

- for wet works, the transfer without compensation of ownership of the Regions, and in the case of investments - provided they are defined in the deed of concession or authorized by the granting body - an amount equal to the value of the part of the asset not depreciated;

- for dry works, the recognition of a residual value derived from accounting records or certified appraisal. In the event of non-use in the concession project, movable and immovable property will be treated differently.

The large-scale derivation hydroelectric concessions held by A2A S.p.A. located in Valtellina (with a nominal concession capacity of approximately 200 MW) have for the most part expired: with respect to these concessions, the Lombardy Region with Presidential Decree no. X/7693 of January 12, 2018 allowed the temporary continuation of the year until December 31, 2020, providing for the payment of an additional fee challenged by the company[6], except for a shorter term due to the reallocation. Other A2A S.p.A. concessions (plants in Mese, Udine and Calabria with a total nominal concession capacity of 345 MW), originally owned by Enel, expire in 2029.

Concessions for thermoelectric power plants

As far as concessions for thermoelectric power plants are concerned, the relevant regulations have evolved in a very heterogeneous manner. For example, with reference to concessions for the derivation of public water for industrial use, the discipline was initially defined by Law no. 2644 of August 10, 1884 and by Royal Decree 1775/1933 to subsequently have an outline on a more local basis also through agreements with specific consortia of reclamation and irrigation.

The granting bodies may be identified alternatively in the Region and in the Province for concessions for the derivation of public water and for those relating to the occupation of state-owned areas and in the Port Authorities for concessions relating to the occupation of maritime state-owned areas.

A2A Energiefuture S.p.A. and A2A gencogas S.p.A. hold the following types of concessions for the operation of their own thermoelectric power plants:

- concessions for the derivation of public water: (i) for the cooling of thermoelectric power plants; (ii) for industrial use; (iii) for other uses;

- concessions for the occupation of: (i) state-owned areas; (ii) maritime state-owned areas.

Distribution of natural gas

The regulations governing concessions for the distribution of natural gas through local networks, initially contained in the deeds of award stipulated with the municipalities in implementation of laws of principle dictated in the early 1900s, have been revised by articles 14 and 15 of Legislative Decree 164/2000 (transposing Directive 98/30/EC), which defined the criteria for standardizing the sector.

In particular, (i) a maximum duration of 12 years for concessions at full capacity was established, (ii) the award of the service by local authorities through a public tender and (iii) the relationship with the operator is regulated by a specific standard contract approved by ministerial decree containing, in particular, the procedures for performing the service, the quality objectives, the economic aspects and the conditions for early termination of the company for failure by the operator.

A transitional period is also provided for in order to put an early end to the licensing relationships in progress at the date of entry into force of Legislative Decree 164/2000 so as to allow effective implementation of the reform.

6 For further information, reference should be made to the section entitled *"Update of the main legal and tax disputes still pending"*.

Subsequently, in implementation of DL 159/2007, according to which the tenders for the award of the gas distribution service must no longer be carried out by individual municipalities but by Minimum Territorial Areas (ATEM), the Ministerial Decree of January 19, 2011 identified 177 ATEM, while the subsequent Ministerial Decree of October 18, 2011 defined the municipalities belonging to each area.

The reform process was completed with the entry into force of Ministerial Decree 226 of November 12, 2011, which over the years has been subject to numerous innovations extended also to Legislative Decree 164/2000, which defined the tender criteria and procedures, as well as the methods for determining the residual industrial value of existing plants dedicated to providing the service. This decree also indicated for each ATEM the terms within which the Contracting Authority has the obligation to start the tender procedure. The Municipality acts as the granting body of the concession, which continues even if it ceases as a result of the aforementioned early termination, until the full performance of the tenders for ATEM[7].

As far as the A2A Group is concerned, the natural gas distribution concessions are held by the companies Unareti S.p.A., LD Reti S.p.A. (LGH Group), Acsm Agam Reti Gas e Acqua S.p.A., Lario Reti Gas S.r.l. and Reti Valtellina Valchiavenna S.r.l. (three companies of the ACSM-AGAM Group): the main ones concern ATEM in Milan (already assigned pursuant to Ministerial Decree 226/2011), with reference to which a dispute is pending with 2i Rete Gas[8], and the provincial capitals of Brescia, Bergamo, Varese, Cremona, Lodi, Lecco and Sondrio (in addition to numerous municipalities in the province of Brescia, Bergamo, Chieti, Piacenza and Pavia).

Electricity distribution

Electricity distribution activities are carried out under a thirty-year concession granted by the Ministry of Economic Development for each municipal area, pursuant to art. 9 of Legislative Decree 79/1999. The concession relation includes the management of the distribution networks and the operation of the connected plants, ordinary and extraordinary maintenance, planning and identification of development interventions.

As far as the A2A Group is concerned, the electricity distribution concessions, all expiring in 2030, are held by Unareti S.p.A., LD Reti S.p.A. and LD Reti S.p.A. (LGH Group) and Reti Valtellina Valchiavenna S.r.l. (ACSM-AGAM Group) and concern the municipalities of Milan, Rozzano, Brescia, Cremona and Sondrio (in addition to numerous municipalities in the province of Brescia and Sondrio).

Integrated Water Service (SII)

In accordance with the provisions of Legislative Decree 152/2006, the SII is organized on the basis of Optimal Territorial Ambits (ATO) defined by the Regions and, as a rule, coinciding with the provincial territory. In compliance with the scope plan and the principle of a single management, the Ambit Government Entity (EGA) decides on the form of management (award by tender, mixed public-private company and in house providing) and, consequently, provides for the award, for 30 years, of the SII in compliance with national regulations on the organization of local public services to networks of economic importance. The direct award may be made to entirely public companies that meet the requirements of European law and are in any case owned by the local authorities covered by the ATO.

The SII is applies article 34 of Decree Law 179/12 supplemented by Law 115 of July 29, 2015, art. 8, paragraph 1, which establishes mandatory principles for local authorities for the award of services and regulates the transitional period of pre-existing awards validly absent. In particular, it is envisaged that the award of services provided by listed companies and subsidiaries of listed companies, such as those held by the subsidiaries of A2A S.p.A., will cease at the expiry date provided for in the service contract or in the other deeds governing the relationship.

Decree Law 133/2014 (Unlock Italy Decree) provided that, at the time of first application, the EGA, in order to ensure the achievement of the principle of single management within the ATO, provide for the award to the single manager of the area at the end of the existing management, operating on the basis of an award approved in accordance with the legislation pro tempore in force and not declared ceased pursuant to law.

7 When the ATEM tenders will be completed, the granting body can be identified alternatively in: 1) provincial capital (in the case of ATEM with capital), 2) most populous municipality (in the case of ATEM without capital), 3) network asset company (in the case of ATEM whose municipalities have decided to set it up).

8 For further information, reference should be made to the section entitled *"Update of the main legal and tax disputes still pending"*.

The legislator provided for certain exceptions to the establishment of the single operator by the EGA: in particular, in the event that the ATO coincides with the regional territory, it is allowed to award the SII in territorial areas, however, not less than the territory corresponding to the provinces or metropolitan cities.

The A2A Group carries out the SII, through its subsidiaries and safeguarded in accordance with Legislative Decree 152/2006, in Brescia and in numerous municipalities of the province through A2A Ciclo Idrico S.p.A. and ASVT S.p.A. and through Acsm Agam Reti Gas e Acqua S.p.A. (ACSM-AGAM Group) in Varese and Como and their provinces.

District heating

In Italy, there is no comprehensive legislative framework defining the way in which the district heating service is to be awarded, since neither the national legislator nor the administrative case-law in its rulings have unambiguously considered district heating as a local public service. In Lombardy, an initial discipline is dictated by Regional Law 26/2003.

In such a poorly defined regulatory context, the local authority that considers this service as a local public service regulates district heating using licensing schemes and, in previous years, also authorizers. In other cases, the municipalities do not assume district heating as a public service and, therefore, regulate different aspects such as the use of the subsoil.

In cases where district heating is used as a public service, the relationship between the municipality and the service operator is governed by agreements or service contracts with which the granting body has awarded the management of the service within the municipality, providing for a fee and certain rules for the provision of the service, for a period that is ordinarily long in view of the underlying investments, also conferring exclusive management.

As far as the A2A Group is concerned, the service is managed by A2A Calore & Servizi S.p.A. and Linea Green S.p.A. (LGH Group), AEVV Impianti S.r.l., Como Calor S.p.A. and Varese Risorse S.p.A. (ACSM-AGAM Group) in the municipalities of Brescia, Milan, Bergamo, Cremona, Lodi, Varese, Como and Monza.

Public lighting

Even for public lighting, as for district heating, there is no detailed regulatory framework. Local authorities that also identify this service as a local public service of economic importance must comply with art. 34 of DL 179/2012 and subsequent amendments and, therefore, award the service in accordance with EU principles.

The public lighting service includes the management of systems (operation, maintenance and periodic checks) as well as the supply of electricity to supply the lighting points, as well as the implementation of modernization and energy requalification interventions.

As recently highlighted by the Annex to Ministerial Decree March 28, 2018 that disciplines the "Minimum environmental criteria of public lighting services" (CAM), in implementation of a general principle of the law, the duration of the service to be awarded must be commensurate with the activities included in the contract, the degree of economic exposure envisaged and, therefore, the time needed to amortize the investment plan.

The A2A Group manages the public[9] lighting service through A2A Illuminazione Pubblica S.p.A. in the municipalities of Milan, Brescia, Bergamo, Cassano d'Adda, Lainate, Pieve Emanuele, Garbagnate Milanese, Cornaredo, San Giuliano Milanese and Stradella and, through ACSM-AGAM S.p.A., in the municipalities of Nova Milanese, Melzo and Messina.

Management of the municipal hygiene service

Environmental services are related to the case of local public services of economic importance and the procedures for awarding them are governed by art. 202 of Legislative Decree 152/2006 and by art. 34 Decree Law 179/2012.

The services of collection, transport, sweeping and washing of roads, recovery and disposal of waste are regulated by a specific service contract with the granting Municipality aimed at defining the essential elements of the award including the duration of management, the economic aspects of the contractual relationship as well as the organizational and management methods of the service and the quantitative and qualitative levels of the services provided. In defining the concessionary relationship,

9 Inclusive for some municipalities of the management of traffic lights and votive lamps.

the Granting Body takes into account the achievement of objectives of efficiency, effectiveness and cost-effectiveness of the service.

With particular reference to the Lombardy Region, it should be noted that:

- it has organized integrated waste management using the provisions of art. 200, paragraph 7, of Legislative Decree 152/2006 without the establishment of any Optimal Territorial Area;
- the responsibility for awarding the service is directly of the municipalities that exercise it individually or in an associated form.

In Lombardy, the municipal hygiene service is provided by AMSA S.p.A., Aprica S.p.A., LA BI.CO DUE S.r.l. (controlled by A2A Ambiente S.p.A.) and by Linea Gestioni S.p.A. (LGH Group) and Acsm Agam Ambiente S.r.l. (ACSM-AGAM Group); the main awards concern the municipalities of Milan, Brescia, Bergamo, Varese, Como, Cremona and Lodi with different deadlines based on the deeds governing the relationship with the individual municipalities.

9) Update of the main legal and tax disputes still pending

Adequate provisions are provided where necessary for the disputes and litigation described below.

It is noted that if there is no explicit reference to the presence of a provision, the Group assessed the corresponding risk as possible without appropriating provisions in the financial statements.

Consult Latina/BAS S.p.A. (now A2A S.p.A.)

In the 90s, the purchase by BAS S.p.A. of the investment in HISA was made thanks to the services of a local consultant, Consult Latina.

Given the non-uniqueness of the contractual text and the non-acquisition of 100% of the investment in HISA, BAS S.p.A. did not pay to Consult Latina the fee requested because it considered the contractual provision as not applicable and therefore the formulated payment request as unjustified. In 1998, Consult Latina established a lawsuit to obtain payment of the fee.

A2A S.p.A. took over the litigation after the incorporation of BAS S.p.A. in 2005 and repeatedly conferred upon the lawyers the mandate to reach a settlement also expressing a willingness to increase previous offers to cover the litigation costs as well as to listen to and weigh even incremental requests.

The Court convened the parties in multiple council chambers from December 18, 2014 and until October 7, 2017 to verify the conditions of a settlement or transaction. On August 8, 2018 the Court of Buenos Aires approved the text of the settlement (homologation), which was notified to A2A S.p.A. to the address elected at Studio Legale Garrido on August 10, 2018. In accordance with the settlement agreement that does not contain any recognition of the debt, A2A S.p.A. made the agreed payment of USD 1,350,000 and required Consult Latina to release the Redengas shares from any lien or pledge. The court has certified that the transaction has been completed.

Over time, Redengas, a subsidiary of HISA whose shares have been foreclosed by Consult Latina in guarantee for the payment by A2A S.p.A., has rooted actions to demand the removal of such encumbrances, even foretelling due compensation against A2A S.p.A. and Consult Latina; to date, no damages have been claimed in any action yet. Any damages ascertained in favour of Redengas would result in additional encumbrance for A2A S.p.A..

The Group made the payment of the transaction with the risk provision previously set aside.

Consorzio Eurosviluppo S.c.a.r.l./Ergosud S.p.A. + A2A S.p.A. - Civil Court of Rome

On May 27, 2011, Consorzio Eurosviluppo Industriale S.c.a.r.l. served a writ on Ergosud S.p.A. and A2A S.p.A. with the following claims: (i) compensation for damages, of both a contractual and extra-contractual nature, jointly, or alternatively exclusively and separately, in the amount of 35,411,997 euro (of which 1,065,529 euro as the residual portion of their share of the expenses); (ii) compensation for damages for the stoppage at the worksite and the failure to return the areas of pertinence to the Consortium.

In the filing of appearance Ergosud S.p.A. and A2A S.p.A. called for the request to be rejected in full because it is unfounded in its merit and in its substance, and pointed out: (i) the lack of the right of the Consortium to institute proceedings as it is in a state of bankruptcy, (ii) the lack of the right of the Consortium to institute proceedings for the damages allegedly suffered by Fin Podella at the item "anticipation of program contract" for 6,153,437 euro and the damages allegedly suffered by Conservificio Laratta S.r.l. for 359,000 euro.

S.F.C. S.A. filed a notice of joinder on November 08, 2011 pursuant to article 105 of the Civil Procedure Code (which allows a third party to make a new, different request to the original judge, extending the argument) and called that Ergosud S.p.A. alone should be ordered to pay damages, in part similar to those claimed by the Consortium, quantified in 27,467,031 euro.

The judge found the bankruptcy of S.F.C. S. A. was legitimate and therefore set the end of the proceedings and the hearing for December 19, 2012, declaring the need to execute an expert opinion, setting May 23, 2013 as the date for the hearing to appoint the court's expert witness. At that hearing the judge, changed in the meantime, confirmed the questions already formulated on December 19, 2012 and appointed the court experts Messrs. Pompili and Caroli, setting a term for the parties to appoint their own consultants. A2A S.p.A. and Ergosud S.p.A. appointed as their experts Mr. Massardo and Mr. Gioffrè, persons who over the years have already drawn up reports on the matters to which the questions refer. After adjournments requested by the experts, on July 31, 2014, the CTU was filed with the Court. The hearing for the expert's examination was held after adjournment on April 01, 2015 and the hearing for clarification of conclusions has been scheduled for November 30, 2016. At this hearing, filing of the award issued by the Arbitration Court of Milan was admitted in March 2016, and the terms were set for the final statements and replication before arriving to the sentence. The hearing to clarify conclusions was then fixed again and postponed several times and was finally held October 31, 2018. The parties have lodged their pleadings within the time allowed and the judgment is therefore pending. The Group has not allocated any provisions as it does not deem as probable the risk related to this lawsuit.

Monfalcone Plant investigation

This investigation was initiated with a report filed in March 2011 by the management of the A2A Group against A2A employees and third party businessmen suspected of being responsible for fraud carried out to the harm of the company itself, who - for the payment of conspicuous sums of money - were responsible for illegal trafficking, the falsification of forms identifying the waste and certificates of analysis, in relation to the supply of biomasses and the certification of their calorific value. More specifically, biomass quantities were recorded on entry at figures higher than the real ones, with the relative calorific values also being increased.

This implies damage to the A2A Group and in particular to A2A Trading S.r.l. (now A2A S.p.A.). The current risk considered possible is for the higher costs incurred for undelivered biomass and higher costs incurred for counterfeiting (others) of the calorific capacity of the biomass delivered and not delivered. This is in addition to the increased use of coal instead of biomasses could have as a consequence an increase in the environmental costs relating to the second half of 2009 and the whole of 2010, as well the need to reimburse the additional income or Green Certificates recognized with respect to the real income. The company could have submitted, without fault and with reference to the years 2009 and 2010, generating statements of environmental rights greater than those actually produced.

To date, the GSE, as it blocked the issuing of licenses for subsequent years, did not address return requests for previous annuities of competence of the A2A Group (second half of 2009 – full-year 2010). If the GSE were to take action against the A2A Group, it will evaluate the appropriate actions, including damages, considering also the amount withheld from third-party suppliers. A2A Trading S.r.l. (now A2A S.p.A.) filed a request with the GSE, in accordance with the procedures and modalities required, to obtain Green Certificates relating to 2011 in which the calculation has been made on the basis of the real quantities of biomasses delivered to the power station and, in agreement with the Public Prosecutor, by taking into account a possible false (not of A2A) increase of 20% in the calorific values of such. Despite the fact that the GSE has acknowledged to A2A Trading S.r.l. (now A2A S.p.A.) the correctness of the calculations made for 2011, as of today the above-mentioned 2011 Green Certificates have not yet been issued.

In criminal proceedings, some sentencing measures have been adopted in the context of alternative rites to some of the defendants, with recognition of minimum compensation and recasts of expenses in favour of A2A.

The proceeding passed, for local jurisdiction, before the Court of Gorizia.

The dispute is ongoing. At the hearing of February 22, 2018, some texts were heard and the trial was postponed to the hearing of March 22, 2018 for the hearing of further texts. The preliminary hearings of April 19, May 17 and June 21 followed and the case was postponed, again for incumbent instructors, to July 05, 2018. Subsequently, the trial was postponed to October 25, 2018 to hear three defendants' technical advisors. The investigation continues; on January 17, 2019, January 31, 2019 and

February 21, 2019, as many trial hearings were held; the trial was postponed until March 7, 2019 for the prosecution of the Public Prosecutor and, if there is time, for the conclusions of the civil parties.

The Group has not allocated any provision as it considers being the aggrieved party in the proceedings and that the economic effects at the end of the proceedings will be neutral.

Monfalcone Plant Investigation

On March 08 and 09, 2017, following orders of the Public Prosecutor of Gorizia Republic, the Monfalcone Plant of A2A Energiefuture S.p.A. was inspected during which surveys and samplings were performed (on coal in stock, on the ashes, on fume treatment residues, emissions from the chimney) and documentary acquisitions (on the servers of the emissions monitoring system, on fuel analysis forms, etc.).

The suspect employees appointed trusted defenders.

Subsequently, between December 2017 and January 2018, the Public Prosecutor of Gorizia proceeded with the acquisition of additional documentation at the plant. In December 2018, the Public Prosecutor's Office also acquired further samples.

The proceeding is still in the stage of the preliminary investigations and it shall be necessary to wait for the results of the investigations ordered by the Public Prosecutor of Gorizia that requested an extension of the terms for the investigations.

ASM Novara S.p.A. dispute

In March 2013, Pessina Costruzioni initiated arbitration proceedings against A2A to declare the failure to comply with the shareholder agreements of Asm Novara and to sue A2A for damages. On June 30, 2015, the Arbitration Board, with the dissenting opinion of the arbitrator appointed by A2A filed its award that deems A2A responsible for violation of the shareholders' agreement signed on August 4, 2007 and, consequently, the order to pay damages of 37,968,938.95 euro plus legal fees and arbitration expenses. The company challenged the Award pursuant to art. 829 CPC before the Milan Court of Appeal.

On November 23, 2016, the Court of Appeals of Milan filed the Sentence 4337/16 declaring the grounds for appeal of the award filed inadmissible and unfounded, with the consequent absorption of incidental claims.

In the terms, A2A appealed to the Cassation appealing against the chapter of the sentence that rejected the first plea for invalidity of the award and the chapter that individually rejected chapters 5, 6 and 7 relating to the liquidation of the damage equitably. Pessina Costruzioni appeared in court rejecting all the grounds and requesting confirmation of the sentence.

Effectiveness and execution of the award

On May 11, 2016, following invalidity of the effectiveness suspension of the award ordered by the Court of Appeal and the outcome of enforcement actions, A2A paid to Pessina Costruzioni 38,524,290.56 euro.

Dispute over public water derivation fees

Derivations of public water for the production of hydroelectricity in Lombardy

With Regional Law no. 22/2011, Lombardy essentially doubled the fee for hydroelectric use of public water, thereby infringing the principles of gradualism and reasonableness in the determination of fees, already recognized by the case law, and also violating the principle of equal competition between operators in the national territory.

Faced with the payment requests made by the Region for the years 2012 and 2013, Edipower S.p.A. (now A2A S.p.A.) therefore paid the fee considering solely the increase arising from the planned inflation rate as compared to the previous year. As a consequence, for 2012 and 2013 the Region issued injunctions for the payment of the amount not paid by the company; Edipower S.p.A. (now A2A S.p.A.) appealed against these injunctions before the Regional Court of Public Waters ("TRAP") of Milan, proposing the exception of unconstitutionality of the regional provision.

The same conduct was adopted by Edipower S.p.A. (now A2A S.p.A.) for the annuities of the 2014, 2015 and 2016 fees.

However, given the consolidation of unfavourable law and contrary to the thesis of Edipower S.p.A. (now A2A S.p.A.) (ref. sent. TSAP no. 138/2016 and sent. Const. Court no. 158/2016), there was the extinction of almost all the appeals established by Edipower S.p.A. (now A2A S.p.A.) and payment the amount originally ordered, in order to avoid the increase of legal interest and the risk of condemnation to significant legal fees, as happened to other operators, while keeping intact its right to recover any amounts overpaid. Against this background, the injunctions for payment of October 2016 relating to the years 2014-2015 have not been opposed by Edipower S.p.A. (now A2A S.p.A.), which undertook to pay, with reserve of repetition in the event of a favourable judicial outcome, the quantum state fee not yet paid. The only judgement ("pilot") still pending before the TRAP Milan is related to the state property fee for 2013 related to the Liro Auction.

Despite the progress of disputes relating to the same issues rooted in other operators, the Company has considered the possibility of insisting in relation to the aforementioned "pilot" judgment.

The same issue also concerns the large-scale derivations in Lombardy of A2A, which, since the outset, in view of its specific circumstances, fully pays, but with reservation of repetition, the fee demanded by the Region and then sues for excess repetition. In December 2016, the only case pending for A2A before the TRAP Milan on the "doubling" of the state fee was also concluded, with partial loss of A2A in this respect.

In addition, the D.G.R. (Regional Council Resolution) of Lombardy no. 5130-2016 ordered, by implementing paragraph 5 of art. 53-bis of Regional Law 26/2003 introduced by Regional Law 19/2010, the subjection of the Lombardy hydroelectric concessions already expired to an "additional fee" established "provisionally" at 20 €/kW of nominal power of concession, subject to the request for settlement at the outcome of the assessments underway by the regional offices regarding the profitability of expired concessions. It is noted that said additional fee is imposed retroactively from the original expiry of each concession, and therefore for Grosotto, Lovero and Stazzona from January 1, 2011, for Premadio 1 from July 29, 2013 and for Grosio from November 15, 2016.

A2A, which has always challenged even in court the legitimacy - in the first place constitutional - of the aforementioned paragraph 5, challenged, like other operators, the D.G.R. 5130-2016 before the Superior Court of Public Waters as well as D.G.R. 7693-2018 and consequent provisions, which reiterated the forecast of the application of an additional fee up to 2020 and, where envisaged, the revocation of the exemption of part of the state fee.

For disputes relating to public water derivation fees, at today's date, the Company set aside risk provisions for the total amount of 43 million euro equal to the entire claim of the counterparties.

Carlo Tassara: lawsuit for damages against EDF and A2A S.p.A. on the reorganization of Edison

On March 24, 2015, Carlo Tassara S.p.A. notified A2A, Electricité de France (EDF) and Edison a summons requesting the Court of Milan to condemn A2A and EDF to compensation for damages allegedly suffered by Carlo Tassara, in its capacity as minority shareholder of Edison, in relation to the mandatory tender offer launched by EDF on Edison shares consequently to the transaction by which, in 2012, A2A sold its indirect shareholding in Edison to EDF and simultaneously acquired 70% of the capital of Edipower from Edison and Alpiq.

Until 2012, in fact, A2A and EDF held joint control of Edison S.p.A. Edison, in turn, held 50% of Edipower S.p.A. (the remaining capital of Edipower was held 20% by Alpiq, 20% by A2A and the remaining 10% by Iren).

In the 2012 transaction, A2A sold its indirect shareholding in Edison to EDF and simultaneously acquired 70% of the capital of Edipower from Edison and Alpiq.

In the summons notified, Carlo Tassara complained that, in the transaction, EDF and A2A agreed on a mutual "discount" on the price paid by EDF for the purchase of Edison shares, on the one hand, and on the price paid by A2A for the purchase of 70% of Edipower, on the other. This discount was expected to be the result of abusive conduct by EDF and A2A as shareholders of Edison and the violation, among other things, of the regulations on transactions with related parties. This - according to Carlo Tassara - was expected to allow maintaining artificially low the price of the Edison shares paid to A2A and consequently the tender offer price paid to minorities of Edison (which by law was expected to be equal to that paid to A2A).

However, in 2012, A2A and EDF had voluntarily subjected the Transaction to the prior examination of Consob precisely in order to confirm the correctness of the tender offer price. Following extensive examinations, Consob had deemed that a compensatory mechanism could be detected in the transaction as a whole (i.e. between the sale of Edipower on the one hand and the sale of Edison shares on the other) and that therefore the tender offer price was to be increased from 0.84 euro to 0.89 euro per share.

In light of said decision, the parties had increased the sale price of the shareholding in Edison based on the price of 0.89 euro per share, for a total increase of around 84 million euro. EDF launched the tender offer at 0.89 euro per share.

Carlo Tassara resorted to Consob in order to further increase the price of the tender offer, but Consob rejected the request.

In addition, pending the tender offer, Carlo Tassara challenged before the TAR the tender offer document and the related resolution of approval by Consob requesting suspensions thereof for reasons of urgency. However, the TAR postponed the decision on the suspension to a date following the closing of the tender offer and, as a result of this, Carlo Tassara adhered to the tender offer and waived the cautionary request.

The writ of summons did not quantify the damage allegedly suffered by Carlo Tassara as a result of such transactions. However, with brief on February 20, 2017, Carlo Tassara requested that the court have an expert witness to calculate them (specifying that it be quantified in the alleged difference between the tender offer price and the market value that the Edison shares had previously). Carlo Tassara also filed an appraisal in which such damages were quantified in a total amount between 197 and 232 million euro, amount to calculate the compensation due from each of the companies that will be considered responsible by the judge.

After several postponements justified also by modifications of the judge, on October 17, 2018, the judge rejected the requests for investigation of the plaintiffs, setting March 19, 2019 as the hearing for clarification of conclusions. The Group, having fulfilled the requirements of the regulations in force, does not consider likely the risk for which it has not allocated any provisions.

Investigation related to EPCG service contracts

A2A S.p.A. acquired the shareholding in EPCG by means of the international tender held in 2009, and under the so-called "EPCG Agreement" dated September 3, 2009, it acquired the right to manage the company, appointing - until June 30, 2017 - the Executive Director (CEO) and Executive Manager.

As part of the management of EPCG by A2A S.p.A., also in order to meet the specific indicators provided by the EPCG Agreement, with effect from 2010, A2A S.p.A. and, as of 2011, Unareti S.p.A. (formerly A2A Reti Elettriche S.p.A.), have provided in favour of EPCG services designed to improve the organization and performance of EPCG. Within the broader set of services provided, consulting services were also included provided for the benefit of EPCG by specialized companies outside the A2A Group, the costs of which were first invoiced to A2A S.p.A. as part of more complex and organic consulting services provided in favour of the entire A2A Group and subsequently by A2A S.p.A. charged to EPCG for the activities carried out in favour of the same.

In view of the synergistic importance of intra-group services requested by EPCG to A2A, EPCG applied for and obtained, by the State Commission for the Control of Public Procurement Procedures, a formal exemption - dated September 6, 2010 - by which the non-necessity is enshrined for EPCG to apply the procedures provided by law on Public Procurement in order to purchase services from A2A S.p.A., A2A Reti Elettriche and certain other (identified by name) companies controlled by A2A S.p.A..

From a different perspective, service contracts between EPCG and A2A S.p.A. - which, while benefiting from the aforementioned exemption, would have needed the approval of the EPCG Board of Directors - were not explicitly approved by the Board, which nonetheless approved the budget of each annuity that includes the aforementioned costs. Therefore, the service contracts related to the years 2010, 2011 and 2012 were signed by the CEO pro tempore of EPCG. Pursuant to said contracts, A2A S.p.A. invoiced with regard to the aforementioned annuities a total of 7.75 million euro to EPCG, which has only paid a portion of 4.34 million euro.

For the years 2013, 2014, 2015, 2016 and for the first half of 2017, in the absence of a specific agreement between the shareholders regarding the formalization of a specific service contract, A2A did not proceed with invoicing, although a broad set of services was indeed provided to EPCG also in said years, and A2A incurred the related charges.

Also, certain consulting services are disputed, related to the period 2011 and 2012 and amounting to about 2 million euro, acquired by EPCG directly from external consulting firms of the A2A Group.

At the beginning of 2014, the local "Party of People with Disabilities and Pensioners" proposed a parliamentary interpellation and filed a complaint to the Special Attorney in relation to service contracts entered into by EPCG with A2A and external consulting firms of the A2A Group. Subsequently, in November 2014, the Montenegrin police sent EPCG a request for documents and data that was fully acknowledged by the management of EPCG in the following month. Two further requests for additional information and documentation were then subjected to EPCG directly by the Special Attorney in August 2015 and February 2016, and in both cases the management of EPCG responded comprehensively to the requests of the investigators.

Until said moment, therefore, EPCG had registered only requests for documentation to which it promptly replied, and EPCG as well as A2A had therefore not - until April 15, 2016 - deemed that said requests could result in actions such to configure a risk if not remote - personal or capital - at the expense of its employees and/or the companies.

On April 15, 2016, the former Italian CFO appointed by A2A in EPCG, who resigned from said office only a few days before for reasons completely unrelated to the issue under consideration, was arrested by the Montenegrin police on order of the Special Attorney. Investigative measures are still covered by investigation confidentiality. On the basis of what is currently known, the accusation concerns a hypothesis of abuse of office in the management of service contracts stipulated by the same EPCG, and also concerns two other Italian managers seconded by A2A in EPCG in the period 2010-2012, as well as the former pro-tempore Co-General Manager of A2A, who signed the service contracts. On May 6, 2016, the former CFO was released on payment of a bail deposit and withdrawal of the passport. On December 07, 2016, the passport was returned and the CFO returned to Italy. Given the fact that in Montenegro there is a law on liability of legal persons for offences committed by their managers in their own interest, the company also monitored the possibility of extension of the investigation to A2A S.p.A.. At June 30, 2017, this event did not occur, but in the following weeks it emerged from press reports in Montenegro, and lastly with the notification in Podgorica on July 25, 2017, in the hands of the defendant appointed for this purpose by A2A, that the shares held by A2A in EPCG have been the subject of a precautionary measure of seizure. This precautionary measure was judicially challenged by A2A S.p.A., obtaining complete revocation on September 29, 2017. From the precautionary measure, there was also evidence that the proceedings in question were extended to A2A on July 03, 2017. Subsequently, following a civil/commercial agreement signed by A2A on October 23, 2017 with EPCG, and the resolution adopted by the latter on November 17, 2017 to not constitute as injured party in the criminal proceedings, as there was no damage, the Special State Prosecutor ordered the withdrawal of the accusations on December 28, 2017 and therefore the filing of the proceedings against A2A S.p.A. as well as against the three Montenegro officials, originally investigated like the Italian managers. The proceedings against individuals to be investigated is pending to move to the trial phase.

Based on the assessments made, the foregoing and the information available to date, A2A believes that the risk of potential penalties applicable and/or claims for compensation or indemnity actions, can be assessed as remote. Considering the state of the proceedings and for the same reasons outlined herewith, it is also impossible to quantify in certain terms the amount of said indemnities or penalties, direct or indirect.

Only approximately, and as broad reference, it is in fact possible to indicate that the amount of the penalties contemplated by the Montenegrin law on the liability of legal persons could theoretically – in the extreme variability of the local law with an unclear discipline – be significantly greater (from 2 to 100 times the amount of the alleged damage, as stated in the precautionary measure), even though it is appropriate to consider that there is no sound case-law on the matter and that the proceeding against A2A can be filed.

In view of the above, the company - in accordance with IAS 37 - considered it correct to handle the case in question providing adequate information and not allocating specific risks provision.

Investigation AGCM A512-A2A for alleged anti-competitive conduct in the electricity sales market - violation of art. 102 TFEU

In May 2017, the AGCM initiated a preliminary investigation against A2A S.p.A. and A2A Energia S.p.A. for the investigation of alleged conduct in violation of art. 102 TFEU, within the framework of which it ordered the conduct of inspections without notice. Similar proceedings were simultaneously initiated against two other major operators in the sector.

With regard to A2A, the complaint concerns alleged conduct aimed at acquiring free markets of customers served in protected market, which were implemented thanks to the availability of commercially sensitive information and data that the operator could have available as vertically integrated into a Group that operates in the sale under protected market and electrical distribution, as well as boasting specific characteristics (reliability/safety), also deriving from the nature of an integrated operator.

As indicated in the initiation measure, it was a question of conduct that cannot be replicated by non-integrated competitors and that would hinder the full development of the free market, also in view of the end of "price protection". Furthermore, since the existence of an effect on trade between Member States is established, the proceedings deal with the case as an infringement of the EU competition law (article 102 TFEU).

The company defended itself on the merits, both at hearings and with briefs, highlighting that it did not use data deriving from the exercise of the service under protected market nor distribution, for promotional purposes for the development of its free market activities.

The deadline for the conclusion of all the proceedings initiated, including those against the other two operators, was extended several times until December 31, 2018, and on January 8, 2019, the measure of the AGCM was finally received, which - noting the defensive arguments set out - found that there were no elements for the application of a sanction against A2A. However, the situation will continue to be monitored, in the event that the positive measure for A2A may be challenged before the Administrative Judge by any of the reporting parties.

Prosecutor of Brescia – Gip of Brescia. Criminal proceeding no. 25597/14 R.G.N.R. on the alleged "abusive management of special non-hazardous waste" by A2A Ambiente S.p.A.

On July 11, 2017 it became known that, in the context of an investigation concerning 33 individuals and 14 different legal entities (including, as emerged from the guarantee information notified to the employee, also A2A Ambiente S.p.A. for administrative responsibility pursuant to Legislative Decree 231/01), an employee of A2A Ambiente S.p.A. was investigated for the crime referred to in articles 110, 81 of the Criminal Code and 260 of Legislative Decree 152/2006 because "jointly with others, in contravention of the provisions and authorizations" supposedly "illegally managed, not subjecting them to the planned recovery activities, large quantities of special non-hazardous waste" contractually defined as Dry fraction waste shredding (FST) and packed from the waste shredding plants in Giugliano and Tufino (NA).

More specifically, the employee was challenged for having failed to verify the acceptability (upon verification of their chemical-physical characteristics as prescribed by AIA) of the waste at the A2A Ambiente waste disposal plant in Brescia in the years 2014 and 2015, "thus favouring illicit disposal".

Subsequently, on September 23, 2017, A2A Ambiente was notified of a hearing setting decree pursuant to Legislative Decree 231/01 to decide on the request, formulated by the Public Prosecutor, for the application of precautionary measures consisting in the seizure of assets for a total amount of about 583,000 euro (considered as "profit of the crime") and in temporary interdiction from the exercise of activity.

The hearing was scheduled for October 09, 2017 before the GIP (preliminary investigation judge) of Brescia Ms Sabatucci. At that hearing, the company's defences were presented, representing its absolute non-involvement with alleged unlawful conduct, and on November 13, 2017, a defence brief was filed reiterating the absolute groundlessness of the request for the application of interdiction measures against A2A Ambiente for lack of the conditions foreseen by the law.

With a ruling dated December 27, 2017, filed with the court on December 28, 2014, the GIP of Brescia did not consider that as present the conditions justifying the adoption of precautionary measures against A2A Ambiente and therefore rejected the request of the Public Prosecutor.

In particular, the GIP noted that A2A Ambiente has long had an articulated organizational model "on the adequacy of which the Public Prosecutor did not formulate specific remarks, limiting to establishing that the employee operated circumventing the controls provided, a circumstance that however is not valid in itself to prove the administrative responsibility of the entity".

The GIP also underlined that the same Public Prosecutor found that A2A Ambiente reformulated, in a period following the facts, its own MOG in order to better prevent the commission of environmental offenses and considered this circumstance to be evaluated positively for the purpose of judging, as underlined that no concrete advantage emerged from the investigations for A2A Ambiente.

TAR Milan R.G. 2304/2018

2iRete Gas S.r.l. notified an appeal against the award of the gas distribution service ordered by the Municipality of Milan in favour of Unareti S.p.A., asking for a precautionary suspension of the award and formulating an investigative request, announcing the right to notify additional reasons as a result of the satisfaction of the request for access to the documents. After the delivery of the part of the offer documents not covered by omissis, 2i Rete Gas S.r.l. notified additional reasons and further detailed some of the reasons for the illegitimacy of the measure already stated in the initial appeal. To date, the defects of the award can be classified under three categories of topics: reasons for excluding Unareti, reasons for re-establishing the commission and reasons for redefining the ranking. Within the terms, Unareti notified an incidental appeal in which 2i Rete Gas filed an argument with further critical aspects of the proceedings.

At the Council Chamber of November 22, 2018, at the joint request of the parties, the Regional Administrative Court adjourned to a hearing on the merits, which has not been set. With Order no. 1653/18 of November 26, 2018, the Regional Administrative Court acknowledged the waiver by 2i Rete Gas S.r.l. of the precautionary phase, which it declared extinct.

After the Council Chamber of February 7, 2019, dedicated to the discussion of the request for access to Unareti S.p.A.'s full offer formulated by 2i Rete Gas S.r.l., on February 13, 2019, the Milan Regional Administrative Court issued Order no. 300, by which it granted full access to the documents in view mode only. The company notified an appeal to the Council of State with a request for precautionary suspension of the order.

The possible risk is the modification of the award measure, which could also lead to a review of the tender procedure.

* * *

The following information is provided in connection with the main litigation of a fiscal nature.

A2A gencogas S.p.A. (formerly Abruzzoenergia S.p.A.) - General IRES/IRAP/VAT audit for fiscal years 2014 and 2015

On January 19, 2016, the Finance Police - Chieti Unit commenced a general audit of A2A gencogas S.p.A. (formerly Abruzzoenergia S.p.A.) for fiscal years 2014 and 2015 for IRES, IREP and VAT purposes. The audit was completed on May 25, 2016. The company submitted comments to the formal notice of assessment by the inspectors. In December 2016, the Revenue Agency of Chieti issued notices of assessment for IRES, IRAP and VAT for the years 2011 and 2012. The company has proposed a timely appeal against all the deeds notified. The Provincial Tax Commission of Chieti issued favourable sentences. The company appealed. The CTR of Chieti accepted the appeal for VAT 2011 and 2012 and rejected it for IRES for the same years. The IRAP appeal has not yet been discussed. In August 2017, the Revenue Agency of Chieti also issued notices of assessment for IRES, IRAP and VAT for the years 2013 and 2014, all appealed against by the company. The Chieti Provincial Tax Commission rejected the company's appeals. The company appealed. A risk provision of 2 million euro has been recognized.

A2A S.p.A. - Registration tax for transfer of business unit and sale of the investment Chi.na.co. S.r.l.

On April 4, 2016, the Provincial Directorate I of Milan - Regional Office of Milan 1 - notified the invitation to appear to provide clarifications on a business transfer in the company Chi.na.co. S.r.l. and the subsequent sale of the investment held in it under control for registration tax purposes. The invitation was followed by a contradictory with the Office and subsequent notification by the latter of the notice of liquidation to the acquiring counterparty, which filed an appeal on September 28, 2016. The Provincial Tax Commission of Milan rejected the appeal with sentence filed on July 07, 2017. The company proposed an appeal on February 13, 2018. The Milan Regional Administrative Court rejected the appeal. The company is evaluating the decision of the Court of Cassation. The risks provision recognized for 1.4 million euro was fully used for the payment of the amounts requested with the liquidation notice.

Unareti S.p.A. (already A2A Reti Gas S.p.A.) – COSAP Municipality of Milan for the years from 2003 to 2017

On December 27, 2011 the Municipality of Milan served payment notices for COSAP (a fee paid for occupying public spaces and areas) for the years 2003 to 2011. An application was filed for annulment of these notices by internal revocation, which the Municipality rejected. The company filed a summons with the Court of Milan against this rejection on July 11, 2012 and on September 25, 2012 filed an appeal with the regional administrative court. In December 2014, payment notices were notified for the years 2012 to 2014 and, in February 2016, a notice of assessment was served for the year 2015. In February 2015, a settlement agreement was entered into with the Municipality of Milan for the final conclusion of the COSAP litigation for the years 2003 to 2011 and a claim was filed before the Regional Administrative Court of Milan against the payment notices for the years from 2012 to 2014. In April 2016, appeal was submitted to the Regional Administrative Court for the year 2015. In September 2016, notice of payment for 2016 was submitted, against which the company appealed. On January

5, 2018, the notice of payment was served for 2017. On February 7, 2018, the company registered the case with the Court of Milan. On November 20, 2018, the company and the Municipality of Milan signed a settlement agreement to settle the disputed years for 2,127,888 euro. The risks provision recognized for 3.5 million euro was fully used for the payment of the amounts due following definition and the excess was released.

A2A Ambiente S.p.A. (formerly Partenope Ambiente S.p.A.) - General IRES/IRAP/VAT audit for fiscal year 2011

On September 4, 2014, the Tax Revenue Office - Brescia Provincial Department - began a general tax audit of Partenope Ambiente S.p.A. (now A2A Ambiente S.p.A.) for fiscal year 2011 for IRES, IREP and VAT purposes. This audit was completed on October 6, 2014. The findings mainly related to violations exclusively regarding direct taxation. On July 7, 2015, a notice of assessment was served for the year 2011. On October 5, 2015, the company filed an application to the assessing office for settlement. On December 22, 2015, the company and the Office signed the contradictory report defining the tax claim. A risk provision of 0.1 million euro has been recognized.

A2A Ambiente S.p.A. (formerly Aprica S.p.A.) - Technical audit of the Brescia waste-to-energy plant

On March 07, 2013, the Brescia Customs Agency commenced a technical audit of the Brescia waste-to-energy plant owned by Aprica S.p.A. (now owned by A2A Ambiente S.p.A.). The audit was completed on January 16, 2014 with the serving of a formal notice of assessment for the years 2008 to 2011. For 2008 and 2009, the Customs Authority served payment notices on May 7 and 21, 2014 together with the respective penalties. The company appealed against these two demands in July 2014. For the year 2009, in December 10, 2014, the company signed a conciliation agreement with the Customs Agency of Brescia for the final closure of the dispute and the consequent termination of the proceedings. For 2008, the litigation of first instance ended favorably for the company. On September 24, 2015, the Office appealed. The company filed counter-claims on November 17, 2015. With sentence of June 06, 2016, the Regional Tax Commission partially upheld the company's reasons. The Office appealed to the Court of Cassation and the company is considering the consequent actions. On August 05, 2014, the Customs Authority served formal notices of assessment for 2012 and 2013. In March 2016, the company defined with the Customs Agency of Brescia the years from 2010 to 2013 with the payment of the amounts due on the basis of the criteria identified in the deed of reconciliation for the year 2009. As a result of the settlement agreements, the fund has been released for the excess and there is a residual risks provision of 0.3 million euro for the year 2008.

A2A S.p.A. (merging company of AMSA Holding S.p.A.) - VAT Tax assessments for tax years from 2001 to 2005

In early 2006, the Italian Finance Police – Lombardy Regional Unit, Milan – carried out a tax audit of AMSA Holding S.p.A. (now A2A S.p.A.) for VAT purposes for tax years 2001 to 2005.

The audit ended with the issue of a final report contesting the legitimacy of the ordinary VAT rate, in place of the special rate applied by suppliers for waste disposal and plant maintenance, as well as the subsequent deduction made after the invoices issued for these services were duly paid.

The report was followed by formal notices of assessment from the Tax Revenue Office (Milan 3 Office) for each year audited; appeals were then filed with the Provincial Tax Commission within the term provided by law.

The appeals for 2001 and for 2004 and 2005 were discussed on January 25, 2010 and on February 17, 2010 respectively, with a favourable outcome for the company in all cases. The Tax Revenue Office appealed against the verdict of the first court. The Regional Tax Commission rejected this appeal for all three years, 2001, 2004 and 2005.

For 2011, the Tax Revenue Office filed an appeal with the Supreme Court against which AMSA Holding S.p.A. (now A2A S.p.A.), filed a cross-appeal on November 9, 2012. At the hearing on December 12, 2018, the Company requested that the case be suspended in order to assess the facilitated settlement of the dispute.

The outcomes of the 2002 and 2003 disputes were also favourable for the company but the Tax Revenue Office filed an appeal against both sentences. The appeal for 2002 was discussed on November 30, 2010, and by way of a sentence lodged on February 2, 2011 the Milan Regional Tax Commission overturned the sentence of the first court, upholding the Tax Revenue Office's appeal on almost all counts with the exception of the hazardous waste category. The Company filed an appeal with the Supreme Court for 2002. The hearing was held on December 12, 2018 and, to date, no decision has been filed. For 2003 the appeal made by the Tax Revenue Office was discussed on November 07, 2011 before the Regional Tax Commission which rejected it with a sentence filed on November 11, 2011. The Tax Revenue Office has not appealed to the Supreme Court for 2003, 2004 and 2005 and the sentence has become final, thereby closing the litigation.

A risk provision of 1.4 million euro has been recognized.

* * *

Consob Recommendation no. 61493 of July 18, 2013

In response to Consob Recommendation no. 61493 published in July 2013, the A2A Group has carried out detailed analyses which have led to the identification of the hydroelectric production sector as the area applicable to the Group.

The investments made in this sector in 2018 were of a marginal amount and due to ordinary maintenance.

4
Attachments to the notes to the Consolidated annual report

1 - Statement of changes in tangible assets

Tangible assets *millions of euro*	NET BOOK VALUE AT 12 31 2017	FIRST CONSOLIDATION	CHANGES DURING THE YEAR	
			INVESTMENTS	CHANGES IN CATEGORY
Land	113	3	1	1
Buildings	606	16	6	4
Plant and machinery	3,459	139	129	105
Industrial and commercial equipment	36	1	8	
Other assets	98	1	25	21
Landfills	66			4
Construction in progress and advances	95	6	117	(136)
Leasehold improvements	83		19	1
Leased assets	50	11		
Total tangible assets	**4,606**	**177**	**305**	**-**

Tangible assets *millions of euro*	NET BOOK VALUE AT 12 31 2016 Restated	FIRST CONSOLIDATION	CHANGE IN CONSOLIDATION METHOD (EPCG)	CHANGES DURING THE YEAR	
				INVESTMENTS	CHANGES IN CATEGORY
Land	235		(124)	2	
Buildings	821	1	(194)	9	15
Plant and machinery	3,703	36	(207)	111	80
Industrial and commercial equipment	33		(4)	9	2
Other assets	72		(1)	26	12
Landfills	73				
Construction in progress and advances	101		(29)	135	(116)
Leasehold improvements	82			13	1
Leased assets	9	43		1	
Total tangible assets	**5,129**	**80**	**(559)**	**306**	**(6)**

CHANGES DURING THE YEAR							
RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/ SALES		WRITE-DOWNS	AMORTIZATION	TOTAL CHANGES FOR THE YEAR	NET BOOK VALUE AT 12 31 2018
GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION				
				(1)	(1)	-	116
5	1	(1)	1	(14)	(34)	(32)	590
(3)	4	(28)	25	(99)	(271)	(138)	3,460
(3)	3	(2)	2		(7)	1	38
(4)	6	(18)	17		(26)	21	120
12					(16)	-	66
5				(2)		(16)	85
(2)	1				(11)	8	91
7	(8)				(6)	(7)	54
17	**7**	**(49)**	**45**	**(116)**	**(372)**	**(163)**	**4,620**

CHANGES DURING THE YEAR							
RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/ SALES		WRITE-DOWNS	AMORTIZATION	TOTAL CHANGES FOR THE YEAR	NET BOOK VALUE AT 12 31 2017
GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION				
2		(1)			(1)	2	113
(8)	(5)	(2)			(31)	(22)	606
(3)		(9)	6		(258)	(73)	3,459
4		(2)	2		(8)	7	36
13	(3)	(6)	6		(21)	27	98
					(7)	(7)	66
4						23	95
(3)		(2)	1		(9)	1	83
					(3)	(2)	50
9	**(8)**	**(22)**	**15**	**-**	**(338)**	**(44)**	**4,606**

2 - Statement of changes in intangible assets

Intangible assets *millions of euro*	NET BOOK VALUE AT 12 31 2017	FIRST CONSOLIDATION	CHANGES DURING THE YEAR	
			INVESTMENTS	CHANGES IN CATEGORY
Industrial patent and intellectual property rights	19		24	9
Concessions, licences, trademarks and similar rights	1,130	235	114	43
Goodwill	457	37		
Assets in progress	40	5	56	(53)
Other intangible assets	217	56	1	1
Total intangible assets	**1,863**	**333**	**195**	**-**

Intangible assets *millions of euro*	NET BOOK VALUE AT 12 31 2016 Restated	FIRST CONSOLIDATION	CHANGE IN CONSOLIDATION METHOD (EPCG)	CHANGES DURING THE YEAR	
				INVESTMENTS	CHANGES IN CATEGORY
Industrial patent and intellectual property rights	21			9	2
Concessions, licences, trademarks and similar rights	1,046	19	(1)	90	37
Goodwill	500				
Assets in progress	26	1	(1)	48	(34)
Other intangible assets	111	9		1	1
Total intangible assets	**1,704**	**29**	**(2)**	**148**	**6**

	CHANGES DURING THE YEAR							NET BOOK VALUE AT 12 31 2018
	RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/ SALES		WRITE-DOWNS	AMORTIZATION	TOTAL CHANGES FOR THE YEAR	
	GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION				
	(19)	3				(12)	5	24
	12	33	(19)	16		(62)	137	1,502
	(6)				(44)		(64)	444
	(4)						(1)	44
	26	4				(17)	29	288
	9	**40**	**(19)**	**16**	**(44)**	**(91)**	**106**	**2,302**

	CHANGES DURING THE YEAR							NET BOOK VALUE AT 12 31 2017
	RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/ SALES		WRITE-DOWNS	AMORTIZATION	TOTAL CHANGES FOR THE YEAR	
	GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION				
						(13)	(2)	19
	(10)		(10)	8		(49)	66	1,130
	(9)				(34)		(43)	457
							14	40
	105					(10)	97	217
	86	**-**	**(10)**	**8**	**(34)**	**(72)**	**132**	**1,863**

1 Consolidated financial statements

2 Consolidated financial statements pursuant to Consob Resolution no. 17221 of March 12, 2010

3 Notes to the Consolidated annual report

4 Attachments to the notes to the Consolidated annual report

1. Statement of changes in tangible assets

2. Statement of changes in intangible assets

3. List of companies included in the consolidated annual report

4. List of shareholdings in companies carried at equity

5. List of available-for-sale financial assets

Certification of the consolidated financial statements pursuant to article 154-bis, paragraph 5 of Legislative Decree no. 58/98

5 Independent Auditors' Report

3 - List of companies included in the consolidated annual report

Company name	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (THOUSANDS)
Scope of consolidation			
Unareti S.p.A.	Brescia	Euro	965,250
A2A Illuminazione Pubblica S.r.l.	Brescia	Euro	28,600
A2A Calore & Servizi S.r.l.	Brescia	Euro	150,000
A2A Smart City S.p.A.	Brescia	Euro	3,448
A2A Energia S.p.A.	Milan	Euro	2,000
A2A Ciclo Idrico S.p.A.	Brescia	Euro	70,000
A2A Ambiente S.p.A.	Brescia	Euro	220,000
A2A Montenegro d.o.o.	Podgorica (Montenegro)	Euro	100
A2A Energiefuture S.p.A.	Milan	Euro	50,000
A2A gencogas S.p.A.	Milan	Euro	450,000
A2Abroad S.p.A.	Milan	Euro	300
Retragas S.r.l.	Brescia	Euro	34,495
Camuna Energia S.r.l.	Cedegolo (BS)	Euro	900
A2A Alfa S.r.l.	Milan	Euro	100
Plurigas S.p.A. in liquidation	Milan	Euro	800
Proaris S.r.l.	Milan	Euro	1,875
SEASM S.r.l.	Brescia	Euro	700
Azienda Servizi Valtrompia S.p.A.	Gardone Val Trompia (BS)	Euro	8,939
Consul System S.p.A.	Milan	Euro	2,000
Unareti Servizi Metrici S.r.l.	Brescia	Euro	100
LaboRAEE S.r.l.	Milan	Euro	90
Ecodeco Hellas S.A. in liquidation	Atene (Greece)	Euro	60
Ecolombardia 4 S.p.A.	Milan	Euro	13,515
Sicura S.r.l.	Milan	Euro	1,040
Sistema Ecodeco UK Ltd	Canvey Island Essex (UK)	GBP	250
A.S.R.A.B. S.p.A.	Cavaglià (BI)	Euro	2,582
Nicosiambiente S.r.l.	Milan	Euro	50
Bioase S.r.l.	Sondrio	Euro	677
Aprica S.p.A.	Brescia	Euro	21,000
Amsa S.p.A.	Milan	Euro	10,000
SED S.r.l.	Robassomero (TO)	Euro	1,250
Bergamo Servizi S.r.l.	Brescia	Euro	10
LA BI.CO DUE S.r.l. (*)	Lograto (BS)	Euro	96
A2A Recycling S.r.l.	Novate Milanese (MI)	Euro	5,000

% OF SHAREHOLDING CONSOLIDATED BY GROUP AT 12 31 2018	SHAREHOLDING %	SHAREHOLDER	VALUATION METHOD
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
93.63%	100.00%	A2A S.p.A. (87%) Linea Group Holding S.p.A. (13%)	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
91.60%	91.60%	A2A S.p.A. (87.27%) Unareti S.p.A. (4.33%)	Line-by-line consolidation
81.90%	89.00%	A2A S.p.A. (74.50%) Linea Green S.p.A. (14.50%)	Line-by-line consolidation
70.00%	70.00%	A2A S.p.A.	Line-by-line consolidation
70.00%	70.00%	A2A S.p.A.	Line-by-line consolidation
60.00%	60.00%	A2A S.p.A.	Line-by-line consolidation
67.00%	67.00%	A2A S.p.A.	Line-by-line consolidation
74.80%	74.80%	A2A S.p.A. (74.55%) Unareti S.p.A. (0.25%)	Line-by-line consolidation
75.00%	75.00%	A2A Energy Solution S.r.l.	Line-by-line consolidation
100.00%	100.00%	Unareti S.p.A.	Line-by-line consolidation
100.00%	100.00%	Amsa S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
68.78%	68.78%	A2A Ambiente S.p.A.	Line-by-line consolidation
96.80%	96.80%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
70.00%	70.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
99.90%	99.90%	A2A Ambiente S.p.A.	Line-by-line consolidation
70.00%	70.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
80.00%	80.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	Aprica S.p.A.	Line-by-line consolidation
64.00%	64.00%	Aprica S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation

Company name	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (THOUSANDS)
A2A Integrambiente S.r.l.	Brescia	Euro	10
A2A Security S.c.p.a.	Milan	Euro	50
LumEnergia S.p.A.	Lumezzane (BS)	Euro	300
A2A Energy Solution S.r.l.	Milan	Euro	4,000
A2A Rinnovabili S.p.A.	Rovereto (TN)	Euro	50
HELIOS 1 S.r.l.	Rovereto (TN)	Euro	12
INTHE 1 S.r.l.	Rovereto (TN)	Euro	10
INTHE 2 S.r.l.	Rovereto (TN)	Euro	210
TFV 1 S.r.l.	Rovereto (TN)	Euro	210
TFV 2 S.r.l.	Rovereto (TN)	Euro	110
Fair Renew S.r.l.	Milan	Euro	10
renewA21 S.r.l.	Rovereto (TN)	Euro	20
renewA22 S.r.l.	Rovereto (TN)	Euro	220
renewA23 S.r.l.	Rovereto (TN)	Euro	20
renewA24 S.r.l.	Rovereto (TN)	Euro	20
renewA25 S.r.l.	Rovereto (TN)	Euro	20
renewA26 S.r.l.	Rovereto (TN)	Euro	20
renewA27 S.r.l.	Rovereto (TN)	Euro	20
renewA28 S.r.l.	Rovereto (TN)	Euro	20
Bellariva Enertel 01 S.r.l.	Rovereto (TN)	Euro	10
Bellariva Enertel 06 S.r.l.	Rovereto (TN)	Euro	10
Bellariva Enertel 10 S.r.l.	Rovereto (TN)	Euro	10
Energy Infrastruct Group S.r.l.	Rovereto (TN)	Euro	100
Ts energy Italy S.p.A.	Milan	Euro	110
Trovosix S.r.l.	Milan	Euro	20
Sun Flower S.r.l.	Milan	Euro	10
Solar Sicily S.r.l. unipersonale	Milan	Euro	10
Onice S.r.l.	Milan	Euro	10
Des Energia Dieci S.r.l.	Milan	Euro	10
Des Energia Dodici S.r.l.	Milan	Euro	10
Des Energia Tredici S.r.l.	Milan	Euro	10
Des Energia Quattordici S.r.l.	Milan	Euro	10
CS Solar2 S.r.l.	Milan	Euro	15
I.Fotoguiglia S.r.l.	Rovereto (TN)	Euro	14
Free Energy S.r.l.	Rovereto (TN)	Euro	10
Linea Group Holding S.p.A.	Cremona	Euro	189,494
Linea Gestioni S.r.l.	Crema (CR)	Euro	6,000
LD Reti S.r.l.	Lodi	Euro	32,976

% OF SHAREHOLDING CONSOLIDATED BY GROUP AT 12 31 2018	SHAREHOLDING %	SHAREHOLDER	VALUATION METHOD
100.00%	100.00%	A2A Ambiente S.p.A. (74%) Aprica S.p.A. (1%) Amsa S.p.A. (25%)	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A. (47.60%) Unareti S.p.A. (19.10%) A2A Ciclo Idrico S.p.A. (10.90%) Amsa S.p.A. (9.50%) A2A gencogas S.p.A. (4.10%) A2A Ambiente S.p.A. (4.10%) A2A Calore & Servizi S.r.l. (2.70%) A2A Energiefuture S.p.A. (2%)	Line-by-line consolidation
94.41%	94.41%	A2A Energia S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
60.00%	60.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	Ts energy Italy S.p.A.	Line-by-line consolidation
100.00%	100.00%	Ts energy Italy S.p.A.	Line-by-line consolidation
100.00%	100.00%	Ts energy Italy S.p.A.	Line-by-line consolidation
100.00%	100.00%	Ts energy Italy S.p.A.	Line-by-line consolidation
100.00%	100.00%	Ts energy Italy S.p.A.	Line-by-line consolidation
100.00%	100.00%	Ts energy Italy S.p.A.	Line-by-line consolidation
100.00%	100.00%	Ts energy Italy S.p.A.	Line-by-line consolidation
100.00%	100.00%	Ts energy Italy S.p.A.	Line-by-line consolidation
100.00%	100.00%	Ts energy Italy S.p.A.	Line-by-line consolidation
100.00%	100.00%	Energy Infrastruct Group S.r.l.	Line-by-line consolidation
100.00%	100.00%	Energy Infrastruct Group S.r.l.	Line-by-line consolidation
51.00%	51.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
95.60%	93.35%	Linea Group Holding S.p.A.	Line-by-line consolidation

Company name	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (THOUSANDS)
Linea Più S.p.A.	Pavia	Euro	5,000
Linea Green S.p.A.	Cremona	Euro	48,000
Linea Ambiente S.r.l.	Rovato (BS)	Euro	19,000
Lomellina Energia S.r.l.	Parona (PV)	Euro	160
ACSM-AGAM S.p.A.	Monza	Euro	197,344
Acsm - Agam reti Gas Acqua S.p.A.	Monza	Euro	57,000
ComoCalor S.p.A.	Como	Euro	3,516
Lario Reti Gas S.r.l.	Lecco	Euro	5,500
Enerxenia S.p.A.	Como	Euro	6,769
Serenissima Gas S.p.A.	Como	Euro	9,230
Reti Valtellina Valchiavenna S.r.l.	Sondrio	Euro	2,000
Acel Energie S.r.l.	Lecco	Euro	6,000
Acsm Agam Ambiente S.r.l.	Varese	Euro	4,500
Varese Risorse S.p.A.	Varese	Euro	6,000
AEVV Impianti S.p.A.	Monza	Euro	800
AEVV Farmacie	Sondrio	Euro	100
Equity investments held for sale			
Elektroprivreda Cnre Gore AD Nikšić (EPCG)	Nikšič (Montenegro)	Euro	855,285

(*) The percentage does not take into account the put option.

	% OF SHAREHOLDING CONSOLIDATED BY GROUP AT 12 31 2018	SHAREHOLDING %	SHAREHOLDER	VALUATION METHOD
	100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
	100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
	100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
	80.00%	80.00%	Linea Ambiente S.r.l.	Line-by-line consolidation
	41.34%	41.34%	A2A S.p.A.	Line-by-line consolidation
	100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
	51.00%	51.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
	100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
	93.95%	92.65%	ACSM-AGAM S.p.A.	Line-by-line consolidation
	79.37%	78.44%	ACSM-AGAM S.p.A.	Line-by-line consolidation
	100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
	100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
	100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
	100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
	100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
	100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
	18.70%	18.70%	A2A S.p.A.	Equity

4 - List of shareholdings in companies carried at equity

Company name	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (THOUSANDS)
Shareholdings in companies carried at equity			
PremiumGas S.p.A. in liquidation	Bergamo	Euro	120
Ergosud S.p.A.	Rome	Euro	81,448
Ergon Energia S.r.l. in liquidation	Milan	Euro	600
Metamer S.r.l.	San Salvo (CH)	Euro	650
SET S.p.A.	Toscolano Maderno (BS)	Euro	104
Ge.S.I. S.r.l.	Brescia	Euro	1,000
Serio Energia S.r.l.	Concordia sulla Secchia (MO)	Euro	1,000
Visano Soc. Trattamento Reflui S.c.a.r.l.	Brescia	Euro	25
Sviluppo Turistico Lago d'Iseo S.p.A.	Iseo (BS)	Euro	1,616
Futura S.r.l.	Brescia	Euro	2,500
COSMO Società Consortile a Responsabilità Limitata	Brescia	Euro	100
G.Eco S.r.l.	Treviglio (BG)	Euro	500
Bergamo Pulita S.r.l.	Bergamo	Euro	10
Tecnoacque Cusio S.p.A.	Omegna (VB)	Euro	206
ASM Codogno S.r.l.	Codogno (LO)	Euro	1,898
Gelsia Ambiente S.r.l.	Desio (MB)	Euro	4,671
CONAPI S.c.a.r.l.	Milan	Euro	68
758 AM S.r.l.	Milan	Euro	20
Como Energia S.c.a.r.l. in liquidation	Como	Euro	20
SO.E.RA Energy Calor S.c.a.r.l.	Como	Euro	20
Prealpi Servizi S.r.l.	Varese	Euro	5,451
Equity investments held for sale			
Commerciale Gas & Luce S.r.l.	Gallarate	Euro	2,750
Energy Trade S.p.A.	Bologna	Euro	2,000
Total shareholdings			

SHAREHOLDING %	SHAREHOLDER	CARRYING AMOUNT AT 12 31 2018 (THOUSANDS)	VALUATION METHOD
50.00%	A2A Alfa S.r.l.	-	Equity
50.00%	A2A gencogas S.p.A.	-	Equity
50.00%	A2A S.p.A.	-	Equity
50.00%	A2A Energia S.p.A.	1,786	Equity
49.00%	A2A S.p.A.	788	Equity
47.00%	A2A S.p.A.	2,358	Equity
40.00%	A2A S.p.A.	638	Equity
40.00%	A2A S.p.A.	10	Equity
24.29%	A2A S.p.A.	735	Equity
20.00%	A2A Calore & Servizi S.r.l.	1,006	Equity
52.00%	A2A Calore & Servizi S.r.l.	95	Equity
40.00%	Aprica S.p.A.	2,723	Equity
50.00%	A2A Ambiente S.p.A.	-	Equity
25.00%	A2A Ambiente S.p.A.	238	Equity
49.00%	Linea Più S.p.A.	3,002	Equity
30.00%	A2A Integrambiente S.r.l.	2,841	Equity
22.22%	A2A Recycling S.r.l.	15	Equity
20.00%	A2A Rinnovabili S.p.A.	109	Equity
70.00%	ACSM-AGAM S.p.A.	11	Equity
50.00%	ACSM-AGAM S.p.A.	10	Equity
12.47%	ACSM-AGAM S.p.A.	-	Equity
25.00%	ACSM-AGAM S.p.A.	2,875	Equity
21.29%	ACSM-AGAM S.p.A.	636	Equity
		19,875	

5 - List of holdings in other companies

Company name	SHAREHOLDING %	SHAREHOLDER	CARRYING AMOUNT AT 12 31 2018 (THOUSANDS)
Immobiliare-Fiera di Brescia S.p.A.	1.21%	A2A S.p.A.	
AQM S.r.l.	7.80%	A2A S.p.A. (7.52%) LumEnergia S.p.A. (0.28%)	
AvioValtellina S.p.A.	0.18%	A2A S.p.A.	
Banca di Credito Cooperativo dell'Oglio e del Serio s.c.	n.s.	A2A S.p.A.	
Brescia Mobilità S.p.A.	0.25%	A2A S.p.A.	
Consorzio Italiano Compostatori	n.s.	A2A Ambiente S.p.A.	
L.E.A.P. S.c.a.r.l.	8.57%	A2A S.p.A.	
Consorzio Milan Sistema in liquidation	10.00%	A2A S.p.A.	
Consorzio Polieco	n.s.	A2A Ambiente S.p.A.	
E.M.I.T. S.r.l. in liquidation	17.89%	A2A S.p.A. (10.00%) ACSM-AGAM S.p.A. (7.82%)	
Guglionesi Ambiente S.c.a.r.l.	1.01%	A2A Ambiente S.p.A.	
Isfor 2000 S.c.p.a.	5.13%	A2A S.p.A. (4.94%) Linea Gestioni S.r.l. (0.19%)	
S.I.T. S.p.A.	0.26%	Aprica S.p.A.	
Stradivaria S.p.A.	n.s.	A2A S.p.A.	
Tirreno Ambiente S.p.A. in liquidation	3.00%	A2A Ambiente S.p.A.	
DI.T.N.E. S.c.a.r.l.	1.82%	A2A S.p.A.	
COMIECO	n.s.	A2A Recycling S.r.l.	
Blugas Infrastrutture S.r.l.	27.51%	Linea Group Holding S.p.A.	
Casalasca Servizi S.p.A.	13.88%	Linea Gestioni S.r.l.	
SABB S.p.A.	4.47%	Linea Gestioni S.r.l.	
Crit S.c.a.r.l.	32.90%	A2A Smart City S.p.A.	
Sinergie Italiane S.r.l. in liquidation	14.92%	Linea Group Holding S.p.A.	
Cassa Padana S.c.a.r.l.	n.s.	A2A Smart City S.p.A.	
Confidi Toscana S.c.a.r.l.	n.s.	Linea Ambiente S.r.l.	
Credito Valtellinese	n.s.	Linea Ambiente S.r.l.	
Idroenergia S.c.a.r.l.	n.s.	Lomellina Energia S.r.l.	
MORINA S.r.l.	5.00%	Azienda Servizi Valtrompia S.p.A.	
Comodepur S.c.p.A.	9.81%	ACSM-AGAM S.p.A.	
T.C.V.V.V. S.r.l.	0.25%	ACSM-AGAM S.p.A.	
Società Cooperativa Polo dell'Innovazione della Valtellina	n.s.	ACSM-AGAM S.p.A.	
Total investments in other companies			**5,796**

Note: A2A S.p.A. took part in the setting up of Società Cooperativa Polo dell'innovazione della Valtellina, subscribing 5 shares having a nominal value of 50 euro.

Certification of the consolidated financial statements pursuant to article 154-bis, paragraph 5 of Legislative Decree no. 58/98

1. The undersigned Luca Camerano, in the name and on behalf of the entire Board of Directors of A2A S.p.A., and Andrea Crenna, as manager in charge of preparing the corporate accounting documents of A2A S.p.A., certify, also taking into account the contents of article 154-bis, paragraphs 3 and 4, of Legislative Decree 58 February 24, 1998:

    - the adequacy in relation to the characteristics of the company and
    - the effective application

    of administrative and accounting procedures for the preparation of financial statements in the year 2018.

2. It is also certified that:

    2.1 the Consolidated Financial Statements:

    a) are prepared in accordance with International Financial Reporting Standards as endorsed by the European Community pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

    b) correspond to the information contained in the accounting ledgers and records;

    c) provide a true and fair representation of the equity, economic and financial situation of the issuer and the whole of the companies included in the scope of consolidation;

    2.2 the Report on Operations includes reliable analysis on the performance, result of operations and the business of the issuer and of all entities included in the consolidated financial statements as well as description of principal risks and uncertainties to which they are exposed.

Milan, April 3, 2019

Luca Camerano	Andrea Crenna
(for the Board of Directors)	(Manager in charge of preparing the corporate accounting documents)

5
Independent Auditors' Report

Independent Auditors' Report

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
A2A S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of A2A Group (the A2A Group), which comprise the consolidated balance sheet as at December 31, 2018, and the consolidated income statement, the consolidated statement of comprehensive income, statement of changes in group equity and consolidated cash flows statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the A2A Group as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of A2A S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
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Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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We identified the following key audit matters:

Key Audit Matter	Audit Response
Estimate of revenues for the sale of electricity and gas	
Revenues from sales include the estimated revenues accrued for electricity and gas services delivered to the customers between the date of last meter reading and December 31, 2018, as well as billed revenues based on effective consumptions of the period. The processes and methodologies for assessing and determining the estimate of accrued revenues are based on complex assumptions that, by their nature, imply use of the management's judgment, whereby the estimate developed by the A2A Group for revenues from electricity and gas services delivered to each customer between the date of last meter reading and year end are based on complex calculation algorithms derived from different IT systems. Additionally, such estimate is developed based on historical consumptions and the profile of each customer, adjusted to account for potential changes in consumptions. Considering the judgment required and the complexity of the assumptions used in the estimate of revenues from the sale of electricity and gas, we identified this area as a key audit matter. The disclosure of revenues recognition principles for gas and electricity sales is included in the paragraph "Use of estimates" of the notes to the consolidated financial statements.	Our audit procedures in response to this key audit matter included, among others: • assessment of the processes and key controls implemented by the Company related to the estimate of revenues for gas and electricity sales, including those related to Information Technology (IT); • testing of the design and operating effectiveness of key controls; • assessment of the key assumptions used by the management; • assessment of calculation algorithms and data from ERP systems used in developing the estimate of revenues for gas and electricity sales, also with the support of EY IT specialists; • assessment of historical trends of revenues estimate, and analysis of the impacts on total revenues; • execution of test of details on a sample of data used by the management to determine recognized revenues; • look-back analysis of the prior year estimate against the data subsequently reported. Lastly, we reviewed the adequacy of the disclosure included in the notes to the consolidated financial statements.

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Impairment of assets

The consolidated financial statements of A2A Group include tangible assets for Euro 4.620 million and intangible assets for Euro 2.302 million, of which Euro 444 million related to goodwill, allocated to the different Cash Generating Units (CGU). The processes and methodologies for assessing and determining the recoverable amount of each CGU, in terms of value in use, are based on complex assumptions, that by their nature imply the use of the management's judgment, in particular with reference to the forecast of future cash flows relating to the period covered by the Group's strategic plan 2019-2023, the normalized cash flows assumed as a basis for the terminal value, as well as the long-term growth rates and discount rates applied to such cash flows forecasts. Such assumptions could be affected by future expectation on energy market conditions, by the ongoing authorization processes and by regulatory and macroeconomic scenarios. Considering the judgment required and the complexity of the assumptions used in the estimate of the recoverable amount, we have considered that this area represents a key audit matter. The disclosures related to the impairment of assets are included in the paragraph "Use of estimates", in the note n.1 "Tangible Assets" and in note n.2 "Intangible Assets" of the notes to the consolidated financial statements.	Our audit procedures related to this key audit matters included, among others: • assessment of the processes and key controls implemented by the Company related to the impairment of assets; • assessment of the appropriateness of the determination of the CGU and the allocating of assets and liabilities to the carrying value of each CGU; • assessment of the report produced by the management's third party specialists, as well as the assessment of their competence, capability and objectivity; • assessment of cash flows forecasts and their consistency with energy market conditions, with the ongoing authorization processes and with regulatory and macroeconomic scenarios; • assessment of the consistency between the future cash flows assumed in the Group A2A's strategic plan for the period 2019-2023 and the cash flows forecasts assumed for each CGU; • assessment of the accuracy of actual results against previous forecasts; • assessment of the long-term growth rates and discount rates. In performing our procedures, we leveraged the use of EY valuation specialists who performed an independent calculation and sensitivity analysis on key assumptions, in order to determine any changes that could materially impact the valuation of the recoverable amount. Lastly, we reviewed the adequacy of the disclosures included in the notes to the consolidated financial statements.

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Business Combination	
On July 1, 2018, the merger project named "Multi-Utility of the North" was completed, through a series of transactions described in the paragraph "Other Information - 3) IFRS 3 Revised" of the notes to the consolidated financial statements as at December 31, 2018. At December 31, 2018, management completed the purchase price allocation process to assets, liabilities and contingent liabilities, recognizing a goodwill balance of Euro 31 million. The processes and methodologies for assessing and determining the accounting for acquisition transactions are based on complex assumptions that by their nature imply the use of the management's judgment, also in consideration of the valuation analysis obtained by independent experts, in particular with reference to the allocation of the purchase price to the fair value of the assets acquired and the liabilities assumed. Considering the materiality of the acquisition, the judgment required and the complexity of the assumptions used, we identified this area as a key audit matter. The disclosures related to the Business Combination are included in the paragraph "Other Information - 3) IFRS 3 Revised" of the notes to the consolidated financial statements.	Our audit procedures in response to the key aspect concerned, among other: • assessment of the agreement signed between the parties involved in the business combination and the related shareholders' agreements; • the assessment of the fair value of the assets and liabilities of the Acsm-Agam Group, also with the support of the report prepared by the independent expert who assisted the management in estimating the fair value, the reasonableness of the assumptions underlying the forecast estimates developed and the assessment of the correct allocation of such projections to the individual assets and liabilities identified by the Acsm-Agam Group, as well as the assessment of the competence, capacity and objectivity of the independent expert; • assessment of the methodologies used and the accuracy of the purchase price allocation process; • assessment of the accounting treatment adopted in the consolidated financial statements of A2A S.p.A.. In performing our procedures, we leveraged the used of EY valuation specialists who performed, among others, the assessment of the assumptions underlying the estimate of the fair values determined by the independent expert appointed by the Company. Lastly, we reviewed the adequacy of the disclosures included in the notes to the consolidated financial statements

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Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the A2A Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company A2A S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the A2A Group's financial reporting process.

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

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the A2A Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;

- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the A2A Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the A2A Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of A2A S.p.A., in the general meeting held on June 11, 2015, engaged us to perform the audits of the consolidated financial statements for each of the years ending December 31, 2016 to December 31, 2024.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the A2A Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of A2A S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of A2A Group as at December 31, 2018, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of A2A Group as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of A2A Group as at December 31, 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of A2A S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Milan, April 16, 2019

EY S.p.A.
Signed by: Paolo Zocchi, Partner

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