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2019

Consolidated
Financial
Statements



Consolidated financial statements

2019

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This is a translation of the Italian original "Relazione finanziaria annuale consolidata 2019" 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

<i>millions of euro</i>	Note	12 31 2019	12 31 2018
NON-CURRENT ASSETS			
Tangible assets	1	4,869	4,620
Intangible assets	2	2,379	2,302
Shareholdings carried according to equity method	3	38	16
Other non-current financial assets	3	27	29
Deferred tax assets	4	277	264
Other non-current assets	5	25	20
Total non-current assets		7,615	7,251
CURRENT ASSETS			
Inventories	6	184	187
Trade receivables	7	1,852	1,781
Other current assets	8	567	313
Current financial assets	9	10	16
Current tax assets	10	63	49
Cash and cash equivalents	11	434	624
Total current assets		3,110	2,970
NON-CURRENT ASSETS HELD FOR SALE	12	-	112
TOTAL ASSETS		10,725	10,333

- (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 2019	12 31 2018
EQUITY			
Share capital	13	1,629	1,629
(Treasury shares)	14	(54)	(54)
Reserves	15	1,325	1,216
Result of the year	16	389	344
Equity pertaining to the Group		3,289	3,135
Minority interests	17	362	388
Total equity		3,651	3,523
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	18	3,307	2,984
Employee benefits	19	307	314
Provisions for risks, charges and liabilities for landfills	20	676	642
Other non-current liabilities	21	149	148
Total non-current liabilities		4,439	4,088
Current liabilities			
Trade payables	22	1,481	1,413
Other current liabilities	22	844	581
Current financial liabilities	23	304	694
Tax liabilities	24	6	34
Total current liabilities		2,635	2,722
Total liabilities		7,074	6,810
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		-	-
TOTAL EQUITY AND LIABILITIES		10,725	10,333

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Consolidated income statement ⁽¹⁻²⁾

<i>millions of euro</i>	Note	01 01 2019 12 31 2019	01 01 2018 12 31 2018
Revenues			
Revenues from the sale of goods and services		7,122	6,271
Other operating income		202	223
Total revenues	26	7,324	6,494
Operating expenses			
Expenses for raw materials and services		5,156	4,332
Other operating expenses		234	266
Total operating expenses	27	5,390	4,598
Labour costs	28	700	665
Gross operating income - EBITDA	29	1,234	1,231
Depreciation, amortization, provisions and write-downs	30	547	643
Net operating income - EBIT	31	687	588
Result from non-recurring transactions	32	4	14
Financial balance			
Financial income		16	16
Financial expenses		130	132
Affiliates		4	4
Result from disposal of other shareholdings		-	-
Total financial balance	33	(110)	(112)
Result before taxes		581	490
Income taxes	34	189	157
Result after taxes from operating activities		392	333
Net result from discontinued operations	35	1	21
Net result		393	354
Minorities	36	(4)	(10)
Group result of the year	37	389	344
Result per share (in euro):			
- basic		0.1249	0.1106
- basic from continuing operations		0.1247	0.1040
- basic from assets held for sale		0.0002	0.0066
- diluted		0.1249	0.1106
- diluted from continuing operations		0.1247	0.1040
- diluted from assets held for sale		0.0002	0.0066

(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 2019	12 31 2018
Net result of the year (A)	393	354
Actuarial gains/(losses) on employee's benefits booked in the Net equity	(7)	2
Tax effect of other actuarial gains/(losses)	2	(1)
Total actuarial gains/(losses) net of the tax effect (B)	(5)	1
Effective part of gains/(losses) on cash flow hedge	(32)	18
Tax effect of other gains/(losses)	9	(5)
Total other gains/(losses) net of the tax effect of companies consolidated on a line-by-line basis (C)	(23)	13
Other gains/(losses) of companies valued at equity net of the tax effect (D)	-	-
Total comprehensive result (A) + (B) + (C) + (D)	365	368
Total comprehensive result attributable to:		
Shareholders of the parent company	361	358
Minority interests	(4)	(10)

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.

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Consolidated cash-flow statement

<i>millions of euro</i>	12 31 2019	12 31 2018
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	624	691
Contribution of first consolidation of acquisitions of 2019/2018	3	26
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	627	717
Operating activities		
Net Result (**)	393	348
Tangible assets depreciation	379	372
Intangible assets amortization	123	91
Fixed assets write-downs/disposals	18	167
Result from affiliates	(4)	(4)
Net financial interests	114	116
Net financial interests paid	(100)	(114)
Net taxes paid (a)	(235)	(102)
Gross change in assets and liabilities (b)	<u>244</u>	<u>149</u>
Total change of assets and liabilities (a+b) (*)	9	47
Cash flow from operating activities	932	1,023
Investment activities		
Investments in tangible assets	(380)	(305)
Investments in intangible assets and goodwill	(247)	(195)
Investments in shareholdings and securities (*)	(56)	(25)
Disposal of fixed assets and shareholdings	-	13
Dividends received	-	2
Cash flow from investment activities	(683)	(510)
FREE CASH FLOW	249	513

(*) 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.

<i>millions of euro</i>	12 31 2019	12 31 2018
Financing activities		
Changes in financial assets		
Monetary changes:		
<i>Issuance of loans</i>	-	-
<i>Proceeds from loans</i>	7	5
<i>Other monetary changes</i>	(2)	11
Total monetary changes	5	16
Non-monetary changes:		
<i>Other non-monetary changes</i>	3	79
Total non-monetary changes	3	79
Total changes in financial assets (*)	8	95
Changes in financial liabilities		
Monetary changes:		
<i>Borrowings/bonds issued</i>	491	68
<i>Repayment of borrowings/bond</i>	(657)	(521)
<i>Lease payments</i>	(17)	(2)
<i>Dividends paid by the parent company</i>	(218)	(180)
<i>Dividends paid by the subsidiaries</i>	(14)	(5)
<i>Other monetary changes</i>	(26)	(2)
Total monetary changes	(441)	(642)
Non-monetary changes:		
<i>Amortized cost valuations</i>	4	4
<i>Other non-monetary changes</i>	(13)	(63)
Total non-monetary changes	(9)	(59)
Total changes in financial liabilities (*)	(450)	(701)
Cash flow from financing activities	(442)	(606)
CHANGE IN CASH AND CASH EQUIVALENTS	(193)	(93)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	434	624

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Statement of changes in Group equity

Description <i>millions of euro</i>	Share capital Note 13	Treasury Shares Note 14	Cash Flow Hedge Note 15	
Net equity at 12.31.2017	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 reserve (*)				
Cash Flow Hedge reserves (*)			13	
Other changes				
Group and minorities result of the period				
Net equity at 12.31.2018	1,629	(54)	(7)	
2018 result allocation				
Distribution of dividends				
IAS 19 reserve (*)				
Cash Flow Hedge reserves (*)			(23)	
Other changes				
Group and minorities result of the period				
Net equity at 12.31.2019	1,629	(54)	(30)	

(*) 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
	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
	344	(344)	-		-
	(218)		(218)	(14)	(232)
	(5)		(5)		(5)
			(23)		(23)
	11		11	(16)	(5)
		389	389	4	393
	1,355	389	3,289	362	3,651

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Breakdown of the balance sheet with evidence of the effect of the first consolidation of the 2019 acquisitions

(NO GAAP MEASURES)

<i>millions of euro</i>	Note	Consolidated at 12 31 2018	Effect first consolidation A2A Rinnovabili Group
ASSETS			
NON-CURRENT ASSETS			
Tangible assets	1	4,620	2
Intangible assets	2	2,302	-
Shareholdings carried according to equity method	3	16	-
Other non-current financial assets	3	29	-
Deferred tax assets	4	264	-
Other non-current assets	5	20	-
TOTAL NON-CURRENT ASSETS		7,251	2
CURRENT ASSETS			
Inventories	6	187	-
Trade receivables	7	1,781	-
Other current assets	8	313	-
Current financial assets	9	16	-
Current tax assets	10	49	-
Cash and cash equivalents	11	624	1
TOTAL CURRENT ASSETS		2,970	1
NON-CURRENT ASSETS HELD FOR SALE	12	112	-
TOTAL ASSETS		10,333	3
LIABILITIES			
NON-CURRENT LIABILITIES			
Non-current financial liabilities	18	2,984	3
Deferred tax liabilities		-	-
Employee benefits	19	314	-
Provisions for risks, charges and liabilities for landfills	20	642	-
Other non-current liabilities	21	148	-
TOTAL NON-CURRENT LIABILITIES		4,088	3
CURRENT LIABILITIES			
Trade payables	22	1,413	-
Other current liabilities	22	581	-
Current financial liabilities	23	694	-
Tax liabilities	24	34	-
TOTAL CURRENT LIABILITIES		2,722	-
TOTAL LIABILITIES		6,810	3
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	25	-	-
LIABILITIES		6,810	3

It should be noted that the figures relating to the company ARESLAB S.r.l. acquired in December 2019 are less than one million euro.

	Effect first consolidation Suncity Energy	Effect first consolidation ELECTROMETAL S.r.l.	Total effect first consolidation acquisitions 2019	Changes during the year	Consolidated at 12 31 2019
	-	2	4	245	4,869
	3	15	18	59	2,379
	-	-	-	22	38
	-	-	-	(2)	27
	-	-	-	13	277
	-	-	-	5	25
	3	17	22	342	7,615
	-	-	-	(3)	184
	3	7	10	61	1,852
	-	-	-	254	567
	-	-	-	(6)	10
	-	-	-	14	63
	1	1	3	(193)	434
	4	8	13	127	3,110
	-	-	-	(112)	-
	7	25	35	357	10,725
	-	-	3	320	3,307
	1	-	1	(1)	-
	-	-	-	(7)	307
	1	-	1	33	676
	-	2	2	(1)	149
	2	2	7	344	4,439
	3	4	7	61	1,481
	-	1	1	262	844
	-	-	-	(390)	304
	-	1	1	(29)	6
	3	6	9	(96)	2,635
	5	8	16	248	7,074
	-	-	-	-	-
	5	8	16	248	7,074

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Breakdown of the economic effect of the consolidation of new acquisitions 2019

(NO GAAP MEASURES)

<i>millions of euro</i>	Note	Effect first consolidation A2A Rinnovabili Group	Effect first consolidation Suncity Energy	
REVENUES				
Revenues from the sale of goods and services		-	19	
Other operating income		1	-	
TOTAL REVENUES	27	1	19	
OPERATING EXPENSES				
Expenses for raw materials and services		-	18	
Other operating expenses		-	1	
TOTAL OPERATING EXPENSES	28	-	19	
LABOUR COSTS	29	-	-	
GROSS OPERATING INCOME - EBITDA	30	1	-	
DEPRECIATION, AMORTIZATION AND WRITE-DOWNS	31	-	1	
NET OPERATING INCOME - EBIT	32	1	(1)	
RESULT FROM NON-RECURRING TRANSACTIONS	33	-	-	
FINANCIAL BALANCE				
Financial income		-	-	
Financial expenses		1	-	
Affiliates		-	-	
Result from disposal of other shareholdings		-	-	
TOTAL FINANCIAL BALANCE	34	(1)	-	
RESULT BEFORE TAXES		-	(1)	
INCOME TAXES	35	-	-	
RESULT AFTER TAXES FROM OPERATING ACTIVITIES		-	(1)	
NET RESULT FROM DISCONTINUED OPERATIONS	36	-	-	
NET RESULT		-	(1)	
MINORITIES	37	-	-	
GROUP RESULT OF THE YEAR	38	-	(1)	

	Total effect consolidation new acquisitions 2019	Old perimeter 12 31 2018	Consolidated at 12 31 2019	Consolidated at 12 31 2018
	19	7,103	7,122	6,271
	1	201	202	223
	20	7,304	7,324	6,494
	18	5,138	5,156	4,332
	1	233	234	266
	19	5,371	5,390	4,598
	-	700	700	665
	1	1,233	1,234	1,231
	1	546	547	643
	-	687	687	588
	-	4	4	14
	-	16	16	16
	1	129	130	132
	-	4	4	4
	-	-	-	-
	(1)	(109)	(110)	(112)
	(1)	582	581	490
	-	189	189	157
	(1)	393	392	333
	-	1	1	21
	(1)	394	393	354
	-	(4)	(4)	(10)
	(1)	390	389	344

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Consolidated balance sheet

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

Assets

<i>millions of euro</i>	12 31 2019	of which Related Parties (note 39)	12 31 2018	of which Related Parties (note 39)
NON-CURRENT ASSETS				
Tangible assets	4,869		4,620	
Intangible assets	2,379		2,302	
Shareholdings carried according to equity method	38	38	16	16
Other non-current financial assets	27	4	29	6
Deferred tax assets	277		264	
Other non-current assets	25		20	
Total non-current assets	7,615		7,251	
CURRENT ASSETS				
Inventories	184		187	
Trade receivables	1,852	107	1,781	113
Other current assets	567	1	313	
Current financial assets	10	1	16	1
Current tax assets	63		49	
Cash and cash equivalents	434		624	
Total current assets	3,110		2,970	
NON-CURRENT ASSETS HELD FOR SALE	-		112	109
TOTAL ASSETS	10,725		10,333	

Equity and liabilities

millions of euro	12 31 2019	of which Related Parties (note 39)	12 31 2018	of which Related Parties (note 39)
EQUITY				
Share capital	1,629		1,629	
(Treasury shares)	(54)		(54)	
Reserves	1,325		1,216	
Result of the year	389		344	
Equity pertaining to the Group	3,289		3,135	
Minority interests	362		388	
Total equity	3,651		3,523	
LIABILITIES				
Non-current liabilities				
Non-current financial liabilities	3,307		2,984	
Employee benefits	307		314	
Provisions for risks, charges and liabilities for landfills	676	1	642	1
Other non-current liabilities	149		148	
Total non-current liabilities	4,439		4,088	
Current liabilities				
Trade payables	1,481	29	1,413	29
Other current liabilities	844	7	581	13
Current financial liabilities	304		694	2
Tax liabilities	6		34	
Total current liabilities	2,635		2,722	
Total liabilities	7,074		6,810	
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	-		-	
TOTAL EQUITY AND LIABILITIES	10,725		10,333	

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Consolidated income statement

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<i>millions of euro</i>	01 01 2019 12 31 2019	of which Related Parties (note 39)	01 01 2018 12 31 2018	of which Related Parties (note 39)
Revenues				
Revenues from the sale of goods and services	7,122	444	6,271	434
Other operating income	202		223	1
Total revenues	7,324		6,494	
Operating expenses				
Expenses for raw materials and services	5,156	5	4,332	7
Other operating expenses	234	30	266	34
Total operating expenses	5,390		4,598	
Labour costs	700	2	665	2
Gross operating income - EBITDA	1,234		1,231	
Depreciation, amortization, provisions and write-downs	547		643	
Net operating income - EBIT	687		588	
Result from non-recurring transactions	4		14	6
Financial balance				
Financial income	16	7	16	6
Financial expenses	130		132	
Affiliates	4	4	4	4
Result from disposal of other shareholdings	-		-	
Total financial balance	(110)		(112)	
Result before taxes	581		490	
Income taxes	189		157	
Result after taxes from operating activities	392		333	
Net result from discontinued operations	1		21	21
Net result	393		354	
Minorities	(4)		(10)	
Group result of the year	389		344	



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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 report (hereafter referred to as the “**Annual report**”) of the A2A Group at December 31, 2019, 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, 2019 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, 2018 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, 2019.

In this file, use has been made of some Alternative Performance Measures (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 Performance Measures (APM) in the file of the Report on Operations.

This Annual report at December 31, 2019 was approved on March 19, 2020 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.

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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 paragraphs 60 and following 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, 2018.

Basis of preparation

The consolidated annual financial report at December 31, 2019 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 standards, 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, 2018, except as specified below regarding newly enacted standards.

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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, 2019.

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, 2019, any impacts of which will then be transposed as of the financial statements of the following years.

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

As from January 1, 2019, applicable to the Group are the following standards or additions to specific paragraphs of the international accounting standards already adopted by the Group companies in previous 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 the accounts, 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), the related financial expenses and the discounting of the financial liability created during initial recognition using a discount rate corresponding to the A2A Group’s average prospective financing rate. During 2019, the Group conducted an in-depth analysis of the contracts in place, which are the subject of the accounting standard. 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, the addition allows valuing at amortized cost the expenses related early repayment of financial instruments that were previously measured at fair value through profit and loss. No impact on the economic and financial situation of the Group.
- IAS 28 “Investments in associates and joint ventures”: approved on February 11, 2019, the integration specifies that the requirements of IFRS 9 must be applied to investments in associates or joint ventures that are not permitted to be valued using the equity method. No impact on the economic and financial situation of the Group.
- IAS 19 “Employee Benefits”: the supplement approved on March 14, 2019 clarifies that in the event of an early amendment or termination of a defined benefit plan, the Group must apply the updated actuarial assumptions when recalculating the liability. No impact on the economic and financial situation of the Group.

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 impacts are expected on the Group’s economic and financial situation.
- 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, it must be possible 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. No impacts are expected on the Group’s economic and financial situation.
- On September 26, 2019, the IASB issued an amendment to IFRS 9, IAS 39 and IFRS 7 in which it clarifies when a derivative contract can be defined and treated as a hedge in periods of central bank interest rate benchmark reform. No impacts are expected on the Group’s economic and financial situation.

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

- On October 31, 2018, the IASB issued an amendment to IAS 1 and IAS 8 entitled “Definition of materiality” and applicable from January 1, 2020. It should be noted that information is significant when its omission, re-interpretation or obscuration may influence the decisions made by Stakeholders on the basis of the financial report.

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Scope of consolidation

The Consolidated annual report of the A2A Group at December 31, 2019 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:

- acquisition by A2A Rinnovabili S.p.A. (100% owned by A2A S.p.A.) and line-by-line consolidation of Bellariva 07 S.r.l., a project company that owns a photovoltaic plant;
- acquisition by A2A Energy Solutions S.r.l. (100% owned by A2A S.p.A.) of 100% of Suncity Energy S.r.l. (line-by-line consolidation) and 26% of Suncity Group S.r.l. (consolidated using the equity method), groups active in the field of energy efficiency and dispatching;
- incorporation by A2A S.p.A. and full consolidation of Yada Energia S.r.l., the smart services company of the A2A Group;
- acquisition of 45% and valuation at equity of ASM Energia S.p.A., a commercial company, by A2A Energia S.p.A.;
- acquisition and line-by-line consolidation of 100% of Areslab S.r.l. and 90% of Electrometal S.r.l., companies active in the market for the treatment and analysis of industrial waste, by A2A Ambiente S.p.A.;
- the A2A Group has also exhausted the percentage of its shareholding in the company EPCG, following collection of the 4 sales tranches, in accordance with the agreement reached with the Government of Montenegro.

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 recognises 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.

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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 2.1 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.

On August 5, 2019, Aprica S.p.A. exercised the option to purchase the remaining 36% for a countervalue of 0.7 million euro.

c) Earn-in/out 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.

It should also be noted that in 2019, A2A Ambiente S.p.A. paid 0.1 million euro as "earn out of past due receivables".

d) 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.

e) Earn-out on the purchase of special purpose vehicles from Novapower S.p.A. and Impax limited.

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, the Group completed the Purchase Price Allocation processes, 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) Options on the shares of Suncity Group S.r.l.

On April 16, 2019, the incorporation of Suncity Group S.r.l., a holding company of energy efficiency companies, was completed, with a simultaneous capital increase of 26%. The transaction was completed by the subsidiary A2A Energy Solutions S.r.l., ESCo (Energy Service Company) of the A2A Group, for a value of 1.3 million euro, entirely settled in cash at closing.

It was also established that, within 30 days of the deadline for approval of the financial statements at December 31, 2022, A2A Energy Solutions S.r.l. will have the right to exercise the option to purchase the remaining 74% of the share capital of the incorporated NewCo. The right to exercise the 74% put option by Suncity Partner to A2A Energy Solutions S.r.l. under the same conditions is also provided for.

Therefore, 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.

g) Options on the shares of Electrometal S.p.A.

On December 20, 2019, A2A Ambiente S.p.A. acquired 90% of Electrometal S.r.l..

As a result of point 9) of the shareholding purchase agreement, a call option is provided on the part of A2A Ambiente S.p.A. and a put option on the part of GAE S.r.l. (the seller) of the remaining 10%, to be exercised from January 1, 2025 until December 31, 2025.

The valuation of this option shall be made on the basis of the final value of 90% of the shares of Electrometal S.r.l..

Therefore, in accordance with paragraph 23 of IAS 32, the Group has recognized as a liability the present value of the estimated outlay of 2.1 million euro which it will not be able to avoid if the option is exercised.

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.

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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.

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

Key figures at December 31, 2019 <i>millions of euro</i>	Bergamo Pulita 50%	PremiumGas 50%	Metamer 50%	Ergosud 50% (figures at 12 31 2018) (*)
INCOME STATEMENT				
Revenues	0.04	-	31.0	21.9
Gross operating income	(0.02)	(0.07)	0.9	14.9
% of net revenues	n.s.	n.s.	2.8%	68.0%
Depreciation, amortization and write-downs	-	0.07	0.2	8.9
Net operating income	(0.02)	-	0.7	6.0
Result for the year	(0.03)	-	0.5	3.6
BALANCE SHEET				
Total assets	2.74	4.4	8.2	153.2
Net equity	0.09	1.5	2.1	70.0
Net (debt)	1.20	1.0	0.5	(66.2)

(*) Figures of the last financial statements available.

Key figures at December 31, 2018 <i>millions of euro</i>	Bergamo Pulita 50%	PremiumGas 50%	Metamer 50%	Ergosud 50% (figures at 12 31 2017) (*)
INCOME STATEMENT				
Revenues	0.04	0.04	30.9	33.4
Gross operating income	(0.07)	(0.3)	0.3	14.1
% of net revenues	n.s.	n.s.	1.0%	42.3%
Depreciation, amortization and write-downs	-	-	0.1	7.9
Net operating income	(0.07)	(0.3)	0.2	6.2
Result for the year	(0.10)	(0.3)	0.1	3.7
BALANCE SHEET				
Total assets	2.86	4.6	8.8	162.3
Net equity	0.02	1.5	1.6	66.5
Net (debt)	1.20	1.0	0.3	(77.2)

(*) Figures of the last financial statements available.

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.

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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.

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:

• 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.

Leasing

Assets for rights of use are recognized on the start date of the lease, i.e. the date on which the underlying asset is available for use.

Rights to use assets are measured at cost, net of accumulated depreciation and impairment losses, and adjusted for any restatement of lease liabilities. The cost of assets for rights of use includes the amount of lease liabilities recognized and lease payments made on or before the commencement of the lease. Assets for right of use are depreciated on a straight-line basis from the effective date to the end of the useful life of the asset consisting of the right of use or at the end of the lease term, whichever is earlier.

If the lease transfers ownership of the underlying asset to the lessee at the end of the term of the contract or if the cost of the asset consisting of the right of use reflects the fact that the lessee will exercise the purchase option, the asset consisting of the right of use is depreciated from the effective date until the end of the useful life of the underlying asset.

Lease liabilities are recognized at the present value of lease payments not yet paid at the reporting date. Lease payments also include the exercise price of a purchase option if it is reasonably certain that the option will be exercised.

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.

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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 loss/Reversal of tangible and intangible 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

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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 in the Income Statement with reclassification of cumulative gains and losses (debt instruments);
- Financial assets at fair value in the Income Statement without reversal of cumulative gains and losses at the time of derecognition (equity instruments);
- Financial assets at fair value in the Income Statement.

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 in the Income Statement, 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 in the Income Statement 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/(loss) for the year.

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 in the Income Statement. 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 in the Income Statement.

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 in the Income Statement.

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.

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Financial liabilities

Financial liabilities are classified, at the time of initial recognition, at fair value in the Income Statement, 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 in the Income Statement, 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 gain or loss associated with that part of the ineffective hedge is recognised 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 the Income Statement. 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 in the Income Statement as a reclassification adjustment in the same period or periods during which the hedged cash flows impact profit or loss.

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.

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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

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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, 2019 and the estimate of revenues accrued for gas and electricity consumed by customers and not yet billed at December 31, 2019, 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 debt 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 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.

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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, hydroelectric and other renewable plants
- Energy Management

Market

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

Waste

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

Networks and District Heating

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

International

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

A2A Smart City

- Development and management of technological infrastructures for integrated digital 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.

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millions of euro	GENERATION AND TRADING		MARKET		WASTE		
	01 01 2019 12 31 2019	01 01 2018 12 31 2018	01 01 2019 12 31 2019	01 01 2018 12 31 2018	01 01 2019 12 31 2019	01 01 2018 12 31 2018	
Revenues	4,399	3,854	2,724	2,230	1,047	1,022	
- of which inter-sector	1,343	1,036	159	280	144	119	
Labour costs	88	88	55	46	310	304	
Gross operating income - EBITDA	301	370	229	206	271	268	
% of revenues	6.8%	9.6%	8.4%	9.2%	25.9%	26.2%	
Depreciation, amortization, provisions and write-downs	(36)	(293)	(60)	(37)	(159)	(87)	
Net operating income - EBIT	265	77	169	169	112	181	
% of revenues	6.0%	2.0%	6.2%	7.6%	10.7%	17.7%	
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)	88	57	32	21	97	105	

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

	NETWORKS AND DISTRICT HEATING		A2A SMART CITY		CORPORATE		INTERNATIONAL		ELIMINATIONS		INCOME STATEMENT	
	01 01 2019 12 31 2019	01 01 2018 12 31 2018	01 01 2019 12 31 2019	01 01 2018 12 31 2018	01 01 2019 12 31 2019	01 01 2018 12 31 2018	01 01 2019 12 31 2019	01 01 2018 12 31 2018	01 01 2019 12 31 2019	01 01 2018 12 31 2018	01 01 2019 12 31 2019	01 01 2018 12 31 2018
	1,096	1,110	63	53	244	220	3	8	(2,252)	(2,003)	7,324	6,494
	340	329	36	31	230	208	-	-	(2,252)	(2,003)		
	100	102	9	9	136	115	2	1			700	665
	461	410	11	11	(36)	(34)	(3)	-			1,234	1,231
	42.1%	36.9%	17.5%	20.8%	(14.8%)	(15.5%)	n.s.	n.s.			16.8%	19.0%
	(254)	(200)	(7)	(5)	(30)	(21)	(1)	-			(547)	(643)
	207	210	4	6	(66)	(55)	(4)	-			687	588
	18.9%	18.9%	6.3%	11.3%	(27.0%)	(25.0%)	n.s.	n.s.			9.4%	9.1%
											4	14
											(110)	(112)
											581	490
											(189)	(157)
											392	333
											1	21
											(4)	(10)
											389	344
	352	275	16	11	48	31	-	-	(6)	-	627	500

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millions of euro	GENERATION AND TRADING		MARKET		WASTE		
	12 31 2019	12 31 2018	12 31 2019	12 31 2018	12 31 2019	12 31 2018	
Tangible assets	2,091	1,976	52	36	727	703	
Intangible assets	79	81	207	244	55	42	
Trade receivables and current financial assets	706	778	815	772	361	333	
Trade payables and current financial liabilities	838	851	511	438	306	311	

	NETWORKS AND DISTRICT HEATING		A2A SMART CITY		CORPORATE		INTERNATIONAL		ELIMINATIONS		TOTAL GROUP	
	12 31 2019	12 31 2018	12 31 2019	12 31 2018	12 31 2019	12 31 2018	12 31 2019	12 31 2018	12 31 2019	12 31 2018	12 31 2019	12 31 2018
	1,834	1,761	72	39	207	184	-	-	(114)	(79)	4,869	4,620
	1,935	1,903	3	3	151	135	-	-	(51)	(106)	2,379	2,302
	386	381	47	27	217	168	2	5	(672)	(667)	1,862	1,797
	392	369	30	21	383	782	2	3	(677)	(668)	1,785	2,107

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It is noted that the consolidation scope at December 31, 2019 changed compared to December 31, 2018 for the following operations:

- acquisition by A2A Rinnovabili S.p.A. (100% owned by A2A S.p.A.) and line-by-line consolidation of Bellariva 07 S.r.l., a project company that owns a photovoltaic plant;
- acquisition by A2A Energy Solutions S.r.l. (100% owned by A2A S.p.A.) of 100% of Suncity Energy S.r.l. (line-by-line consolidation) and 26% of Suncity Group S.r.l. (consolidated using the equity method), groups active in the field of energy efficiency and dispatching;
- incorporation by A2A S.p.A. and full consolidation of Yada Energia S.r.l., the smart services company of the A2A Group;
- acquisition of 45% and valuation at equity of ASM Energia S.p.A., a commercial company, by A2A Energia S.p.A.;
- acquisition and line-by-line consolidation of 100% of Areslab S.r.l. and 90% of Electrometal S.r.l., companies active in the market for the treatment and analysis of industrial waste, by A2A Ambiente S.p.A.;
- the A2A Group has also exhausted the percentage of its shareholding in the company EPCG, following collection of the 4 sales tranches, in accordance with the agreement reached with the Government of Montenegro.

ASSETS

NON-CURRENT ASSETS

1) Tangible assets

millions of euro	Balance at 12 31 2018	First-time consolid. effect acquisitions 2019	Changes during the year						Balance at 12 31 2019
			Invest.	Others changes	Disposals and sales	Write- down/ Reversal	Amort.	Total changes	
Land	116			3		(6)	(1)	(4)	112
Buildings	590	1	15	20	(1)	2	(33)	3	594
Plant and machinery	3,460	3	144	130	(3)	121	(264)	128	3,591
Industrial and commercial equipment	38		12	3			(8)	7	45
Other assets	120		24	13	(1)		(29)	7	127
Landfills	66			6		(40)	(4)	(38)	28
Construction in progress and advances	85		161	(114)		(1)		46	131
Leasehold improvements	91		24	(1)			(13)	10	101
Assets for rights of use	54			113			(27)	86	140
Total	4,620	4	380	173	(5)	76	(379)	245	4,869
of which:									
Historical cost	10,520	4	380	165	(45)	41		541	11,065
Accumulated amortization	(5,045)			8	40		(379)	(331)	(5,376)
Write-downs	(855)					35		35	(820)

At December 31, 2019, “Tangible assets” amounted to 4,869 million euro (4,620 million euro at December 31, 2018) and include the first-time consolidation effect relating to the acquisitions of 2019 for a total of 4 million euro.

The changes for the year, net of the above effect, recorded an increase of 245 million euro as follows:

- increase of 380 million euro for capex in the year as further described below;
- net increase of 173 million euro for other changes as follows:
 - 127 million euro following the application of IFRS 16, including 109 million euro for first-time application;
 - 33 million euro assets related to decommissioning provisions and provisions landfill closure and post-closure expenses as a result of the update of the appraisals and discount rates used for the estimates of the future costs of dismantling and restoration;
 - 13 million euro other changes;
- decrease of 5 million euro arising from disposals in the year, net of accumulated depreciation;
- net increase of 76 million euro due to the opposite effect of the following changes:
 - 127 million resulting from the write-back of impairment losses of the Chivasso, Sermide and Mincio plants and the 3 million euro write-down of capex for the Monfalcone plant following the Impairment test process;
 - 48 million euro resulting from the write-down of the Grottaglio landfill following the Council of State sentence of August 28, 2019;
- decrease of 379 million euro for the amortization charge for the year.

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Capex may be analyzed as follows:

- Capex in the Networks and District Heating Business Unit totalled 158 million euro and concerned: 93 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; 44 million euro for the development of district heating networks in the areas of Milan, Brescia and Bergamo; 3 million euro interventions on the gas transport network and 10 million euro for capex of the LGH Group; 8 million euro for capex of the ACSM-AGAM Group;
- for the Waste Business Unit, capex of 93 million euro refer to: 51 million euro mainly for work on the plants of Brescia, Bergamo, Muggiano, Acerra, Caivano, Silla 2, Corteolona, Giussago, Olgettina, Filago, Cavaglià, Lacchiarella and Bedizzole; 13 million euro for the acquisition of mobile means for waste collection; 6 million euro for the acquisition of collection facilities; 13 million euro of capex of the LGH Group and 1 million euro for capex of LA BI.CO DUE S.r.l. and 9 million euro for capex of the ACSM-AGAM Group;
- for the Generation and Trading Business Unit, the increase was 84 million euro and concerned: 13 million euro capex for hydroelectric plants, 67 million euro for thermoelectric plants, 1 million euro capex for renewable energy plants and 3 million euro capex of the LGH Group;
- for the Corporate Business Unit, capex of 20 million euro included 7 million euro for work on buildings in the Brescia and Milan areas, 4 million euro for work on the New Data Center, 3 million euro for capex by the LGH Group and 6 million euro for capex by the ACSM-AGAM Group;
- for the Market Business Unit, the increase amounted to 9 million euro and concerned for 4 million euro, the lighting efficiency plan with led in the municipalities of Cornaredo, Garbagnate, Stradella, Bisignano, Lainate, Nova Milanese, Cologno Monzese, Crevoladossola, Brescia, Castelletto Ticino and Treviso, with new Led technology light sources, for 1 million euro, works on the electric vehicle charging network, 3 million euro the energy efficiency plan at customers and 1 million euro capex by the ACSM-AGAM Group;
- for A2A Smart City S.p.A. capex of 16 million euro involved 14 million euro in fiber optic networks and 2 million euro in telephone systems.

Tangible assets include "Assets for rights of use" totaling 140 million euro, recognized in accordance with IFRS 16 and for which the outstanding payable to lessors at December 31, 2019 amounted to 141 million euro (54 million euro at December 31, 2018).

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 paragraph 6) "Regulatory Changes and Impacts on the Business Units of the A2A Group - Generating 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 2018	First-time consolid. effect acquisitions 2019	Changes during the year					Balance at 12 31 2019
			Invest.	Recl./Other changes	Disposals / Sales	Write- downs	Amort.	
Industrial patents and intellectual property rights	24		10	11			(14)	31
Concessions, licences, trademarks and similar rights	1,502		184	20	(4)		(86)	1,616
Goodwill	444	15				(85)		374
Assets in progress	44		51	(33)				62
Other intangible assets	288	3	2	26			(23)	296
Total	2,302	18	247	24	(4)	(85)	(123)	2,379

At December 31, 2019, "Intangible assets" amounted to 2,379 million euro (2,302 million euro at December 31, 2018) and include the first-time consolidation effect relating to the acquisitions of 2019 for a total of 18 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 59 million euro as follows:

- increase of 247 million euro for capex in the year as further described below;
- other net changes of 24 million euro due to the increase of 25 million euro in environmental certificates in the industrial portfolio and the decrease of 1 million euro for the reclassification to other items of the financial statements;
- decrease of 4 million euro arising from disposals in the year, net of accumulated depreciation;
- decrease of 85 million euro for write-downs related to the "A2A Reti Elettriche" CGU for the impairment test process as further described below;
- decrease of 123 million euro for the amortization charge for the year.

Capex of Intangible assets relate to the following:

- for the Networks and District Heating Business Unit, capex of 188 million euro are related to: development and maintenance work on the plants of the gas distribution segment and the replacement of low and medium pressure underground piping for 74 million euro; work on the water transport and distribution network, on the sewage networks and on the purification plants for 58 million euro; the implementation of information systems for 16 million euro; capex of the LGH Group for 14 million euro and capex of the ACSM-AGAM Group for 26 million euro;
- for the Corporate Business Unit, the increase amounted to 28 million euro, involving: 22 million euro for the implementation of information systems, 1 million euro for capex of the LGH Group as well as 5 million euro for capex of the ACSM-AGAM Group;
- for the Market Business Unit, the increase amounted to 23 million euro, involving 18 million euro for the implementation of information systems, as well as 5 million euro for capex of the ACSM-AGAM Group;
- for the Waste Business Unit, the increase was 4 million euro and mainly relates to the implementation of information systems;
- for the Generation and Trading Business Unit, the increase was 4 million euro and concerned the implementation of information systems.

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“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 shown in the financial statements of 181 million euro is attributable for 113 million euro to the ACSM-AGAM Group's customer list and for 44 million euro to the customer list of A2A Energia S.p.A., 19 million euro to the customer lists of A2A Recycling S.r.l. and LA BI.CO DUE S.r.l., 2 million euro to the customer lists of LumEnergia S.p.A. and Azienda Servizi Valtrompia S.p.A. and 3 million euro to the customer list of Suncity Energy S.r.l..

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 of an asset/cash generating unit (or group of cash generating units) 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 2020-2024 medium-term business plan aimed at the impairment test. 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);
- cash flows following 2024, 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 (terminal value). Depending on the different cases analyzed, this value has been forecast to be the sum of the estimate of the future value of the assets and net working capital;
- the flow of perpetuity for businesses with an indefinite useful life. This value is based on the unlimited capitalization of the sustainable flow beyond the plan horizon. This flow has been estimated on the basis of the flows of the Business Plan;
- 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 particular, the WACC rate deriving from the “unconditional” approach was used according to the criteria considered by Prof. Damodaran’s study centre, widely used in valuation practice and 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 WACC unconditional methodology provides for the use of a risk-free rate that incorporates country risk.

Goodwill

At December 31, 2019, goodwill amounted to 374 million euro:

CGU millions of euro	Balance at 12 31 2018	Changes during the year					Balance at 12 31 2019
		Reclassific.	First-time consolid. acquis. 2019	PPA Effect	Write- downs	Total changes	
A2A Reti Elettriche	85				(85)	(85)	-
A2A Ambiente	262	2				2	264
A2A Reti Gas	38	3				3	41
A2A Gas	7	24				24	31
A2A Calore	21	1				1	22
Energia Elettrica		1				1	1
Total	413	31	-	-	(85)	(54)	359
First-time Consolidation Effects							
ACSM - AGAM Group	31	(31)				(31)	-
Electrometal			15			15	15
Total	31	(31)	15	-	-	(16)	15
Total Goodwill	444	-	15	-	(85)	(70)	374

The effect of the first-time consolidation relating to the acquisition of Electrometal S.r.l. determined the provisional recognition of goodwill of 15 million euro pending completion of the Purchase Price Allocation as better described in the paragraph “Other information” 3) Transactions IFRS 3 Revised.

In 2019, the goodwill generated by the consolidation of the ACSM-AGAM Group was allocated to the various CGUs in accordance with IFRS 3 and the flows envisaged in the previous plan. This goodwill of 31 million euro was tested for impairment.

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.

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CGU with Goodwill	Value in millions of euro at 12 31 2019	Recoverable value	WACC 2019 post-tax (1)	Growth rate g 2019	Balance scenario (2)	
					WACC of reference (3)	Growth rate g
A2A Reti Elettriche	-	Value in use	5.30%	0.00%	4.70%	0.90%
A2A Ambiente	264	Value in use	6.20%	1.00%	13.30%	0.00%
A2A Reti gas	41	Value in use	5.60%	0.00%	8.30%	0.00%
A2A Gas	31	Value in use	6.40%	0.00%	25.90%	0.00%
A2A Calore	22	Value in use	5.60%	1.00%	5.90%	0.60%
Energia Elettrica	1	Value in use	6.60%	0.00%	7.20%	0.00%
Total	359					

- (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 2018	Recoverable value	WACC 2018 post-tax (1)	Growth rate g 2018	Balance scenario (2)	
					WACC of reference (3)	Growth rate g
A2A Reti Elettriche	85	Value in use	5.30%	0.00%	n.s.	0.00%
A2A Ambiente	262	Value in use	7.30%	1.00%	14.30%	1.00%
A2A Reti gas	38	Value in use	5.60%	0.00%	5.90%	0.00%
A2A Gas	7	Value in use	7.90%	0.00%	88.70%	0.00%
A2A Calore	21	Value in use	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).

With reference to the CGU already included in the scope of consolidation of the A2A Group at December 31, 2018, and precisely “A2A Calore” CGU, “A2A Reti Gas” CGU, “A2A Reti Elettriche” CGU, “A2A Ambiente” CGU and “A2A Gas” CGU and for 2019, “Energia Elettrica” CGU, the analysis conducted allowed achieving the estimated recoverable value at December 31, 2019 calculated using the financial method. In particular, the analysis regarding the maintenance of the value of the CGUs was carried out as follows:

- for the “A2A Calore” 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;
- for the “A2A Reti Gas” CGU and the “A2A Ambiente” CGU, the analysis was carried out by comparing the recoverable value for the definite useful life scenario only;
- for the “A2A Gas” CGU and for the “Energia Elettrica” CGU, the analysis was carried out by comparing the recoverable value for the indefinite useful life scenario only.

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.

Cash Generating Unit “A2A Reti Elettriche”

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, derived from the acquisition of the business units of Enel Distribuzione S.p.A. in 2002 by A2A Reti Elettriche S.p.A. and amounted to 81 million euro. In the “Reti Elettriche” CGU, 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 derived 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 85 million euro was found.

Cash Generating Unit “A2A Ambiente”

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, 2019 include goodwill of 264 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 and 2 million euro to the allocation to the CGU in 2019 of a portion of the goodwill recorded following the first consolidation of the ACSM-AGAM Group in 2018.

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

Cash Generating Unit “A2A Reti Gas”

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 41 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 last few years, relating to companies operating as gas distributors in about 200 Italian municipalities (the activity is mainly concentrated in Lombardy and Piedmont) for 38 million euro as well as 3 million euro to the allocation to the CGU in 2019 of a portion of the goodwill recorded following the first consolidation of the ACSM-AGAM Group in 2018.

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 outstanding concessions, which corresponds to a shorter term than that envisaged by current legislation.

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

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Cash Generating Unit “A2A Gas”

The goodwill arising from the consolidation of the “Gas” Business Unit, amounting to 31 million euro, refers to the area involved in selling gas to end customers (residential and business) and wholesalers and was impairment tested. It should be noted that the “A2A Gas” CGU consists of the portion of goodwill arising from the merger between BAS S.p.A. and A2A S.p.A. for 7 million euro and for 24 million euro to the allocation to the CGU in 2019 of a portion of the goodwill recorded following the first consolidation of the ACSM-AGAM Group in 2018.

Cash Generating Unit “A2A Calore”

The goodwill arising from the consolidation of the Heat Business Unit, amounting to 22 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, the CGU in question includes 18 million euro a part of the goodwill arising from the merger between BAS S.p.A. and A2A S.p.A. and 1 million euro to the allocation to the CGU in 2019 of a portion of the goodwill recorded following the first consolidation of the ACSM-AGAM Group in 2018.

The recoverable value of the goodwill attributed to the Heat CGU during the impairment test was determined as the average of a scenario with indefinite useful life and definite useful life the time horizon of which was calculated over the remaining useful life of the plants.

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

Cash Generating Unit “Energia Elettrica”

The “Energia Elettrica” CGU belongs to the Generation and Trading Business Unit and Market 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.

The goodwill arising from the consolidation of the “Energia Elettrica” CGU, amounting to 1 million euro, refers to the allocation to the CGU in 2019 of a portion of the goodwill recorded following the first consolidation of the ACSM-AGAM Group in 2018.

More specifically, the activities carried out by the “Energia Elettrica” CGU 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” CGU:

- 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” CGU solely regarded activities concerning electricity, thus excluding those relating to the “Gas” CGU, for which specific impairment testing was carried out as described above.

The perimeter of the “Energia Elettrica” CGU 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..

In particular, the WACC rate deriving from the “unconditional” approach was used according to the criteria considered by Prof. Damodaran’s study centre, widely used in valuation practice and in line with last year’s impairment exercise. As already illustrated previously, 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 WACC unconditional methodology provides for the use of a risk-free rate that incorporates country risk.

The value of the “Energia Elettrica” CGU in the impairment test amounted to 2,164 million euro.

The scenario of the A2A Group Plan was prepared with reference to, for 2020, the forward curves (market prices at December 5, 2019). For the subsequent years, and thus, from 2021 to 2024, the forecasts are based on an internal proprietary model of A2A 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 throughout the planning horizon until 2024. In particular, in 2024, the main reference values are as follows:

- Oil price: 79.8 \$/bbl;
- Average PUN: 66.9 euro/MWh;
- Gas to the PSV (spot market of reference for gas in Italy): 23.3 euro/MWh.

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 euro/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 euro/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 2020-2024 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 continuation of auctions for the assignment of the capacity market for the years after 2023 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 from 2024 onwards, so as to still reflect the uncertain political and regulatory framework.

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 resulted in a write-back of 127 million euro.

(*) 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).

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The write-back deriving from the impairment was allocated to the plant in Chivasso for 67 million euro, Sermide for 34 million euro and Ponti sul Mincio for 27 million euro. More specifically, management deemed it appropriate to allocate the write-back to the three 400 MW production units that had been fully written down in the financial statements at December 31, 2014 following their preservation. This year, they were written-back due to their correct function, the changed (increased) prospects of use, also connected with the envisaged phase-out of coal, scenario and remuneration offered by the capacity market mechanism, already assigned for 2022 and 2023 and expected for subsequent years.

The table below shows net employed capital at December 31, 2019, 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 2019	WACC post-tax	Growth rate g	Recoverable Value (use value)	Reversal
12 31 2019	2,037	6.6%	0.0%	2,164	127

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

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 2020-2024 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 reference to the sensitivity analyzes of WACC, it is noted that with all factors being equal, a plus/minus 0.1% change in WACC results in a change in the value in use of plus/minus 13 million euro, while with reference to the sensitivity analyzes of growth rate g, it is noted that a plus/minus 0.1% change in the growth rate g results in a change in the value in use of plus/minus 21 million euro.

Assets other than goodwill

Cash Generating Unit “Monfalcone”

In line with the previous year and for the same reasons highlighted in the 2018 Financial Statements, A2A’s management has kept the Monfalcone power plant in a separate CGU from the Energia Elettrica CGU.

The decline in margins that characterized 2019 is expected to continue for the next time horizon as a result of a constantly decreasing energy scenario, mainly linked to the increase in the price of CO₂.

The negative Clean Dark Spread values (on average negative for about 2 euro/MWh) do not allow the full coverage of operating costs as already happened in 2019.

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.

Therefore, with reference to the explicit time horizon, the cash flows arising from the business plan prepared by management up to 2025 have been considered.

For the purposes of the Impairment Test on the carrying amount 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 carrying amount at the Reference Date. The Impairment Test conducted resulted in a write-down of 3 million euro relating to capex capitalized in the year.

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	Book value before impairment test in millions of euro at 12 31 2019	WACC	Growth rate g	Recoverable Value (use value)	Write-down
12 31 2019	3	6.6%	0.0%	-	(3)

CGU Monfalcone	Book value before impairment test 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)

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Cash Generating Unit “San Filippo del Mela”

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 2019, 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 2019 did not entail any value adjustment.

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

CGU San Filippo del Mela	Values before impairment test in millions of euro at 12 31 2019	WACC post-tax	Growth rate g	Recoverable Value (use value)	Difference between carrying value and value in use
12 31 2019	77	6.6%	0.0%	78	1
CGU San Filippo del Mela	Values before impairment test in millions of euro at 12 31 2018	WACC post-tax	Growth rate g	Recoverable Value (use value)	Difference between carrying value and value in use
12 31 2018	102	7.4%	0.0%	103	1

3) Shareholdings and other non-current financial assets

millions of euro	Balance at 12 31 2018	First-time consolid. effect acquisitions 2019	Changes during the year	Balance at 12 31 2019	of which included in the NFP	
					12 31 2018	12 31 2019
Shareholdings carried according to equity method	16		22	38	-	-
Other non-current financial assets	29		(2)	27	22	20
Total shareholdings and other non-current financial assets	45	-	20	65	22	20

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, 2018	16
First-time consolidation effect acquisitions 2019	-
Changes during the year:	
- acquisitions and capital increases	15
- valuations at equity	4
- write-downs	
- dividends received from shareholdings in companies carried at equity	
- sales	(2)
- other changes	5
- reclassifications	
Total changes for the year	22
Balance at December 31, 2019	38

The increase in “Shareholding carried according to equity method” was equal to 22 million euro and was due to the following changes:

- 14 million euro the acquisition by the subsidiary A2A Energia S.p.A. of ASM Energia S.p.A.;
- 1 million euro the subscription by the subsidiary A2A Energy Solutions S.r.l. of the share capital increase in the NewCo Suncity Group in which it now holds 26%;
- 4 million euro positive valuations of the shareholding in Asm Codogno S.r.l. held by the LGH Group and other minor shareholdings;
- 2 million euro the sale of the shareholding in Futura S.r.l. held by the subsidiary A2A Calore & Servizi S.r.l.;
- 5 million euro other changes, mainly relating, for 4 million euro, to the recognition of the call option on 74% of the shareholding in Suncity Group.

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 27 million euro at December 31, 2019, a decrease of 2 million euro compared to the figure at December 31, 2018.

At December 31, 2019, “Other non-current financial assets” refer for 20 million euro to medium/long-term financial receivables of which 2 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 7 million euro of shareholdings in other companies; for details, reference is made to annex no. 5 “List of shareholdings in other companies”.

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4) Deferred tax assets

<i>millions of euro</i>	Balance at 12 31 2018	First-time consolidation effect acquisitions 2019	Changes net during the year	Balance at 12 31 2019
Deferred tax assets	264		13	277

“Deferred tax assets” amounted to 277 million euro (264 million euro at December 31, 2018) and showed an increase of 13 million euro.

The item includes the net effect, as detailed in the table below to which reference is made, of deferred tax liabilities and deferred tax assets for IRES and IRAP on changes and provisions made solely for tax 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, 2019, 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	Consolidated financial statements 12 31 2018	First-time consolid. effect	Accruals (A)	Uses (B)	Adjust. Rates (C)	Total (A+B+C)	IFRS 9 at Equity Net	IAS 19 Revised at Equity Net	Other changes / Reclass.	Consolidated financial statements 12 31 2019
Detail of deferred tax assets/liabilities										
Deferred tax liabilities										
Measurement differences for tangible assets	550	-	33	(61)	-	(28)	-	-	-	522
Adoption of the finance lease standard (IFRS 16)	6	-	-	(5)	-	(5)	-	-	-	1
Application of the financial instrument standard (IFRS 9)	2	-	-	-	-	-	(2)	-	-	-
Measurement differences for intangible assets	76	-	-	(5)	-	(5)	-	-	-	71
Deferred capital gains	-	-	-	-	-	-	-	-	-	-
Employee leaving entitlement (TFR)	4	-	-	(2)	-	(2)	-	-	-	2
Goodwill	29	-	-	(23)	-	(23)	-	-	-	6
Other deferred tax liabilities	3	-	-	(1)	-	(1)	-	-	-	2
Total deferred tax liabilities (A)	670	-	33	(97)	-	(64)	(2)	-	-	604
Deferred tax assets										
Taxed risk provisions	98	-	36	(38)	-	(2)	-	-	2	98
Measurement differences for tangible assets	629	-	14	(73)	-	(59)	-	-	-	570
Application of the financial instrument standard (IFRS 9)	3	-	-	-	-	-	1	-	-	4
Bad debt provision	17	-	4	(13)	-	(9)	-	-	-	8
Measurement differences for intangible assets	5	-	-	-	-	-	-	-	-	5
Grants	21	-	-	(4)	-	(4)	-	-	-	17
Goodwill	161	-	12	(2)	-	10	-	-	8	179
Other deferred tax assets	-	-	-	(7)	-	(7)	6	1	-	-
Total deferred tax assets (B)	934	-	66	(137)	-	(71)	7	1	10	881
NET EFFECT DEFERRED TAX ASSETS/LIABILITIES (B-A)	264	-	33	(40)	-	(7)	9	1	10	277

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5) Other non-current assets

millions of euro	Balance at 12 31 2018	First-time consolid. effect acquisitions 2019	Changes during the year	Balance at 12 31 2019	of which included in the NFP	
					12 31 2018	12 31 2019
Non-current derivatives	8		(6)	2	8	2
Other non-current assets	12		11	23	-	-
Total other non-current assets	20	-	5	25	8	2

At December 31, 2019, this item increased by 5 million euro compared to the end of the previous year.

“Non-current derivative instruments” amounted to 2 million euro and refer to the fair value valuation of a financial instrument at year-end.

“Other non-current assets” amounted to 23 million euro. The item essentially consists of security deposits and costs already incurred, but pertaining to future years. There was a significant increase in this item due to higher security deposits provided by A2A S.p.A. to Terna during the year as participation in auctions on the capacity market.

CURRENT ASSETS

6) Inventories

millions of euro	Balance at 12 31 2018	First-time consolidation effect acquisitions 2019	Changes during the year	Balance at 12 31 2019
- Materials	69		6	75
- Material obsolescence provision	(17)		(1)	(18)
Total material	52	-	5	57
- Fuel	129		(17)	112
- Other	2		2	4
Raw and ancillary materials and consumables	183	-	(10)	173
Third-party fuel	4		7	11
Total inventories	187	-	(3)	184

“Inventories” amounted to 184 million euro (187 million euro at December 31, 2018), net of the related obsolescence provision for 18 million euro (17 million euro at December 31, 2018).

Inventories show a total decrease of 3 million euro, as detailed below:

- 17 million euro related to the decrease in inventories of fuels (which include the inventories of fuels for the production of electricity, as well as the gas inventories for the sale and storage thereof);
- 7 million euro the increase in coal inventories at third-party warehouses;
- 6 million euro the increase in stocks of materials;
- 2 million the increase in environmental certificates;
- 1 million euro the increase in the material obsolescence provision.

7) Trade receivables

millions of euro	Balance at 12 31 2018	First-time consolidation effect acquisitions 2019	Changes during the year	Balance at 12 31 2019
Trade receivables - invoices issued	1,030	8	(282)	756
Trade receivables - invoices to be issued	914	2	288	1,204
(Bad debts provision)	(163)	-	55	(108)
Total trade receivables	1,781	10	61	1,852

At December 31, 2019, “Trade receivables” amounted to 1,852 million euro (1,781 million euro at December 31, 2018), with an increase of 61 million euro, net of the first-time consolidation effect for 10 million euro. In detail, the changes were as follows:

- for 71 million euro, the increase in trade receivables from customers, which at December 31, 2019, showed a balance of 1,758 million euro (1,687 million euro at December 31, 2018);
- for 7 million euro, the increase in receivables from the Municipalities of Milan and Brescia; this item had an overall balance of 84 million euro (77 million euro in the previous year);
- for 7 million euro, the decrease in receivables from associates, which had a balance of 6 million euro (13 million euro at the end of the previous year).

The Group makes spot sales of receivables on a non-recourse basis. At December 31, 2019, there were no receivables transferred by the Group (2 million euro at December 31, 2018). The Group has no rotating factoring programs.

The “Bad debts provision”, calculated in compliance with IFRS 9, amounted to 108 million euro and showed a net decrease of 55 million euro compared to December 31, 2018. 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 2018	First-time consolidation effect acquisitions 2019	Provisions	Utilizations	Other changes	Balance at 12 31 2019
Bad debts provision	163		15	(68)	(2)	108

The following is the aging of trade receivables:

millions of euro	12 31 2019	12 31 2018
Trade receivables of which:	1,852	1,781
Current	546	728
Past due of which:	210	302
- Past due up to 30 days	41	75
- Past due from 31 to 180 days	61	57
- Past due from 181 to 365 days	34	29
- Past due over 365 days	74	141
Invoices to be issued	1,204	914
Bad debts provision	(108)	(163)

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8) Other current assets

millions of euro	Balance at 12 31 2018	First-time consolid. effect acquisitions 2019	Changes during the year	Balance at 12 31 2019	of which included in the NFP	
					12 31 2018	12 31 2019
Current derivatives (commodity derivatives)	163		208	371	-	-
Other current assets of which:	150	-	46	196		
- receivables from Cassa per i Servizi Energetici e Ambientali	46		23	69		
- advances to suppliers	35		4	39		
- receivables from employees	1		-	1		
- tax receivables	10		4	14		
- receivables related to future years	22		1	23		
- receivables from Ergosud	2		-	2		
- receivables from social security entities	3		-	3		
- stamp office	1		-	1		
- receivables for damage compensation	1		1	2		
- receivables for COSAP advances	-		2	2		
- receivables for security deposits	2		-	2		
- receivables for RAI fee	2		1	3		
- sundry receivables for hedging	-		-	-		
- other sundry receivables	25		10	35		
Total other current assets	313	-	254	567	-	-

“Other current assets” showed a balance of 567 million euro compared to 313 million euro at December 31, 2018, highlighting an increase of 254 million euro.

“Current derivatives” showed an increase of 208 million euro related to the increase in commodity derivatives due to the change in the fair value measurement at the end of the year. “Other current liabilities” include 380 million euro in “Current derivatives”. Receivables from Cassa per i Servizi Energetici e Ambientali, amounting to 69 million euro (46 million euro at December 31, 2018), mainly refer to receivables for equalizations pertaining to both 2019 and to outstanding receivables for equalizations pertaining to previous years and receivables for tariff components, net of collections made in the current year.

Tax receivables, amounting to 14 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 ARG/elt no. 194/10 and no. 117/10.

9) Current financial assets

millions of euro	Balance at 12 31 2018	First-time consolid. effect acquisitions 2019	Changes during the year	Balance at 12 31 2019	of which included in the NFP	
					12 31 2018	12 31 2019
Other financial assets	15		(6)	9	15	9
Other financial assets from related parties	1		-	1	1	1
Other financial assets from assets held for sale	-		-	-	-	-
Total current financial assets	16	-	(6)	10	16	10

“Current financial assets” amounted to 10 million euro (16 million euro at December 31, 2018). 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 2018	First-time consolidation effect acquisitions 2019	Changes during the year	Balance at 12 31 2019
Current tax assets	49	-	14	63

At December 31, 2019, this item amounted to 63 million euro (49 million euro at December 31, 2018) 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.

11) Cash and cash equivalents

millions of euro	Balance at 12 31 2018	First-time consolid. effect acquisitions 2019	Changes during the year	Balance at 12 31 2019	of which included in the NFP	
					12 31 2018	12 31 2019
Cash and cash equivalents	624	3	(193)	434	624	434

“Cash and cash equivalents” at December 31, 2019 represent the sum of the Group’s active bank and postal balances; the positive change related to the first-time consolidation effect of 2019 acquisitions was equal to 3 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 2018	First-time consolid. effect acquisitions 2019	Changes during the year	Balance at 12 31 2019	of which included in the NFP	
					12 31 2018	12 31 2019
Non-current assets held for sale	112		(112)	-	-	-

At December 31, 2019, “Non-current assets held for sale” showed a zero balance (112 million euro at December 31, 2018). At the end of the previous year, the item in question amounted to 109 million euro and referred to the fair value of the shareholding in EPCG, held 18.70% 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, 2018 is due to the collections made during the year under the agreement negotiated with the Government of Montenegro, and approved by the same on April 27, 2018. On July 31, 2019, the payment dates of the last tranche, previously scheduled for July 31, 2019, were renegotiated, postponing them to September 30, 2019 (53 million euro) and December 31, 2019 (17 million euro). At December 31, 2018, this item also included 3 million euro relating to the shareholding in Commerciale Gas & Luce S.r.l. of the ACSM-AGAM Group, which was sold during the current year, while the shareholding in Energy Trade S.p.A. was recorded at a value of less than 1 million euro.

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EQUITY AND LIABILITIES

EQUITY

Equity, which amounted to 3,651 million euro at December 31, 2019 (3,523 million euro at December 31, 2018), is set out in the following table:

<i>millions of euro</i>	Balance at 12 31 2018	Changes during the year	Balance at 12 31 2019
Equity pertaining to the Group:			
Share capital	1,629	-	1,629
(Treasury shares)	(54)	-	(54)
Reserves	1,216	109	1,325
Group result of the year	344	45	389
Total equity pertaining to the Group	3,135	154	3,289
Minority interests	388	(26)	362
Total equity	3,523	128	3,651

The change of the Shareholders' equity was overall positive for 128 million euro. The net profit for the year generated a positive effect of 389 million euro, offset by the distribution of 218 million euro in dividends. Furthermore, the net fair value loss on the measurement of cash flow hedges (23 million euro) and the net decrease in minority interests (26 million euro) also affected shareholders' equity.

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, 2018, consist of 23,721,421 own shares held by the parent company A2A S.p.A..

15) Reserves

<i>millions of euro</i>	Balance at 12 31 2018	Changes during the year	Balance at 12 31 2019
Reserves	1,216	109	1,325
of which:			
Change in the fair value of cash flow hedge derivatives and fair value bonds	(9)	(32)	(41)
Tax effect	2	9	11
Cash flow hedge reserves	(7)	(23)	(30)
Change in the IAS 19 Revised reserve - Employee Benefits	(70)	(7)	(77)
Tax effect	18	2	20
IAS 19 Revised reserve - Employee Benefits	(52)	(5)	(57)

"Reserves", which amounted to 1,325 million euro (1,216 million euro at December 31, 2018), consist of the legal reserve, extraordinary reserves, and the retained earnings of subsidiaries.

This item also includes the cash flow hedge reserve, negative for 30 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 57 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.

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	2019	2018
Result of the year A2A S.p.A.	451	373
Intra-group dividends eliminated from the consolidated financial statements	(378)	(404)
Result of subsidiaries, associates and joint ventures not included in the financial statements of A2A S.p.A.	485	287
Reversal of impairment of subsidiary shareholdings in A2A S.p.A.’s financial statements	(97)	-
Subsidiary shareholdings written down in the financial statements of A2A S.p.A.	-	73
Other consolidation adjustments	(72)	15
Group result of the year	389	344

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

millions of euro	12 31 2019	12 31 2018
Equity pertaining to A2A S.p.A.	2,844	2,636
- Elimination of the portion of the equity reserve resulting from profit on intra-group operations for the transfer of business units	(390)	(394)
- Retained earnings (losses)	819	848
- Intra-group dividends eliminated from the consolidated financial statements	(378)	(404)
- Result of subsidiaries not included in the financial statements of A2A S.p.A.	485	287
- Reversal of impairment of subsidiary shareholdings in A2A S.p.A.’s financial statements	(97)	-
- Subsidiary shareholdings written down in A2A S.p.A.’s financial statements	-	73
- Other consolidation adjustments	6	89
Equity pertaining to the Group	3,289	3,135

16) Result of the year

This item consists of a profit of 389 million euro, representing the result for the year.

17) Minority interests

millions of euro	Balance at 12 31 2018	Changes during the year	Balance at 12 31 2019
Minority interests	388	(26)	362

“Minority interests” amounted to 362 million euro (388 million euro at December 31, 2018) and mainly represent the portions of capital, reserves and result pertaining to minority shareholders related to third-party shareholders of the LGH Group and of the ACSM-AGAM Group.

The net decrease of the year amounted to 26 million euro.

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LIABILITIES

NON-CURRENT LIABILITIES

18) Non-current financial liabilities

millions of euro	Balance at 12 31 2018	First-time consolid. effect acquisitions 2019	Changes during the year	Balance at 12 31 2019	of which included in the NFP	
					12 31 2018	12 31 2019
Non-convertible bonds	2,180		370	2,550	2,180	2,550
Payables to banks	755	2	(119)	638	755	638
Non-current financial payables for rights of use	46		71	117	46	117
Payables to other lenders	3	1	(2)	2	3	2
Total non-current financial liabilities	2,984	3	320	3,307	2,984	3,307

“Non-current financial liabilities” amounted to 3,307 million euro (2,984 million euro at December 31, 2018), an increase of 320 million euro, net of the first-time consolidation effects of acquisitions in 2019.

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

- 351 million euro, maturing in January 2021 and coupon of 4.375%, the nominal value of which is equal to 351 million euro;
- 499 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 March 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;
- 296 million euro, maturing in October 2027 and coupon of 1.625%, the nominal value of which is equal to 300 million euro;
- 114 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;
- 394 million euro, maturing in July 2029 and coupon of 1.00%, the nominal value of which is equal to 400 million euro.

The net increase in the non-current component of “Non-convertible bonds”, amounting to 370 million euro compared to December 31, 2018, is mainly due to the subscription of the new green bond with maturity in 2029 mentioned above, aimed at financing and/or refinancing environmental sustainability projects related, for example, to the circular economy and decarbonization, net of the early repayment of the bond issued by TS Energy Italy S.p.A. maturing in June 2032 and with nominal value of 32 million euro, as well as the increase in the ECB exchange rate applied to the yen bond.

Non-current “Payables to banks” amounted to 638 million euro, a decrease of 119 million euro compared to the previous year-end, excluding the first-time consolidation effect of acquisitions in 2019 equal to 2 million euro due to the reclassification under current liabilities of the portions of capital maturing within the following year.

“Non-current financial payables for rights of use” amounted to 117 million euro, an increase of 71 million euro mainly following the application of IFRS 16 for leases previously classified as operating leases.

Lastly, “Payables to other lenders” amounted to 2 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	2,549	2,596	46	2,550	2,760
Bank loans and other financing (excluding financial payables for rights of use)	875	874	234	640	875
Total	3,424	3,470	280	3,190	3,635

19) Employee benefits

The balance on this item amounted to 307 million euro (314 million euro at December 31, 2018) with changes as follows during the period:

millions of euro	Balance at 12 31 2018	First-time consolid. effect acquisitions 2019	Provisions	Utilizations	Other changes	Balance at 12 31 2019
Employee leaving entitlement (TFR)	165		32	(14)	(24)	159
Employee benefits	149			(7)	6	148
Total employee benefits	314	-	32	(21)	(18)	307

The change during the year is attributable for 32 million euro to provisions for the year, for 21 million euro to the decrease due to disbursements for the year and for 18 million euro to the net decrease mainly related to payments for the period to pension funds. In addition, actuarial valuations for the year include the increase of 5 million euro deriving from the interest cost, the increase of 7 million euro deriving from the actuarial gains/losses and the increase of 1 million euro deriving from the service cost.

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

	2019	2018
Discount rate	from -0.1% to 0.8%	from 0.1% to 1.6%
Annual inflation rate	1.2%	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	2.4%	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%

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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 AS62 (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

<i>millions of euro</i>	Balance at 12 31 2018	First-time consolid. effect acquisitions 2019	Provisions	Releases	Utilizations	Other changes	Balance at 12 31 2019
Decommissioning provisions	238		2		(6)	30	264
Landfill closing and post-closing expense provisions	196		6	(1)	(12)	7	196
Tax provisions	34		13	(7)	(4)		36
Personnel lawsuits and disputes provisions	56	1	2	(8)	(8)	(1)	42
Other risk provisions	118		17	(4)	(6)	13	138
Provisions for risks, charges and liabilities for landfills	642	1	40	(20)	(36)	49	676

At December 31, 2019, provision for risks, charges and liabilities for landfills amounted to 676 million euro and, excluding the first-time consolidation effects of acquisitions in 2019, showed an increase of 33 million euro.

“Decommissioning provisions”, which amounted to 264 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 releases for 2 million euro, uses for 6 million euro, to cover the expenses incurred during the reporting year and other increases for 30 million euro, which refer mainly to the effects of the updates of the estimate appraisals and discount rates used to estimate the future costs of dismantling and recovery 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 6 million euro related to the effects of the updates of the estimate appraisals and discount rates in relation to assets fully depreciated, the effect of which was recognized in the Income Statement, utilizations for 12 million euro, which represent the actual outlays in the period, and other changes, positive for 7 million euro, mainly relating to the effects of the updates of the discount rates and estimate appraisals of assets not fully depreciated and that have “Tangible assets” as balancing entry.

“Tax Provisions”, which amounted to 36 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.

“Personnel lawsuits and disputes provisions”, which totalled 42 million euro, refer mainly to litigation with third parties for 38 million euro and employees for 2 million euro to cover liabilities that may arise from pending litigation, lawsuits with Social Security Institutions for 2 million euro related to social security contributions that the Group believes it will not be required to pay and are the subject of specific disputes.

“Other provisions”, which amounted to 138 million euro, refer to provisions relating to public water derivation fees for 52 million euro, to the mobility provision for the costs arising from the corporate restructuring plan, for 11 million euro, as well as other provisions for 75 million euro. Allocations for the year amounted to 17 million euro and mainly refer to provisions for public water derivation fees.

21) Other non-current liabilities

millions of euro	Balance at 12 31 2018	First-time consolid. effect acquisitions 2019	Changes during the year	Balance at 12 31 2019	of which included in the NFP	
					12 31 2018	12 31 2019
Other non-current liabilities	134	2	4	140	-	-
Non-current derivatives	14		(5)	9	14	9
Total other non-current liabilities	148	2	(1)	149	14	9

At December 31, 2019, this item showed a decrease of 1 million euro compared to the previous year, excluding the first-time consolidation effects of acquisitions in 2019, for 2 million euro.

“Other non-current liabilities”, which showed a balance of 140 million euro, refer to security deposits from customers for 65 million euro, to liabilities pertaining to future years for 12 million euro, to medium/long-term payables to suppliers for 3 million euro, as well as other non-current liabilities for 60 million euro, which mainly include long-term payables, contracts for acquisitions completed in the photovoltaic sector by the subsidiary A2A Rinnovabili in the last three-year period.

“Non-current derivatives” amounted to 9 million euro and showed a negative change of 5 million euro deriving from the fair value valuation of financial instruments at year-end.

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CURRENT LIABILITIES

22) Trade payables and other current liabilities

millions of euro	Balance at 12 31 2018	First-time consolid. effect acquisitions 2019	Changes during the year	Balance at 12 31 2019	of which included in the NFP	
					12 31 2018	12 31 2019
Advances	3	-	-	3		
Payables to suppliers	1,410	7	61	1,478		
Total trade payables	1,413	7	61	1,481	-	-
Payables to pension and social security institutions	43	-	-	43		
Current derivatives (commodity derivatives)	156	-	224	380		
Other current liabilities of which:	382	1	38	421		
- Payables to personnel	77	-	8	85		
- Payables to Cassa per i Servizi Energetici e Ambientali	80	-	25	105		
- Tax payables	42	-	24	66		
- Payables for tax transparency	7	-	-	7		
- Payables for energy tariff components	75	-	(2)	73		
- Payables for A.T.O.	7	-	(4)	3		
- Payables to customers for work to be performed	14	-	3	17		
- Payables to customers for interest on security deposits	3	-	(1)	2		
- Payables to third-party shareholders	4	-	-	4		
- Payables for the purchase of equity investments	8	-	(7)	1		
- Payables for auxiliary services	12	-	(2)	10		
- Payables for collections to be allocated	7	-	3	10		
- Payables to insurance companies	5	-	(1)	4		
- Payables for excise compensation	6	-	(6)	-		
- Payables for environmental compensation	3	-	-	3		
- Payables for RAI fee	5	-	2	7		
- Sundry payables	27	1	(4)	24		
Total other current liabilities	581	1	262	844	-	-
Total trade payables and other current liabilities	1,994	8	323	2,325	-	-

“Trade receivables and other current liabilities” amounted to 2,325 million euro (1,994 million euro at December 31, 2018), representing an increase of 323 million euro, excluding the first-time consolidation effect of acquisitions in 2019 for 8 million euro.

“Trade receivables” amounted to 1,481 million euro and compared to the closing of the previous year, represented an increase of 61 million euro, excluding the first-time consolidation effect of acquisitions in 2019 for 7 million euro.

“Payables to pension and social security institutions” amounted to 43 million euro, unchanged compared to December 31, 2018, and relate to the Group’s debt position with Social Security and Pension Institutions, related to contributions for December 2019 not yet paid.

“Current derivatives” amounted to 380 million euro (156 million euro at December 31, 2018) 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 assets” included 371 million euro in “Current derivatives”.

“Other current liabilities” mainly refer to:

- payables to employees for 85 million euro (77 million euro at December 31, 2018), 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, 2019;
- payables to the CSEA - Cassa per i Servizi Energetici e Ambientali for 105 million euro (80 million euro at December 31, 2018) 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 in question;
- tax liabilities for 66 million euro (42 million euro at December 31, 2018), mainly regarding 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, 2018;
- payables for electricity tariff components for 73 million euro (75 million euro at December 31, 2018);
- payables for A.T.O. for 3 million euro (7 million euro at December 31, 2018) 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 17 million euro (14 million euro at December 31, 2018) related to estimates already collected from customers for work that has not been completed yet.

23) Current financial liabilities

millions of euro	Balance at 12 31 2018	First-time consolid. effect acquisitions 2019	Changes during the year	Balance at 12 31 2019	of which included in the NFP	
					12 31 2018	12 31 2019
Non-convertible bonds	558		(512)	46	558	46
Payables to banks	128		105	233	128	233
Current financial payables for rights of use	5		20	25	5	25
Financial payables to related parties	2		(2)	-	2	-
Payables to other lenders	1		(1)	-	1	-
Total current financial liabilities	694	-	(390)	304	694	304

“Current financial liabilities” amounted to 304 million euro compared to 694 million euro recorded at December 31, 2018 and showed a decrease of 390 million euro.

“Non-convertible bonds” decreased by 512 million euro. The net decrease is mainly due to the redemption of the bond maturing in November 2019 and coupon of 4.50%.

Current “Payables to banks” amounted to 233 million euro, an increase of 105 million euro, mainly due to the reclassification from medium/long-term to short-term of outstanding loans, net of the repayments of credit lines and portions of loans made during the year.

“Current financial payables for rights of use” amounted to 25 million euro, an increase of 20 million euro following the application of IFRS 16 for leases previously classified as operating leases.

Finally, “Payables to other lenders” did not include any value (they were equal to 1 million euro at December 31, 2018).

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24) Tax liabilities

<i>millions of euro</i>	Balance at 12 31 2018	First-time consolidation effect acquisitions 2019	Changes during the year	Balance at 12 31 2019
Tax liabilities	34	1	(29)	6

“Tax payables” amounted to 6 million euro (34 million euro at December 31, 2018), a decrease of 29 million euro compared to the previous year-end, excluding the first-time consolidation effect of equal to 1 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 2019	First-time consolidation effect acquisitions 2019	12 31 2018
Bonds - non-current portion	18	2,550		2,180
Bank loans - non-current portion	18	638	2	755
Non-current financial payables for rights of use	18	117		46
Non-current payables to other lenders	18	2	1	3
Other non-current liabilities	21	9		14
Total medium/long-term debt		3,316	3	2,998
Non-current financial assets - related parties	3	(4)		(6)
Non-current financial assets	3	(16)		(16)
Other non-current assets	5	(2)		(8)
Total medium/long-term financial receivables		(22)	-	(30)
Total non-current net debt		3,294	3	2,968
Bonds - current portion	23	46		558
Bank loans - current portion	23	233		128
Current financial payables for rights of use	23	24		5
Current amounts due to other providers of finance	23	1		1
Current financial liabilities - related parties	23	-		2
Total short-term debt		304	-	694
Other current financial assets	9	(9)		(15)
Current financial assets - related parties	9	(1)		(1)
Total short-term financial receivables		(10)	-	(16)
Cash and cash equivalents	11	(434)	(3)	(624)
Total current net debt		(140)	(3)	54
Net debt		3,154	-	3,022

The Group's net debt amounted to 3,154 million euro and includes the effect of the first-time application of IFRS 16 for 109 million euro.

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

millions of euro	12 31 2018	Cash flow	Non-cash flow			12 31 2019
			First-time consolid. effect acquisitions 2019	Change in fair value	Other changes	
Bonds	2,738	(143)	-	4	(3)	2,596
Financial payables	940	(66)	3	-	138	1,015
Other liabilities	14	-	-	(5)	-	9
Financial assets	(38)	5	-	-	3	(30)
Other assets	(8)	-	-	6	-	(2)
Net liabilities deriving from financing activities	3,646	(204)	3	5	138	3,588
Cash and cash equivalents	(624)	193	(3)	-	-	(434)
Net debt	3,022	(11)	-	5	138	3,154

Notes to the income statement

The consolidation scope at December 31, 2019 changed compared to the corresponding year due to the following operations:

- acquisition and line-by-line consolidation of the company Bellariva Enertel 07 S.r.l., owner of a photovoltaic plant;
- acquisition by A2A Energy Solutions S.r.l. (100% owned by A2A S.p.A.) of 100% of Suncity Energy S.r.l. (line-by-line consolidation) and 26% of Suncity Group S.r.l. (consolidated using the equity method), groups active in the field of energy efficiency and dispatching;
- line-by-line consolidation of the company Yada Energia S.r.l., incorporated in June 2019;
- acquisition of 45% and valuation at equity of ASM Energia S.p.A., a commercial company, by A2A Energia S.p.A.;
- acquisition and line-by-line consolidation of 100% of Areslab S.r.l. and 90% of Electrometal S.r.l., companies active in the market for the treatment and analysis of industrial waste, by A2A Ambiente S.p.A..

Moreover, the economic data at December 31, 2019 are not homogeneous with respect to the previous year due to the following contributions:

- 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;
- acquisition and line-by-line consolidation, from December 2018, by the subsidiary A2A Rinnovabili S.p.A. of TS energy Italy S.r.l., the holding company of nine project companies owning photovoltaic plants;
- 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.

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26) Revenues

Revenues for the year amounted to 7,324 million euro (6,494 million euro at December 31, 2018), which was therefore an increase of 830 million euro (+12.8%).

Details of the more significant items are as follows:

Revenues <i>millions of euro</i>	12 31 2019	12 31 2018	CHANGE	% 2019/2018
Revenues from the sale of goods	6,046	5,268	778	14.8%
Revenues from services	1,076	1,003	73	7.3%
Total revenues from the sale of goods and services	7,122	6,271	851	13.6%
Other operating revenues	202	223	(21)	(9.4%)
Total revenues	7,324	6,494	830	12.8%

The increase in revenues is mainly due to revenues from the sale of electricity, following higher sales on the free market, in particular large customers, revenues from gas sales thanks to higher volumes sold on the free gas market and intermediated on the wholesale market, partially offset by lower revenues from environmental markets.

The ACSM-AGAM Group's revenues, consolidated as of July 2018, amounted to 420 million euro (187 million euro at December 31, 2018 referring only to the second half of the year after the aggregation).

Further details of the main items are as follows:

<i>millions of euro</i>	12 31 2019	12 31 2018	CHANGE	% 2019/2018
Sale and distribution of electricity	3,405	3,094	311	10.1%
Sale and distribution of gas	2,152	1,594	558	35.0%
Sale of heat	185	180	5	2.8%
Sale of materials	38	43	(5)	(11.6%)
Sale of water	88	71	17	23.9%
Sales of environmental certificates	147	255	(108)	(42.4%)
Connection contributions	31	31	-	0.0%
Total revenues from the sale of goods	6,046	5,268	778	14.8%
Services to customers	1,076	1,003	73	7.3%
Total revenues from services	1,076	1,003	73	7.3%
Total revenues from the sale of goods and services	7,122	6,271	851	13.6%
Reintegration of costs plant S. Filippo del Mela (plant essential Unit)	67	78	(11)	(14.1%)
Damage compensation	8	9	(1)	(11.1%)
Contributions Cassa Servizi Energetici ed Ambientali	7	9	(2)	(22.2%)
Rents receivable	3	2	1	50.0%
Contingent assets	34	27	7	25.9%
Incentives for production from renewable sources (feed-in tariff)	53	70	(17)	(24.3%)
Other revenues	30	28	2	7.1%
Other operating revenues	202	223	(21)	(9.4%)
Total revenues	7,324	6,494	830	12.8%

Revenues from the sale of heat increased by 5 million euro compared with December 31, 2018, due to the increase in the average sales revenue partially offset by lower volumes sold.

The reduction in revenues from the sale of environmental certificates, amounting to 108 million euro, is attributable to certain effects that occurred in 2018 that cannot be repeated in the following years, such as the sale of the long position of green certificates in the A2A Group's portfolio (generated until December 31, 2015) and the retroactive recognition from 2013 by the GSE of the incentive for certain plants of the Friuli Hydroelectric Unit. The reduction in revenues from the sale of environmental certificates is also due to the lower margin deriving from the realized of financial futures which, during 2019, saw a smaller differential between the subscription price and the exercise price than in 2018.

"Revenues for services" amounted to 1,076 million euro, representing an increase of 73 million euro over the previous year.

The item "Other operating revenues" showed a decrease of 21 million euro mainly due to lower revenues for the reintegration of the generation costs incurred for the San Filippo del Mela power plant (Essential Plant) pursuant to Resolution 803/2016 for 11 million euro, lower revenues related to incentives on net production from renewable sources for 17 million euro mainly due to the conclusion at December 31, 2018 of the incentive period for the Mese and San Giacomo plants, and retroactive recognition in 2018 by the GSE of the incentive of certain plants of the Friuli Hydroelectric Unit partially offset by incentive proceed of the photovoltaic plants that entered the A2A Group's perimeter from January 1, 2019, higher contingent assets of 7 million euro and higher other revenues of 2 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" amounted to 5,390 million euro (4,598 million euro at December 31, 2018), thus recording an increase of 792 million euro, of which 304 million euro relating to the consolidation of the ACSM-AGAM Group.

The main components of this item are as follows:

Operating expenses millions of euro	12 31 2019	12 31 2018	CHANGE	% 2019/2018
Expenses for raw materials and consumables	4,004	3,346	658	19.7%
Expenses for services	1,152	986	166	16.8%
Total expenses for raw materials and services	5,156	4,332	824	19.0%
Other operating expenses	234	266	(32)	(12.0%)
Total operating expenses	5,390	4,598	792	17.2%

"Expenses for raw materials and services" amounted to 5,156 million euro (4,332 million euro at December 31, 2018), representing an increase of 824 million euro, of which 283 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 609 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 514 million euro, an increase in the costs relating to the purchase of environmental certificates of 60 million euro, an increase in purchase of materials of 28 million euro and a net increase of 7 million euro arising from hedging gains and losses on operating derivatives;
- an increase of 166 million euro in costs for delivery, subcontracted work and services;
- the increase in inventories of fuel and materials for 49 million euro.

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

<i>millions of euro</i>	12 31 2019	12 31 2018	CHANGE	% 2019/2018
Purchases of power and fuel	3,590	3,076	514	16.7%
Purchases of materials	133	105	28	26.7%
Purchases of water	2	2	-	0.0%
Hedging losses on operating derivatives	15	16	(1)	(6.3%)
Hedging gains on operating derivatives	(18)	(26)	8	(30.8%)
Purchases of emission certificates and allowances	268	208	60	28.8%
Total expenses for raw materials and consumables	3,990	3,381	609	18.0%
Delivery and transmission costs	567	453	114	25.2%
Maintenance and repairs	176	166	10	6.0%
Services from associates	-	1	(1)	(100.0%)
Other services	409	366	43	11.7%
Total expenses for services	1,152	986	166	16.8%
Change in inventories of fuel and materials	14	(35)	49	n.s.
Total expenses for raw materials and services	5,156	4,332	824	19.0%
Leasehold improvements	74	93	(19)	(20.4%)
Concession fees	80	80	-	0.0%
Contributions to territorial entities, consortia and ARERA	10	9	1	11.1%
Taxes and duties	35	33	2	6.1%
Damages and penalties	4	2	2	100.0%
Contingent liabilities	12	31	(19)	(61.3%)
Other costs	19	18	1	5.6%
Other operating expenses	234	266	(32)	(12.0%)
Total operating expenses	5,390	4,598	792	17.2%

Trading margin

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

Trading margin <i>millions of euro</i>	NOTES	12 31 2019	12 31 2018	CHANGE
Revenues	26	2,169	1,406	763
Operating expenses	27	(2,161)	(1,402)	(759)
Total trading margin		8	4	4

The “Trading margin” was up by 4 million euro compared to December 31, 2018. Thanks to the persistence of significant volatility in the commodity market, systematic trading activity contributed steadily to margin growth during the year. The Group’s ongoing listing and market making activities were extended to products with a lower level of liquidity, contributing to an increase in margins and volumes traded, as well as to transactions with energy commodity options and commercial counterparties.

28) Labour costs

Excluding capitalized costs, labour costs at December 31, 2019 amounted to 700 million euro (665 million euro at December 31, 2018), of which 47 million euro related to the consolidation of the ACSM-AGAM Group.

“Labour costs” may be analysed as follows:

Labour costs millions of euro	12 31 2019	12 31 2018	CHANGE	% 2019/2018
Wages and salaries	527	494	33	6.7%
Social security charges	179	173	6	3.5%
Employee leaving entitlement (TFR)	31	31	-	0.0%
Other costs	42	33	9	27.3%
Total labour costs before capitalizations	779	731	48	6.6%
Capitalized labour costs	(79)	(66)	(13)	19.7%
Total labour costs	700	665	35	5.3%

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

	12 31 2019	12 31 2018	CHANGE
Managers	204	201	3
Supervisors	698	861	(163)
White-collar workers	5,205	5,112	93
Blue-collar workers	6,091	5,962	129
Total	12,198	12,136	62

At December 31, 2019, the average labour cost per capita amounted to 61.89 thousand euro. In the previous year, it amounted to 57.17 thousand euro and did not consider the effects of the consolidation of the ACSM-AGAM Group.

At December 31, 2019, the Group had 12,186 employees, of whom 902 related to the consolidation of the ACSM-AGAM Group. At December 31, 2018, the Group had 12,080 employees, of whom 865 related to the consolidation of the ACSM-AGAM Group.

The item “Other labour costs” includes early retirement incentives for about 10 million euro (value less than 1 million euro at December 31, 2018).

29) Gross operating income

As a result of the above movements, consolidated “Gross operating income” at December 31, 2019 amounted to 1,234 million euro (1,231 million euro at December 31, 2018), of which 69 million euro arising from the consolidation of the ACSM-AGAM Group.

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

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30) Depreciation, amortization, provisions and write-downs

“Depreciation, amortization, provisions and write-downs” totalled 547 million euro (643 million euro at December 31, 2018), of which 44 million euro from the consolidation of the ACSM-AGAM Group, representing a decrease of 96 million euro.

The following table provides details of the individual items:

Depreciation, amortization, provisions and write-downs <i>millions of euro</i>	12 31 2019	12 31 2018	CHANGE	% 2019/2018
Amortization of intangible assets	123	91	32	35.2%
Depreciation of tangible assets	379	372	7	1.9%
Net write-downs of fixed assets	9	160	(151)	(94.4%)
Total amortization, depreciation and write-downs	511	623	(112)	(18.0%)
Provisions for risks	21	(5)	26	n.s.
Bad debt provision on receivables recognized as current assets	15	25	(10)	(40.0%)
Total depreciation, amortization, provisions and write-downs	547	643	(96)	(14.9%)

“Depreciation, amortization and write-downs” totalled 511 million euro (623 million euro at December 31, 2018), of which 40 million euro from the consolidation of the ACSM-AGAM Group, recording an overall decrease of 112 million euro.

Amortization of intangible assets totalled 123 million euro (91 million euro at December 31, 2018), 26 million euro of which deriving from the consolidation of the ACSM-AGAM Group. The item includes higher amortization for 32 million euro, of which 14 million euro relating to the consolidation of the ACSM-AGAM Group (of which 3 million euro relating to the effects of Purchase Price Allocations), 6 million euro relating to the plan to replace gas meters, 1 million euro relating to the water distribution network and 9 million euro relating to the implementation of information systems.

Depreciation of tangible assets showed an increase of 7 million euro compared to December 31, 2018 and mainly includes:

- higher depreciation of 23 million euro following the application of IFRS 16, including 2 million euro for the ACSM-AGAM Group;
- higher depreciation resulting from the consolidation of the companies operating in the photovoltaic sector acquired starting from the second half of 2018 for 4 million euro;
- higher depreciation of 3 million euro, mainly relating to capex that went into production after December 31, 2018;
- higher depreciation of 6 million euro, relating to the consolidation of the ACSM-AGAM Group;
- lower depreciation of 17 million euro for the Monfalcone power plant as a result of the write-down made in 2018;
- lower depreciation of 11 million euro resulting from the complete write-down of the Grottaglie landfill;
- lower depreciation of 1 million euro for the San Filippo del Mela power plant.

Net write-downs for the year totalled 9 million euro, reflecting both the effects of the Impairment Test, which produced a positive result of 39 million euro, and the write-down of 48 million euro recognized on the Grottaglie landfill site in view of its reduced future income generating capacity, following the rejection of the appeal filed by the Council of State against the Sentence of the Regional Administrative Court (T.A.R.) of Lecce no. 143/2019 and the consequent confirmation of the annulment of DD 45/18, which had allowed a substantial modification of the Integrated Environmental Authorization (AIA) relating to the landfill with the consequent resumption of disposal activities.

The Impairment Test process involved:

- 127 million euro reversal of the 400 MW units of the Mincio, Chivasso and Sermide thermoelectric power plants. These plants had been entirely written-off during previous years, following their preservation; this year, they were written-back due to their correct function, the changed (increased) prospects of use, also connected with the envisaged phase-out of coal, scenario and remuneration offered by the capacity market mechanism, already assigned for 2022, 2023 and expected for subsequent years;
- 85 million euro for the write-down of goodwill relating to the “A2A Reti Elettriche” CGU;
- 3 million euro write-down of capex for the Monfalcone power plant.

In the previous year, write-downs amounted to 160 million euro and mainly referred to the write-down of the Monfalcone plant and the write-down of goodwill relating to the “A2A Reti Elettriche” CGU.

For further clarifications regarding the impairment activities, please refer to note 2) of these Notes.

The balance of “Provisions for risks” showed a net effect of 21 million euro (positive for 5 million euro at December 31, 2018) due to allocations in the year of 40 million euro, offset by the surpluses of 19 million euro since some ongoing disputes have ceased to exist.

Allocations for the year included 9 million euro allocation for public water diversion fees, 13 million euro allocation to tax provisions, 6 million euro allocation to provisions for landfill closure and post-closure expenses, 2 million euro allocation to personnel lawsuits and disputes provisions and 10 million euro allocation to provisions for other disputes. Surpluses of provisions for risks amounted to 19 million euro and refer mainly to surpluses of provisions for tax disputes and with social security institutions.

For further information, reference is made to note 20 “Provisions for risks, charges and liabilities for landfills”.

The “Bad debts provision” showed a balance of 15 million euro (25 million euro at December 31, 2018), of which 4 million euro deriving from the consolidation of the ACSM-AGAM Group, determined by the allocation for the year.

31) Net operating income

“Net operating income” amounted to 687 million euro (588 million euro at December 31, 2018).

32) Result from non-recurring transactions

The “Result from non-recurring transactions” amounted to 4 million euro and refers entirely to the badwill resulting from the acquisition of the shareholding in Biofor by the LGH Group and subsequently merged into Linea Ambiente. In the previous year, this item amounted to 14 million euro and referred for 6 million euro to the income from the sale of the shareholding held in Rudnik Uglja ad Pljevlja and for 8 million euro to the income from the acquisitions made during the year of the companies of the Rinnovabili Group.

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33) Financial balance

The “Financial balance” closed with net expense of 110 million euro (net expense of 112 million euro at December 31, 2018).

Details of the more significant items are as follows:

Financial balance <i>millions of euro</i>	12 31 2019	12 31 2018	CHANGE	% 2019/2018
Financial income	16	16	-	0.0%
Financial expenses	(130)	(132)	2	(1.5%)
Affiliates	4	4	-	0.0%
Total financial balance	(110)	(112)	2	(1.8%)

“Financial income” amounted to 16 million euro (16 million euro at December 31, 2018) and may be analyzed as follows:

Financial income <i>millions of euro</i>	12 31 2019	12 31 2018	CHANGE	% 2019/2018
Gains on disposals of financial assets	4	-	4	n.s.
Other financial income of which:	12	16	(4)	(25.0%)
- <i>Financial income from the Municipality of Brescia (IFRIC 12)</i>	6	6	-	0.0%
- <i>Foreign exchange gains</i>	1	3	(2)	(66.7%)
- <i>Other income</i>	5	7	(2)	(28.6%)
Total financial income	16	16	-	0.0%

“Financial expense”, which amounted to 130 million euro, decreased by 2 million euro over the balance at December 31, 2018, and may be analyzed as follows:

Financial expenses <i>millions of euro</i>	12 31 2019	12 31 2018	CHANGE	% 2019/2018
Interest on bond loans	94	102	(8)	(7.8%)
Interest charged by banks	4	6	(2)	(33.3%)
Realized on financial derivatives	7	8	(1)	(12.5%)
Decommissioning costs	1	2	(1)	(50.0%)
Other financial expenses of which:	24	14	10	71.4%
- <i>Discounting charges</i>	8	6	2	33.3%
- <i>Financial expenses (IFRS 16)</i>	1	-	1	n.s.
- <i>Financial expenses (IFRIC 12)</i>	3	3	-	0.0%
- <i>Foreign exchange losses</i>	1	3	(2)	(66.7%)
- <i>Other expenses</i>	11	2	9	n.s.
Total financial expenses before capitalizations	130	132	(2)	(1.5%)
Capitalized financial expenses	-	-		
Total financial expenses	130	132	(2)	(1.5%)

This item includes the total costs incurred for the early settlement of the existing bond at the Talesun Group, amounting to 9 million euro.

The equity method valuation of shareholdings was positive for 4 million euro (positive for 4 million euro at December 31, 2018), and is mainly attributable to the positive valuation of the shareholding held by the LGH Group in Asm Codogno.

34) Income taxes

Income taxes millions of euro	12 31 2019	12 31 2018	CHANGE
Current IRES	147	146	1
Current IRAP	30	30	-
Effect of differences - taxes of previous years	5	2	3
Total current taxes	182	178	4
Deferred tax assets	71	33	38
Deferred tax liabilities	(64)	(54)	(10)
Total losses/gains for income taxes	189	157	32

“Income taxes” for the year amounted to 189 million euro (157 million euro at December 31, 2018).

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	2019	2018
Pre-tax result	581	490
Write-downs of assets	9	160
Pre-tax result adjusted by write-downs and the result of assets held for sale	590	650
Theoretical rates based on applicable tax rates (1)	142	156
Tax effect of write-downs	(2)	(38)
Permanent differences	19	9
Total taxes charged to Income statement (excluding IRAP)	159	127
Current IRAP	30	30
Total taxes charged to Income statement	189	157

(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 and amounted to 1 million euro and referred to the collection of dividends and the proceeds from discounting to adjust the value to fair value of the shareholding held in EPCG.

In the previous year, the item in question was 21 million euro and included 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 the shareholding 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).

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36) Result of minorities

The “Result of minorities” was negative for the Group for 4 million euro and mainly included 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 10 million euro.

37) Group result of the year

The “Group result of the year” was positive for 389 million euro (positive for 344 million euro at December 31, 2018).

Earnings per share

38) Earnings per share

	01 01 2019 12 31 2019	01 01 2018 12 31 2018
Earnings (loss) per share (in euro)		
- basic	0.1249	0.1106
- basic, from continuing operations	0.1247	0.1040
- basic, from assets held for sale	0.0002	0.0066
- diluted	0.1249	0.1106
- diluted, from continuing operations	0.1247	0.1040
- diluted from assets held for sale	0.0002	0.0066
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

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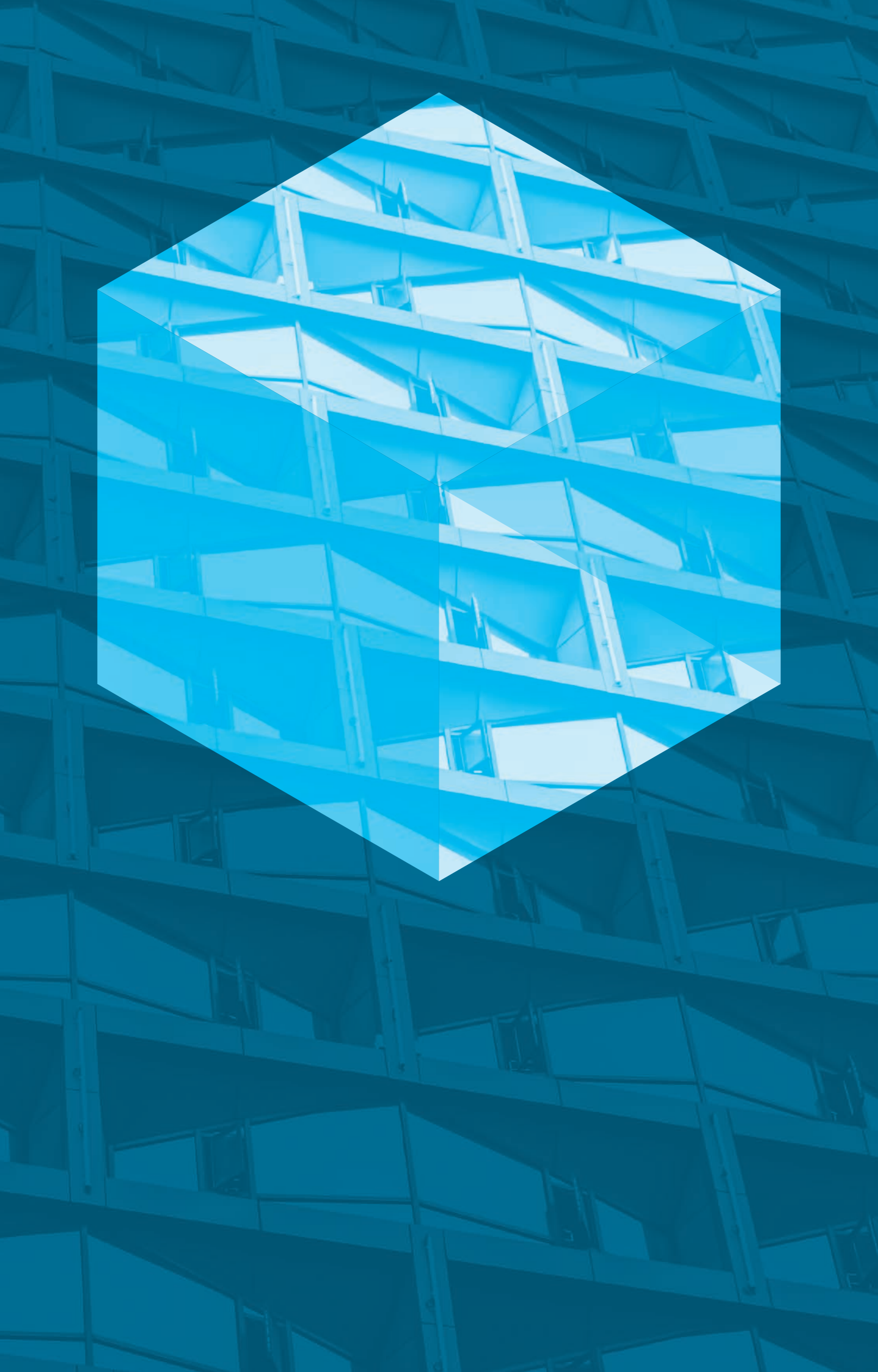
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Note on related party transactions

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.

On August 2, 2019, the Municipality of Milan, also on behalf of the Municipality of Brescia, announced that the aforesaid shareholders’ agreement was not subject to termination and therefore the agreement must be considered renewed with effect from February 1, 2020 to January 31, 2023.

At the date of approval of these Consolidated financial statements at December 31, 2019, 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.

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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 2019, 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	Total 12 31 2019	Of which with related parties								% effect on the balance sheet item
		Associa- ted compa- nies	Related compa- nies	Municipa- lity of Milan	Subsidi- aries Muni- cipality of Milan	Municipi- pality of Brescia	Subsidi- aries Muni- cipality of Brescia	Related parties individu- als	Total related parties	
millions of euro										
TOTAL ASSETS OF WHICH:	10,725	7	44	71	11	18	-	-	151	1.4%
Non-current assets	7,615	5	33	-	-	4	-	-	42	0.6%
Shareholdings	38	5	33	-	-	-	-	-	38	100.0%
Other non-current financial assets	27	-	-	-	-	4	-	-	4	14.8%
Current assets	3,110	2	11	71	11	14	-	-	109	3.5%
Trade receivables	1,852	2	10	71	11	13	-	-	107	5.8%
Other current assets	567	-	1	-	-	-	-	-	1	0.2%
Current financial assets	10	-	-	-	-	1	-	-	1	10.0%
TOTAL LIABILITIES OF WHICH:	7,074	22	5	3	-	7	-	-	37	0.5%
Non-current liabilities	4,439	1	-	-	-	-	-	-	1	0.0%
Non-current financial liabilities	676	1	-	-	-	-	-	-	1	0.1%
Current liabilities	2,635	21	5	3	-	7	-	-	36	1.4%
Trade payables	1,481	14	5	3	-	7	-	-	29	2.0%
Other current liabilities	844	7	-	-	-	-	-	-	7	0.8%

Income statement	Total 12 31 2019	Of which with related parties								% effect on the balance sheet item
		Associa- ted compa- nies	Related compa- nies	Municipa- lity of Milan	Subsidi- aries Muni- cipality of Milan	Municipi- pality of Brescia	Subsidi- aries Muni- cipality of Brescia	Related parties individu- als	Total related parties	
millions of euro										
REVENUES	7,324	6	34	325	36	41	2	-	444	6.1%
Revenues from the sale of goods and services	7,122	6	34	325	36	41	2	-	444	6.2%
OPERATING EXPENSES	5,390	19	2	3	3	8	-	-	35	0.6%
Expenses for raw materials and services	5,156	-	2	-	3	-	-	-	5	0.1%
Other operating expenses	234	19	-	3	-	8	-	-	30	12.8%
LABOUR COSTS	700	-	-	-	-	-	-	2	2	0.3%
FINANCIAL BALANCE	(110)	1	4	-	-	6	-	-	11	(10.0%)
Financial income	16	1	-	-	-	6	-	-	7	43.8%
Affiliates	4	-	4	-	-	-	-	-	4	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.

With regard to the compensation paid to the corporate governance bodies, reference shall be made to the document “Remuneration Report - 2020” available on the website www.a2a.eu.

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

There were no atypical and/or unusual transactions during the year in question.

Guarantees and commitments with third parties

millions of euro	12 31 2019	12 31 2018
Guarantees received	837	706
Guarantees provided	1,274	1,182

Guarantees received

Guarantees received amounted to 837 million euro (706 million euro at December 31, 2018) and included 325 million euro for sureties and security deposits issued by subcontractors to guarantee the proper execution of the work assigned and 479 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 33 million euro.

Guarantees provided and commitments with third parties

Guarantees provided amounted to 1,274 million euro (1,182 million euro at December 31, 2018), of which for obligations undertaken in the loan agreements of 80 million euro. These guarantees have been issued by banks for 894 million euro, insurance companies for 86 million euro and the parent company A2A S.p.A., as parent company guarantee, for 240 million euro and guarantees provided by the ACSM-AGAM Group for 54 million euro.

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

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1) Significant events for the Group after December 31, 2019

Reference should be made to the specific section of this Report on Operations for a description of subsequent events.

2) Information on treasury shares

At December 31, 2019, A2A S.p.A. held 23,721,421 treasury shares, unchanged compared to December 31, 2018, equal to 0.757% of the share capital consisting of 3,132,905,277 shares.

At December 31, 2019, no treasury shares were held through subsidiaries, finance companies or nominees.

3) Transactions as per IFRS 3 revised

In 2019, the A2A Group completed the following acquisitions of investments, which fall within the provisions of IFRS 3:

- on March 4, 2019, A2A Rinnovabili S.p.A., 100% owned by A2A S.p.A., completed the acquisition of the project company Bellariva 07 S.r.l., which owns a photovoltaic plant;
- on April 16, 2019, A2A Energy Solutions S.r.l., 100% owned by A2A S.p.A., acquired 100% of Suncity Energy S.r.l., a company operating in the energy efficiency and dispatching sector;
- on December 20, 2019, A2A Ambiente S.p.A., 100% owned by A2A S.p.A., completed the acquisition of 90% of Electrometal S.r.l. and of 100% of Areslab S.r.l., companies active in the market for the industrial waste treatment and analysis.

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.

Business Combinations Rinnovabili Group

In the first half of 2019, A2A Rinnovabili S.p.A. completed the acquisition of 100% of Bellariva 07 S.r.l. company owning a photovoltaic plant from IMPAX (AIFM) Limited.

The transaction was concluded for a value of 1.5 million euro, of which 1 million euro for the purchase of shareholdings and 0.5 million euro for the entry of the loan of the former shareholders. At the same time as the closing, on March 4, 2019, 5 thousand euro was paid and the remaining part is expected to be paid by December 31, 2021.

On closing, the transaction generated a higher value allocated to "Other intangible assets" of 0.8 million euro and related deferred taxes of 0.2 million euro.

Business combinations A2A Energy Solutions S.r.l.

On April 16, 2019, A2A Energy Solutions S.r.l., company wholly owned by A2A S.p.A., acquired 100% of Suncity Energy S.r.l., a company operating in the energy efficiency and dispatching sector.

The transaction was concluded for 2.3 million euro entirely for the purchase of equity investments. At the same time as the closing, on April 16, 2019, A2A Energy Solutions S.r.l. paid 1.9 million euro, the remainder being deferred price to April 16, 2023 for 0.4 million euro.

On closing the transaction generated goodwill of 2.3 million euro.

The Group completed the Purchase Price Allocation process, in compliance with IFRS 3 terms, allocating the entire goodwill generated to “Other intangible assets” for 3 million euro and related deferred taxes for 0.7 million euro.

Business combination A2A Ambiente S.p.A.

On December 20, 2019, A2A Ambiente S.p.A., 100% owned by A2A S.p.A., completed the acquisition of 100% of Areslab S.r.l. and of 90% of Electrometal S.r.l., companies active in the market for the industrial waste treatment and related laboratory analysis.

The transaction was concluded for 17.6 million euro entirely for the purchase of equity investments. At the same time as the closing, on December 20, 2019, A2A Ambiente S.p.A. paid 15.8 million euro; the remainder being deferred price for 1.8 million euro to be paid to the seller within 90 working days of the closing date.

On closing the transaction generated goodwill of 14.7 million euro.

The Group will complete the Purchase Price Allocation process within the terms envisaged by IFRS 3.

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

“Non-current assets held for sale” had no value at December 31, 2019, while at December 31, 2018 it amounted to 112 million euro and referred for 109 million euro to the fair value of the investment in EPCG, 18.70% owned by A2A S.p.A.. The decrease is due to the collections made during the year under review under the agreements entered into by the parties, which brought the residual value existing at December 31, 2018 to zero, thus completing the redemption process that began in 2017 following the management’s decision to exercise the put option on the entire share capital. As at 31 December 2018, this item also included 3 million euro relating to the reclassification of the equity investments of the ACSM-AGAM Group in Commerciale Gas & Luce S.r.l., which was sold during the current financial year, and in Energy Trade S.p.A., recorded for a value of less than 1 million euro.

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

Pursuant to art. 1, paragraphs 125 and following Law 124/17, as reformulated by art. 35 of Decree Law 34/19, even when the standard was first applied, and considering that the Group companies have not received “subsidies, grants, advantages, contributions or aid, whether in cash or in kind, not general and with no consideration, remuneration or compensation”, this note is negative.

It is understood that other information is (also in line with the principle set out in art. 18 of Law 241/1990) available elsewhere, including the State Aid Register, also under the criterion set out in paragraph 127 of the same art. 1 of Law 124/17, which 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 and in any case by virtue of a general regime. Also all these forms of payment have not been indicated: also in compliance with both the literal aspect of the regulations and with the interpretation criteria that the Group companies have identified (see above).

6) IFRS 16 Leases

As already specified in the paragraph “Changes in international accounting standards”, the Group decided to apply the new IFRS 16 standard retroactively without restating the comparative data and accounting for the cumulative effect of the initial application of the standard 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.

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

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.

It should also be noted, in accordance with paragraph 48 of the principle, that the Group companies do not have assets for rights of use that meet the definition of property investment.

From the analysis carried out, the Group identified operating leases, the underlying assets of which had not previously been recorded in the financial statements as Assets for rights of use and Financial payables for rights of use, relating to the rental of land, buildings, plants and machinery and the rental of vehicles and other assets.

The application of IFRS 16 from January 1, 2019 with the modified retrospective method resulted in the recognition of new Assets for rights of use and Financial payables for rights of use for an amount of 109 million euro. There were no significant impacts on the Group's shareholders' equity.

Below is a breakdown of the impact on the Group's Statement of financial position at December 31, 2019 with reference to assets for rights of use deriving from operating and financial leases:

Assets consisting of rights of use <i>millions of euro</i>	Balance at 12 31 2018	Changes during the year			Balance at 12 31 2019
		Other changes	Amortization	Total changes	
Land	-	21	(4)	17	17
Buildings	3	47	(6)	41	44
Plant and machinery	50	(11)	(5)	(16)	34
Industrial, commercial equipment and other goods	-	26	(2)	24	24
Vehicles	1	30	(10)	20	21
Total	54	113	(27)	86	140

The table below provides a breakdown of the impact on the Group's Statement of financial position at December 31, 2019 with reference to financial payables for rights of use relating to operating and financial lease contracts:

<i>millions of euro</i>	Balance at 12 31 2018	Changes during the year				Balance at 12 31 2019
		Interest of the year	Cash outflows	Other changes	Total changes	
Financial payables for Rights of use	51	3	(43)	130	90	141
Total	51	3	(43)	130	90	141

Below is a breakdown of the impact on the Income Statement resulting from the application of IFRS 16 in 2019:

millions of euro	2019
Other operating expenses	29
Amortization, depreciation	(27)
Operating income	2
Financial expenses	(3)
Pre-tax	1
Current taxes	-
Net result for the year	1

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.

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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 also concluded for the purchase of coal and purchase and sale of gas 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, 2019 was -17.4 million euro (10.2 million euro at December 31, 2018).

Derivatives of the industrial portfolio not considered hedges

Again with a view to optimising the Industrial Portfolio, Future contracts and hedging contracts relating to the purchase and sale of gas indexed to degrees day 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, 2019 was 0.0 million euro (0.0 million euro at December 31, 2018).

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) and forward contracts on the price of electricity with delivery in Italy and neighbouring 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, 2019 was 8.8 million euro (-2.7 million euro at December 31, 2018).

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

PaR⁽¹⁾ 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, 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 December 31, 2019 was 98.735 million euro (75.530 million euro at December 31, 2018).

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

millions of euro	12 31 2019		12 31 2018	
	Worst case	Best case	Worst case	Best case
Profit at Risk (PaR)				
Confidence level 99%	(98.735)	120.612	(75.530)	89.251

The A2A Group therefore expects, with a 99% probability, not to have changes compared to the fair value at December 31, 2019 exceeding 98.735 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)⁽²⁾ 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.

1 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.
2 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.

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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 0.159 million euro at December 31, 2019 (0.251 million at December 31, 2018). 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 2019		12 31 2018	
	VaR	Stop loss	VaR	Stop loss
Value at Risk (VaR)				
Confidence level 99%, holding period 3 days	(0.159)	(0.159)	(0.251)	(0.251)

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.

The book value and type of gross debt as at December 31, 2019 are shown in the table below:

millions of euro	12 31 2019			12 31 2018		
	Before hedging	After hedging	% after hedging	Before hedging	After hedging	% after hedging
Fixed rate	2,649	2,892	80%	2,706	2,993	81%
Floating rate	962	719	20%	972	685	19%
Total	3,611	3,611	100%	3,678	3,678	100%

At December 31, 2019, the following are the hedging instruments for interest rate risk:

millions of euro				12 31 2019		12 31 2018	
HEDGING INSTRUMENT	HEDGED ASSET			Fair value	Notional	Fair value	Notional
IRS	Controlled floating rate loan	(0.3)	23.7	(0.6)	36.4		
IRS	Controlled floating rate lease	(3.2)	19.1	(5.1)	31.4		
Collar	A2A floating rate loan	(5.6)	76.2	(8.0)	95.2		
Total		(9.1)	119.0	(13.7)	163.0		

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 12/31/2019	at 12/31/2018	at 12/31/2019	at 12/31/2018	at 12/31/2019	at 12/31/2018	at 12/31/2019	at 12/31/2018
Cash flow hedge	Collar	-	-	-	-	76.2	95.2	(5.6)	(8.0)
Cash flow hedge	IRS	-	-	-	-	42.8	67.8	(3.5)	(5.7)
Total				-	-	119.0	163.0	(9.1)	(13.7)

Derivatives on interest rates at December 31, 2019 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, 2019 amounting to 76.2 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, 2019, the fair value was negative for 5.6 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, 2019 amounting to 8.1 million euro, at floating rate.	IRS on 100% of the amount of the loan until maturity thereof. At December 31, 2019, the fair value was negative for 0.2 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, 2019 amounting to 8.6 million euro, at floating rate.	IRS on 100% of the amount of the loan until maturity thereof. At December 31, 2019, 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, 2019 amounting to 7.0 million euro, at floating rate.	IRS on 100% of the amount of the loan until maturity thereof. At December 31, 2019, 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.
9 Leases of A2A Rinnovabili with various credit institutions and maturities, total debt at December 31, 2019 of 23.1 million euro, at variable rate.	IRS on 83% of the lease amount. At December 31, 2019, the fair value was negative for 3.2 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 every six months, at December 31 and at June 30, a sensitivity analysis is conducted of net financial expenses and valuation items of derivative financial contracts as a result of interest rate fluctuations.

The following table shows the results of the analysis on financial expenses:

millions of euro	YEAR 2019	
	-50 bps	+50 bps
Increase (decrease) in gross financial expenses	(1.6)	2.5

This sensitivity is calculated in order to determine the effect of a retrospective change in the forward rate curve on gross financial expenses

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 2019 (base case: -9.1)		12 31 2018 (base case: -13.7)	
	-50 bps	+50 bps	-50 bps	+50 bps
Change in fair value of derivatives	(1.4)	1.2	(2.1)	2.0

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.

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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, 2019 is as follows:

millions of euro

HEDGING INSTRUMENT	HEDGED ASSET	12 31 2019		12 31 2018	
		Fair value	Notional (*)	Fair value	Notional (*)
Cross Currency IRS	Fixed rate loan in foreign currency	2.4	114.8	7.7	111.2
Total		2.4	114.8	7.7	111.2

(*) 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, 2019, the fair value of the hedge was positive for 2.4 million euro. This fair value would improve by 23.4 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 19.1 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 2019	Portions maturing within 12 months	Portions maturing after 12 months	Portions maturing by				
				12 31 2021	12 31 2022	12 31 2023	12 31 2024	After
Bonds	2,596	46	2,550	351	499	299	299	1,102
Financial payables for rights of use (*)	141	24	117	19	14	12	10	62
Loans from banks and other lenders	874	234	640	95	85	83	63	314
TOTAL	3,611	304	3,307	465	598	394	372	1,478

(*) Including finance leases.

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, 2019, the Group had a total of 1,224 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 250 million euro;
- (iii) cash and cash equivalents totalling 434 million euro, of which 360 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 1,549 million euro still available.

The following table analyses the worst case for financial liabilities (including trade payables) in which all of the amounts shown are undiscounted future nominal cash flows determined on the basis of residual contractual maturities for both principal and interest. The undiscounted nominal flows of derivative contracts on interest rates are also included. Finally, any revocable financial lines used and current accounts payable are due within the next financial year.

12 31 2019 millions of euro	1-3 MONTHS	4-12 MONTHS	AFTER 12 MONTHS	TOTAL
Bonds	45	24	2,833	2,902
Payables and other financial liabilities	90	153	694	937
Total financial flows	135	177	3,527	3,839
Payables to suppliers	491	8	2	501
Total trade payables	491	8	2	501

12 31 2018 millions of euro	1-3 MONTHS	4-12 MONTHS	AFTER 12 MONTHS	TOTAL
Bonds	45	557	2,516	3,118
Payables and other financial liabilities	40	102	856	998
Total financial flows	85	659	3,372	4,116
Payables to suppliers	464	9	1	474
Total trade payables	464	9	1	474

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”.

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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, 2019 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) 2,451 million euro nominal (book value at December 31, 2019 2,479 million euro) 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) 98 million euro nominal (book value at December 31, 2019 116 million euro) 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).

The loans stipulated with the European Investment Bank, with book value of 669 million euro, of which 261 million with maturity beyond 5 years, 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 10 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 for a book value of 8 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, 2019, there was no situation of non-compliance with the covenants of the A2A Group companies.

A2A Group - Main financial covenants at December 31, 2019

COMPANY	LENDER	LEVEL OF REFERENCE	LEVEL RECOGNIZED	DATE OF RECOGNITION
A2A gencogas	Intesa San Paolo	NFP/Equity <=2	0.0	12/31/2019
		NFP/EBITDA<=6	0.1	12/31/2019
Linea Green	Unicredit	Residual debt/Equity <= 0.9	0.1	12/31/2019
RenewA24	ICCREA	ADSCR (Operating Cash Flow/Lease Fees) =>1.10	1.22	12/31/2019
I.Fotoguiglia	Leasint	ADSCR (Operating Cash Flow/Lease Fees) =>1.20	1.34	12/31/2019
ACSM-AGAM	UBI	Debt Service Coverage Ratio <=4.50	1.41	12/31/2019
		Gearing <=1.50	0.15	12/31/2019
ACSM-AGAM	Intesa San Paolo	Debt Service Coverage Ratio <=4.35 Gearing <=1.1	1.41 0.15	12/31/2019 12/31/2019
ACSM-AGAM	Unicredit	Debt Service Coverage Ratio <=3.0	1.41	12/31/2019
		Gearing <=1.0	0.15	12/31/2019
AcsM Agam Reti	Cassa DDPP	Debt Service Coverage Ratio <=4.50	1.41	12/31/2019
		Gearing <=1.20	0.15	12/31/2019

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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, 2019

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 2019 (c)
	to be received	to be paid	to be received	to be paid			
Interest rate risk management							
- cash flow hedges as per IFRS 9		31		79	9	(9)	
- not considered hedges as per IFRS 9							
Total derivatives on interest rates	-	31	-	79	9	(9)	-
Exchange rate risk management							
- considered hedges as per IFRS 9 on commercial transactions on financial transactions					115	2	
- not considered hedges as per IFRS 9 on commercial transactions on financial transactions							
Total exchange rate derivatives	-	-	-	-	115	2	-

- (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.

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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.

		Volume by Maturity			Notional Value	Fair Value	
		Due within 1 year	Due within two years	Due within five years		Balance sheet value (*)	Progressive effect to income statement (**)
Energy product price risk management	Unit of measurement	Quantity			Millions of euro		
A. Cash flow hedges as per IFRS 9, including:						(17.4)	-
- Electricity	TWh	12.7	0.8		298.4	(13.5)	
- Oil	Bbl					-	
- Coal	Tons	58,600			3.1	(0.3)	
- Natural Gas	TWh	1.8	0.1		31.2	(1.9)	
- Natural Gas	Millions of cubic metres	7.9			2.2	(0.1)	
- Exchange rate	Millions of dollars					-	
- CO ₂ Emission rights	Tons	2,292,000			58.0	(1.6)	
B. considered fair value hedges as per IFRS 9						-	-
C. not considered hedges as per IFRS 9 of which						8.8	11.4
C.1 hedge margin						-	-
- Electricity	TWh					-	-
- Oil	Bbl					-	-
- Natural Gas	Degrees day	4,370			3.5	-	-
- Natural Gas	Millions of cubic metres					-	-
- CO ₂ Emission rights	Tons	10,000			0.3	-	-
- Exchange rate	Millions of dollars					-	-
C.2 trading transactions						8.8	11.4
- Electricity	TWh	29.7	1.4	0.6	1,862.8	4.3	9.7
- Natural Gas	TWh	104.8	13.8	2.0	2,266.3	5.0	1.9
- CO ₂ Emission rights	Tons	364,000			8.1	(0.5)	(0.2)
- Environmental Certificates	MWh					-	-
- Environmental Certificates	Tep					-	-
Total						(8.6)	11.4

(*) 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, 2019

Effects on the balance sheet

The following table shows the balance sheet figures at December 31, 2019, for derivative transactions.

millions of euro	NOTE	TOTAL
ASSETS		
NON-CURRENT ASSETS		2
Other non-current assets - Derivatives	5	2
CURRENT ASSETS		371
Other current assets - Derivatives	8	371
TOTAL ASSETS		373
LIABILITIES		
NON-CURRENT LIABILITIES		9
Other non-current liabilities - Derivatives	21	9
CURRENT LIABILITIES		380
Trade payables and other current liabilities - Derivatives	22	380
TOTAL LIABILITIES		389

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Effect on the income statement

The following table sets out the income statement figures at December 31, 2019 arising from the management of derivatives.

millions of euro	Note	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				
<i>Energy product price risk management and exchange rate risk management on commodities</i>				
- considered hedges as per IFRS 9		14	-	14
- not considered hedges as per IFRS 9		25	405	430
Total revenues from the sale of goods		39	405	444
OPERATING EXPENSES	27			
Expenses for raw materials and services				
<i>Energy product price risk management and exchange rate risk management on commodities</i>				
- considered hedges as per IFRS 9		(50)	-	(50)
- not considered hedges as per IFRS 9		(102)	(393)	(495)
Total costs for raw materials and services		(152)	(393)	(545)
Total recognized in Gross operating income (*)		(113)	12	(101)
FINANCIAL BALANCE	33			
Financial income				
<i>Interest rate risk management and equity risk management</i>				
Income on derivatives				
- considered hedges as per IFRS 9		-	-	-
- not considered hedges as per IFRS 9		-	-	-
Total		-	-	-
Total financial income		-	-	-
Financial expenses				
<i>Interest rate risk management and equity risk management</i>				
Expenses on derivatives				
- considered hedges as per IFRS 9		(7)	-	(7)
- not considered hedges as per IFRS 9		-	-	-
Total		(7)	-	(7)
Total financial expenses		(7)	-	(7)
TOTAL RECOGNIZED IN FINANCIAL BALANCE		(7)	-	(7)

(*) The figures do not include the effect of the net presentation of the negotiation margin of trading activities.

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, 2019, 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 2019	Fair value at 12 31 2019 (*)
		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					20	20	20
Total other non-current financial assets	3					27	
Other non-current assets	5		2		23	25	25
Trade receivables	7				1,852	1,852	1,852
Other current assets	8	370	1		196	567	567
Current financial assets	9				10	10	10
Cash and cash equivalents	11				434	434	434
LIABILITIES							
Financial liabilities							
Non-current and current bonds	18 and 23		115		2,481	2,596	2,596
Other non-current and current financial liabilities	18 and 23				1,015	1,015	1,015
Other non-current liabilities	21		9		140	149	149
Trade payables	22				1,481	1,481	1,481
Other current liabilities	22	362	18		464	844	844

(*) 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.

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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.

<i>millions of euro</i>	NOTE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets measured at fair value	3		7		7
Other non-current assets	5		2		2
Other current assets	8	370		1	371
TOTAL ASSETS		370	9	1	380
Non-current financial liabilities	18	115			115
Other non-current liabilities	21		9		9
Other current liabilities	22	379	1		380
TOTAL LIABILITIES		494	10	-	504

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%	0.00
Commodity Derivatives	Underlying interconnection capacity zonal Italy	1%	0.06

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.

This regulatory framework was subsequently superseded first by electricity sector nationalization Law no. 1643/1962, which resulted in Enel taking over the majority⁽³⁾ 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⁽⁴⁾ 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.

Conversion Law no. 12/2019 of Decree Law December 14, 2018, no. 135 (Simplification Law), art. 11-quater attributed to the Regions the power to regulate, by means of their own laws, to be adopted by March 31, 2020, the procedures and criteria for the allocation of concessions, the process for which must be completed by 2023 with the entrustment 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 to the average nominal power of the concession and a variable calculated as a percentage of normalized revenues;

3 With the exception of derivations in the ownership of self-producers, municipal companies and local authorities.

4 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.

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- 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.

In view of this new regulatory framework, on March 7, 2019, the European Commission sent a second letter of formal notice⁽⁵⁾ to Italy, in which it complained that the Italian authorities had:

- proceeded with continuous extensions of expired concessions, failing to establish transparent and impartial selection procedures for the award;
- imposed on the successor concessionaire, in particular, for “dry” works, the obligation to pay compensation higher than the non-depreciated value of the assets, in asymmetry of treatment with as provided for in the case of the Regions taking over ownership of such assets, in addition to the cost of removal and disposal of movable assets not included in the concession project.

On May 10, with reference to the criticisms raised by the European Commission, the Italian Government sent a specific letter of reply.

ARERA, pursuant to art. 12, paragraph 1-quinquies, of Law no. 12/2019, with Resolution no. 490/2019/I/eel approved the preparatory Guidelines for the issue of a non-binding opinion on the regional legal schemes regarding state property fees, which must be issued within 20 days from the date of receipt of said scheme (in the event that ARERA's instructions have been complied with) and within 40 days in other cases. The Authority has expressed the following position:

- i. the variable part⁽⁶⁾ of the state fee should be equal to a percentage, however defined by the Regions, of the sum of the products between the hourly quantity of electricity fed into the grid and the corresponding hourly zonal price recorded on the Day Before Market (MGP);
- ii. with reference to the free transfer of energy, its monetization should be preferred instead of its physical supply, based on the hourly zonal price recognized to the plant, to be determined as final balance, as the average of the hourly zonal prices formed on the MGP, weighted on the quantity of energy fed into the grid on an hourly basis.

In compliance with the provisions of the legislative framework in force and in line with the provisions of the aforementioned ARERA Resolution, the Lombardy Region, with art. 31 of Regional Law 23/2019 Budget Reconciliation 2020-22, has defined, starting from 2020, the obligation to supply free energy to the Region by all holders of concessions of large derivation, whether they are exercised before or after expiry, providing both the physical delivery and its monetization (even in full) to be calculated on the basis of an average hourly zonal price weighted on the quantity of electricity fed into the grid by the plant.

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: the Lombardy Region with Regional Council Resolution (D.G.R.) no. X/7693 of January 12, 2018 allowed the temporary continuation of the year until December 31, 2020, establishing the payment of an additional fee and the non-application of the partial exemption from the state fee on the Premadio 1 and Grosio plants, both forecasts challenged by the company⁽⁷⁾, 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

⁵ Again on March 7, the Commission also issued formal notice to Austria, France, Germany, Poland, Portugal, the United Kingdom and Sweden to “ensure that public contracts in the hydroelectric energy sector are awarded and renewed in accordance with EU law”.

⁶ The fixed component of the fee should derive from environmental and/or water-related assessments that are outside the Authority's remit.

⁷ For further information, reference should be made to the section entitled “Update of the main legal and tax disputes still pending”.

concession capacity of 345 MW), originally owned by Enel, expire in 2029. The three large-scale derivations of Linea Green S.p.A. (Resio, expired and under temporary continuation until December 31, 2020, Mazzuno and Darfo not yet expired), as well as the concession of Gravedona of ACSM-AGAM S.p.A. expiring in 2029 are also added.

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 dated back to 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.

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 Ministry of Economic Development dated 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 ATEM⁸.

As far as the A2A Group is concerned, the natural gas distribution concessions are held by the companies Unareti S.p.A., Azienda Servizi Valtrompia S.p.A., LD Reti S.p.A. (LGH Group), Le Reti S.p.A.⁹, Reti Valtellina Valchiavenna S.r.l. and Serenissima Gas S.p.A. (three companies of the ACSM-AGAM Group): the main ones concern ATEM in Milan, which was assigned to Unareti S.p.A. through a

8 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).
9 The company was created on January 1, 2020 from the merger between ACSM-AGAM Reti Gas-Acqua S.p.A. and Lario Reti Gas S.r.l..

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tender pursuant to Ministerial Decree is subject to appeal for cancellation by 2i Rete Gas⁽¹⁰⁾, and the provincial capitals of Brescia, Bergamo, Varese, Cremona, Lodi, Lecco, Sondrio and Monza-Brianza (in addition to several municipalities, mainly located in the province of Brescia, Bergamo, Como, Chieti, Piacenza, Pavia, Salerno, Trento, Treviso, Udine, Varese and Venice).

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., Camuna Energia S.r.l., 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 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 subsidiaries of A2A S.p.A.) will cease upon expiry of the service contract or other acts 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.

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 several municipalities of the province by mean of A2A Ciclo Idrico S.p.A. and Azienda Servizi Valtrompia S.p.A. and by mean of Le Reti 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.

¹⁰ For further information, reference should be made to the section entitled *"Update of the main legal and tax disputes still pending"*.

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 the companies A2A Calore & Servizi S.r.l., Linea Green S.p.A. (LGH Group), 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 Article 34 of the Decree Law 179/2012, as amended and supplemented and, therefore, entrust the service in compliance 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 lighting service⁽¹¹⁾ through A2A Illuminazione Pubblica S.p.A. in the municipalities of Milan, Brescia, Bergamo, Bisignano, Cassano d’Adda, Cesate, Crevoladossola, Fiorenzuola d’Arda, Lainate, Pieve Emanuele, Garbagnate Milanese, Cornaredo, San Giuliano Milanese and Stradella and, through some companies of the ACSM-AGAM Group, in the municipalities of Cantello, Cermenate, Melzo, Nova Milanese, Pero and Messina (Varese Risorse S.p.A.), as well as in the municipalities of Sernio, Sondrio, Tirano, Valdisotto and partly in Sondalo (Reti Valtellina Valchiavenna S.r.l.).

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 of Law Decree 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, 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 urban 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 by Acsm Agam Ambiente S.p.A. (ACSM-AGAM Group); the main awards concern the municipalities of Milan, Brescia, Bergamo, Varese⁽¹²⁾, Como, Cremona and Lodi with different deadlines based on the deeds governing the relationship with the individual municipalities.

11 Inclusive for some municipalities of the management of traffic lights and votive lamps.
12 The management of the urban hygiene service in the Municipality of Varese is currently under a technical extension, as two appeals are still pending, one against the publication of the tender and the other against its outcome.

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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.

The following summary updated information is provided in the section "Significant events after December 31, 2018" on disputes that the Group had reported as at December 31, 2018.

Civil litigation

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 8, 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. Giofrè, 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 1, 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.

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.

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 Company has filed its pleadings within the time limits and the ruling is pending. 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.

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Criminal litigation

Investigation Monfalcone Plant (RGNR 578/11-RG Court of Gorizia 131/2015)

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 as 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.

On February 10, 2020, at the conclusion of the investigation, the GSE communicated the number of Green Certificates that can actually be withdrawn for the years 2009, 2010 and 2011 inviting the company to make the relevant requests.

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.

On April 5, 2019, the Court, after withdrawing from the Chamber of Council, read out the ruling at the hearing: it acquitted all the defendants on grounds of merit or for prescription, with the exception of the legal representative of Friul Pellet S.r.l., who was sentenced, for failure to supply and for supplies of biomass with a calorific value lower than that contractually envisaged, to 2 years and 8 months' imprisonment and to pay compensation for the damage caused to A2A (to be paid separately). The reasons for the decision were filed in July 2019.

In the meantime, the legal representative of Friul Pellet filed an appeal before the Court of Appeal of Trieste and is awaiting the setting of the hearing.

It should be noted that A2A was found to be an injured and damaged party. The Court, on the other hand, ruled that it had not been established that the conditions for the recognition of the damage to the GSE and the Ministry of the Environment had been met, as this could not be considered as automatically proven as the effect of the fraud ordered against A2A. In this latter regard, it is recalled that the Group had not allocated any provision as it had considered being the aggrieved party in the proceedings and that the economic effects at the end of the proceedings would be neutral.

Monfalcone Plant Investigation (RNR 195/17 Public Prosecutor of Gorizia)

On March 8 and 9, 2017, following orders of the Public Prosecutor of Gorizia, 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.). On the same date, the guarantee information has been notified to three employees, regarding an investigation for the offences referred to in Article 452 bis of the Italian Criminal Code. Environmental pollution from alleged conduct up to October 2016. 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.

No further action has been notified by the Public Prosecutor's Office.

Prosecutor of Brescia – GIP of Brescia. Criminal proceeding no. 25597/14 RGNR on the alleged “abusive management of special non-hazardous waste” by A2A Ambiente S.p.A.

On July 11, 2017, as part of an investigation concerning 33 natural persons and 14 different legal entities, an employee of A2A Ambiente S.p.A. was served with a notice of guarantee for an investigation into the offence referred to in articles 110, 81 of the Italian Criminal Code and 260 of Legislative Decree no. 152/2006 (illegal trafficking in waste jointly with others) for conduct allegedly committed in 2014 and 2015.

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. A2A Ambiente in fact had to answer for administrative responsibility pursuant to Legislative Decree. 231/01.

With a ruling dated October 9, 2017 and November 13, 2017, with a ruling dated December 27, 2017 and filed with the court on December 28, 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.

Subsequently, no other measure was addressed to the company. The investigation completion and the notice setting the preliminary hearing were notified to the employee under investigation. The GIP accepted the request of the Public Prosecutor’s Office and ordered the filing of the proceedings against A2A Ambiente.

One employee and two former employees of Linea Ambiente/LGH and Linea Ambiente S.r.l. were involved in the same proceeding. Also in this case, one employee was served notice of the investigation conclusion and notice setting a preliminary hearing and the GIP accepted the Public Prosecutor Office’s request and ordered the filing for both Linea Ambiente and the former employees.

Court of Taranto - Criminal Proceeding RGNR 2785/18

On March 14, 2019, an employee of A2A Ambiente S.p.A., seconded to Linea Ambiente S.r.l. as the company’s Chief Operating Officer, was remanded in custody as part of investigations into the offences referred to in articles 319 and 321 of the Italian Criminal Code with reference to an alleged bribery connected with the issue of Executive Decision no. 45 dated April 5, 2018 by the Province of Taranto for the orographic optimization of the Linea Ambiente S.r.l.’s Grottaglie landfill.

At present, Linea Ambiente S.r.l. has not been notified of any measure in relation to a possible liability under Legislative Decree no. 231/01.

On August 1, 2019 the Court of Taranto - Office of the Judge for Preliminary Investigation - at the request of the Public Prosecutor’s Office, ordered the immediate trial, i.e. without a preliminary hearing being held, of the defendants subject to pre-trial custody, including the employee of A2A Ambiente, against whom the measure of pre-trial custody in prison was replaced by house arrest, setting the first hearing for this purpose on November 4, 2019. The trial is currently at the pleading stage and the next hearing is scheduled for June 1, 2020.

Milan Public Prosecutor’s Office - Criminal Proceeding no. 33490/16 RGNR

On May 7, 2019, the Carabinieri investigative unit of Monza showed up at Amsa’s headquarters to notify an order for the exhibition of documents issued by the Milan Public Prosecutor’s Office, relating to the documentation concerning three tenders launched by Amsa S.p.A. in 2017-2018, as well as the supplies made to it by a specific supplier. In relation to these proceedings, the Company’s Chief Operating Officer and other employees were investigated, as well as three members of a tender judging committee issued by Amsa S.p.A..

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No dispute has been raised against Amsa S.p.A. on the basis of the regulations on the administrative liability of legal persons, as Amsa S.p.A. considers itself to be an “injured party” and, in fact, has filed a complaint with the Public Prosecutor’s Office through a trusted lawyer.

On December 23, 2019, lawyer of Amsa - as the “injured party” - was served notice for the setting of the preliminary hearing on February 17, 2020. As a result of this hearing, the Judge for Preliminary Investigation adjourned the hearing to May 25, 2020, setting a provisional schedule for its continuation. The measure in question does not cover the members of the tender committee for which a request for filing is expected. Amsa and A2A Calore & Servizi were filed as civil parties.

Information note on criminal proceedings no. 6369/2019 R.G.N.R. of the Lecce Public Prosecutor’s Office.

On February 26, 2020, the Brescia Finance Police turned up at the Rovato headquarters of Linea Ambiente S.r.l. to execute the “Search and Seizure Warrant” issued on February 5, 2020 by the Lecce Public Prosecutor’s Office (Public Prosecutor Mignone) in relation to criminal proceedings no. 6369/2019 R.G.N.R..

The Finance Police then acquired a copy of the company’s Organisational Model and the deeds and documents relating to the information flows destined for the Linea Ambiente S.r.l. Supervisory Body from November 2014 to January 2019.

The criminal proceedings have been filed against the company Linea Ambiente S.r.l. and the legal representative pro tempore for the offences referred to in articles 452 quaterdecies of the Italian Criminal Code (activities organised for the illicit waste trafficking) and 256 and paragraphs 1 and 3 of Legislative Decree 152/2006 (waste collection, transport and disposal activities in the absence of the prescribed authorisation/registration and the construction and management of unauthorised landfills, respectively) from which the company’s administrative liability pursuant to articles 24 and 25 undecies of the Legislative Decree 231/2001 and this - the said measure states - “in order to have, with several operations and through the setting up of continuous and organized means and activities, managed and illegally disposed of large quantities of urban waste, creating an illegal landfill, in order to obtain an unfair profit”. These alleged offences were supposedly committed in “Rome and Grottaglie from November 1, 2014 to January 28, 2019 with permanence”.

Together with the “Search and Seizure Warrant”, the Finance Police notified the company “Guarantee and on the right of defence information”, from which it emerges that the company AMA S.p.A. of Rome, “owner of the TMB Rocca Cencia and Salario plants in Rome”, was also entered in the same proceedings.

The company has been informed that individuals who are legal representatives or directors of Linea Ambiente S.r.l. and AMA S.p.A. during the interested period have received requests to extend the preliminary investigations in the same proceedings.

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 Managers.

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 were 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. 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 7, 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 3, 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.

Pending the transition to the debating phase of the proceedings against the individuals remaining under investigation, the Court of Podgorica notified them, on December 13, 2019, of the authorization to transfer the proceedings to Italian jurisdiction. Therefore, we are now waiting for the case to be taken up by the competent Italian bodies, at which time the procedure will be definitively terminated in Montenegro.

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.

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.

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Administrative Litigation

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 in accordance with art. 309 of the Civil Procedure Code 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 judgment ("pilot") still pending before TRAP Milan concerning the 2013 State fee for the Liro Auction was last settled by Ruling no. 3247 of July 19, 2019 in which TRAP Milan rejected A2A's appeal.

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, the related and consequent provisions as well as the 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.

The provisions of the Regions concerning the temporary continuation of expired or expiring concessions could, as from 2019, be justified by the provisions introduced by the Conversion Law no. 12/2019 of Legislative Decree no. 135/2018, the constitutional compatibility of which is nevertheless controversial. In this last regard, it should be pointed out that A2A and Linea Green recently appealed before the TSAP for the annulment of General Director Decree (D.D.G.) no. 10544/2019 by means of which the Lombardy Region ascertained and determined the amounts allegedly owed by the concessionaires as additional fees for 2019 as well and with this appeal, they also requested referral to the Constitutional Court of a matter of constitutional legitimacy in relation to the aforementioned provisions introduced by the law converting Decree Law Simplifications with regard to hydroelectric concessions.

For disputes relating to public water derivation fees, at today’s date, the Company set aside risk provisions for the total amount of approximately 52 million euro equal to the entire claim of the counterparties from the expiry of the single concessions until 2019.

2iRG/Unareti - Atem Milano 1 tender for gas distribution service (Milan Regional Administrative Court 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 the precautionary suspension of the award provision 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. The Council of State rejected the requests for investigation. The defects of the award could 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.

After the Council Chamber of November 22, 2018, in which, at the joint request of the parties, the Regional Administrative Court adjourned the hearing on the merits to November 21, 2019, the Regional Administrative Court issued sentence no. 2598 on December 5, 2019 in which it upheld three grounds of appeal by 2i Rete Gas and one ground for the cross-appeal filed by Unareti ordering the annulment of the award unless the Administration ordered it.

All other grounds of appeal have been absorbed and not assessed and may be re-applied on appeal. After 2iRG notified the judgment on January 17, 2020, all parties within the deadline notified the appeal to the Council of State. The Municipality and 2iRG have also requested a precautionary suspension of the sentence and the Council Chamber for both has been set for April 2; in the appeal filed by Unareti the hearing on the merits has been set for July 9, 2020.

Grottaglie Landfill - Linea Ambiente S.r.l. vs Grottaglie, San Marzano and Carosino municipalities (Council of State R.G. 1505/2019)

On November 28, 2018, the Lecce Regional Administrative Court issued sentence no. 143/2019 (notified to the company on January 28, 2019) in which it upheld the appeal notified by the Municipalities of Grottaglie, San Marzano and Carosino against the Province of Taranto and Linea Ambiente S.r.l. and the Apulia Region as well for the annulment of Executive Decision no. 45 of April 5, 2018, concerning the expression of environmental compatibility (EIA), the issuing of the EIA and the assessment of landscape compatibility relating to the Grottaglie landfill.

The Company suspended the transfers from January 29, 2019 and filed an appeal with the Council of State for the annulment of this judgment. With precautionary order notified on March 1, 2019, the Council of State considered that the company’s precautionary needs could be adequately protected through the prompt determination of the merits, on May 23, 2019. Following this hearing, with Sentence no. 5985 of August 29, 2019, the Council of State rejected the appeal filed by Linea Ambiente, upholding the judgment under appeal, albeit with completely different grounds. The Council of State censured the determinations of the Province in terms of lack of investigation and non-justification.

After the filing of this sentence and in compliance with the consequent request of the Province of Taranto to close the proceedings without ruling, the Presidency of the Council of Ministers, to which on February 22, 2019, the Province of Taranto had remitted the judgment of environmental compatibility with the concomitant request for Integrated Environmental Authorization relating to the orographic optimization of the Grottaglie landfill, on September 13, 2019 filed Order 17228 with which it returned the deeds to the Province of Taranto for the consequent deliberations.

AcsM Agam Ambiente S.r.l. vs Municipality of Varese regarding the re-organisation of the urban hygiene service (Milan Regional Administrative Court R.G. 2282/19)

AcsM Agam Ambiente S.r.l. (beneficiary as a result of the extraordinary operations for the award of the urban hygiene service in the municipality of Varese, which was granted to Aspem S.p.A. in 1999 and until December 31, 2030) file a complaint, supplemented by subsequent additional grounds, to the Milan Regional Administrative Court against the numerous municipal acts which established that the award had ceased December 31, 2018 and which ordered the call for tenders for the urban hygiene service in the municipality of Varese. The appeal was discussed on June 20, 2019 and the Regional Administrative Court filed Judgment no. 1633 on July 16, 2019 rejecting the fourth ground of appeal introduced by AcsM Agam Ambiente S.r.l. (early expiration on December 31, 2018) and affirming

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the lack of interest of the company in the grounds of appeal related to the tender documents, given that their possible acceptance would not lead to revival of the award of the service terminated on December 31, 2018. The company notified an appeal to the Council of State to request the dismissal of the judgment because the judgment is a mere acceptance of the Municipality's arguments, which the company does not share. The merit hearing has been set for March 26, 2020.

The service is managed by the company as a result of an extension to September 30, 2019, subsequently extended. Acsm Agam Ambiente S.r.l. participated in the tender launched by the Municipality to assign the service, without acquiescence, and appealed the final award decision which sees it third in the ranking; the merit hearing is set for May 20, 2020.

* * *

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. This 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 and, in August 2017, served notices of assessment for IRES, IRAP and VAT for the years 2013 and 2014. The company has proposed a timely appeal against all the deeds notified. The Provincial Tax Commission of Chieti and the Regional Tax Commission of Pescara issued unfavourable rulings for IRES and IRAP. The appeals against the VAT assessment notices for the years 2011-2014 were rejected by the Provincial Tax Commission of Chieti and upheld by the Regional Tax Commission of Pescara. On May 8, 2019 the Company filed an appeal with the Supreme Court for 2011 and 2012 IRES. The deadline for appealing to the Supreme Court for 2013 and 2014 IRES and 2011-2014 IRAP is pending. 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 7, 2017. On February 13, 2018, the acquiring company filed an appeal, which was rejected by the Milan Regional Administrative Court. On April 8, 2019, the Company filed an appeal with the Supreme Court. The risks provision recognized for 1.4 million euro was fully used for the payment of the amounts requested with the liquidation notice.

A2A Ambiente S.p.A. (formerly Aprica S.p.A.) - Technical audit of the Brescia waste-to-energy plant

On March 7, 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 together with the respective penalties on May 7 and 21, 2014. 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 6, 2016, the Regional Tax Commission partially upheld the company's reasons. The Office appealed to the Supreme Court and the company resisted with a cross-appeal and incidental appeal notified on February 20, 2017. On August 5, 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. On May 24, 2019, the company filed an application for a facilitated settlement of pending tax disputes and definitively settled its tax claim.

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 the appeal was upheld and the judgement was adjourned to the Regional Tax Commission. On December 23, 2019 the Company filed an appeal for reinstatement in Regional Tax Commission and an appeal for revocation in Cassation. For 2003 the appeal made by the Tax Revenue Office was discussed on November 7, 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.

No provisions for risks have been recognized.

A2A Ciclo Idrico S.p.A. IMU assessment notices of Municipality of Montichiari for the years 2013-2018

On December 4, 2019, the Municipality of Montichiari (BS) issued notices of assessment for IMU purposes for the years from 2013 to 2018 regarding the purification plant located in the territory of the same municipality. The company is assessing the action to be taken. A risk provision of 0.7 million euro has been recognized.

A2A Energia S.p.A. merging company of Linea Più S.p.A. - General IRES/IRAP/VAT audit for fiscal years 2013 and 2014

On September 17, 2019 the Lombardy Regional Department - Large Taxpayers Section - opened in respect of A2A Energia S.p.A. (merging company of Linea Più S.p.A.) a general audit for IRES, IRAP and VAT purposes for tax periods 2013 and 2014. This audit was completed on October 22, 2019. On December 24, 2019, the Lombardy Regional Department issued notices of assessment for IRES, IRAP and VAT purposes for the tax periods verified. The company is assessing the action to be taken. A risk provision of 10.3 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 2019 were of a marginal amount and due to ordinary maintenance.

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1 - Statement of changes in tangible assets

Tangible assets <i>millions of euro</i>	NET BOOK VALUE at 12 31 2018	FIRST CONSOLIDATION	CHANGES DURING THE YEAR		
			INVESTMENTS	CHANGES IN CATEGORY	
Land	116			2	
Buildings	590	1	15	9	
Plant and machinery	3,460	3	144	87	
Industrial and commercial equipment	38		12	3	
Other assets	120		24	12	
Landfills	66			1	
Construction in progress and advances	85		161	(114)	
Leasehold improvements	91		24		
Right-of-use assets	54				
Total tangible assets	4,620	4	380	-	

Tangible assets <i>millions of euro</i>	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	-	

CHANGES DURING THE YEAR								NET BOOK VALUE AT 12 31 2019
	RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/ SALES		REVERSAL/ WRITE-DOWNS	AMORTIZATION	TOTAL CHANGES FOR THE YEAR	
	GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION				
	1				(6)	(1)	(4)	112
	11		(7)	6	2	(33)	3	594
	45	(2)	(31)	28	121	(264)	128	3,591
			(1)	1		(8)	7	45
	1		(6)	5		(29)	7	127
	5				(40)	(4)	(38)	28
					(1)		46	131
	(1)					(13)	10	101
	103	10				(27)	86	140
	165	8	(45)	40	76	(379)	245	4,869

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	VALORE LORDO	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

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2 - Statement of changes in intangible assets

Intangible assets <i>millions of euro</i>	NET BOOK VALUE at 12 31 2018	FIRST CONSOLIDATION	CHANGES DURING THE YEAR		
			INVESTMENTS	CHANGES IN CATEGORY	
Industrial patent and intellectual property rights	24		10	12	
Concessions, licences, trademarks and similar rights	1,502		184	20	
Goodwill	444	15			
Assets in progress	44		51	(33)	
Other intangible assets	288	3	2	1	
Total intangible assets	2,302	18	247	-	

Intangible assets <i>millions of euro</i>	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	-	

CHANGES DURING THE YEAR								NET BOOK VALUE AT 12 31 2019
	RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/ SALES		WRITE-DOWNS	AMORTIZATION	TOTAL CHANGES FOR THE YEAR	
	GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION				
	(1)					(14)	7	31
			(31)	27		(86)	114	1,616
					(85)		(85)	374
							18	62
	25					(23)	5	296
	24	-	(31)	27	(85)	(123)	59	2,379

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)		(50)	444
	(4)						(1)	44
	26	4				(17)	15	288
	9	40	(19)	16	(44)	(91)	106	2,302

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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	19,000	
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	3,000	
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	500	
Retragas S.r.l.	Brescia	Euro	34,495	
Camuna Energia S.r.l.	Cedegolo (BS)	Euro	900	
A2A Alfa S.r.l. in liquidation	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	
YADA ENERGIA S.r.l.	Milan	Euro	1,000	
Consul System S.p.A.	Milan	Euro	2,000	
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	11,643	
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 2019	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
	93.73%	100.00%	A2A S.p.A. (87.20%) Linea Group Holding S.p.A. (12.80%)	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
	100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
	75.00%	75.00%	A2A Energy Solution S.r.l.	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 Abroad 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
	100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
	100.00%	100.00%	Aprica S.p.A.	Line-by-line consolidation
	100.00%	100.00%	Aprica S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation

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Company name	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (THOUSANDS)	
A2A Integrambiente S.r.l.	Brescia	Euro	10	
Electrometal S.r.l	Castegnato (BS)	Euro	200	
Areslab S.r.l	Brescia	Euro	10	
A2A Security S.c.p.a.	Milan	Euro	50	
LumEnergia S.p.A.	Villa Carcina (BS)	Euro	300	
A2A Energy Solutions S.r.l.	Milan	Euro	4,000	
Suncity Energy S.r.l.	Milan	Euro	100	
ES Energy S.r.l.	Jesi (AN)	Euro	10	
A2A Rinnovabili S.p.A.	Milan	Euro	50	
INTHE 2 S.r.l.	Milan	Euro	210	
Fair Renew S.r.l.	Milan	Euro	10	
renewA21 S.r.l.	Milan	Euro	20	
renewA22 S.r.l.	Milan	Euro	220	
renewA23 S.r.l.	Milan	Euro	20	
renewA24 S.r.l.	Milan	Euro	20	
renewA25 S.r.l.	Milan	Euro	20	
renewA26 S.r.l.	Milan	Euro	20	
renewA27 S.r.l.	Milan	Euro	20	
renewA28 S.r.l.	Milan	Euro	20	
Bellariva Enertel 07 S.r.l.	Milan	Euro	10	
Trovosix S.r.l.	Milan	Euro	20	
Solar Sicily S.r.l. unipersonale	Milan	Euro	10	
Onice S.r.l.	Milan	Euro	10	
Des Energia Tredici S.r.l.	Milan	Euro	10	
CS Solar2 S.r.l.	Milan	Euro	15	
I.Fotoguiglia S.r.l.	Milan	Euro	14	
Free Energy S.r.l.	Milan	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	
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	
Messina in Luce S.c.a r.l.	Monza	Euro	20	
Acsm - Agam reti Gas Acqua S.p.A.	Monza	Euro	86,450	
ComoCalor S.p.A.	Como	Euro	3,516	
Lario Reti Gas S.r.l.	Lecco	Euro	5,500	

[illegible]1 Consolidated
financial
statements

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5 Independent
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Company name	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (THOUSANDS)	
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.	Monza	Euro	6,000	
AEVV Impianti S.r.l.	Monza	Euro	800	
AEVV Farmacie S.r.l.	Sondrio	Euro	100	

(*) The percentage does not take into account the put option.

	% OF SHAREHOLDING CONSOLIDATED BY GROUP AT 12 31 2019	SHAREHOLDING %	SHAREHOLDER	VALUATION METHOD
	99.26%	99.62%	ACSM-AGAM S.p.A. (97.97%) Serenissima Gas S.p.A. (1.65%)	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

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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	
COSMO Società Consortile a Responsabilità Limitata	Brescia	Euro	100	
Crit S.c.a.r.l.	Cremona	Euro	310	
Suncity Group S.r.l.	Pescara	Euro	14	
MSD Service S.r.l.	Acerra (NA)	Euro	10	
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	
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 in liquidation	Como	Euro	20	
Prealpi Servizi S.r.l.	Varese	Euro	5,451	
Asm Energia S.p.A.	Vigevano	Euro	2,511	
Equity investments held for sale				
Energy Trade S.p.A.	Bologna	Euro	2,000	
Total shareholdings				

SHAREHOLDING %	SHAREHOLDER	CARRYING AMOUNT AT 12 31 2019 (THOUSANDS)	VALUATION METHOD
50.00%	A2A Alfa S.r.l. in liquidation	-	Equity
50.00%	A2A gencogas S.p.A.	-	Equity
50.00%	A2A S.p.A.	-	Equity
50.00%	A2A Energia S.p.A.	1,886	Equity
49.00%	A2A S.p.A.	941	Equity
47.00%	A2A S.p.A.	2,425	Equity
40.00%	A2A S.p.A.	646	Equity
40.00%	A2A S.p.A.	10	Equity
24.29%	A2A S.p.A.	748	Equity
52.00%	A2A Calore & Servizi S.r.l.	112	Equity
32.90%	A2A Smart City S.p.A.	104	Equity
26.00%	A2A Energy Solution S.r.l.	5,556	Equity
40.00%	Suncity Energy S.r.l.	4	Equity
40.00%	Aprica S.p.A.	3,011	Equity
50.00%	A2A Ambiente S.p.A.	94	Equity
25.00%	A2A Ambiente S.p.A.	246	Equity
49.00%	Linea Gestioni S.r.l.	5,300	Equity
30.00%	A2A Integrambiente S.r.l.	2,977	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
45.00%	A2A Energia S.p.A.	13,800	Equity
21.29%	ACSM - AGAM S.p.A.	369	Equity
		38,359	

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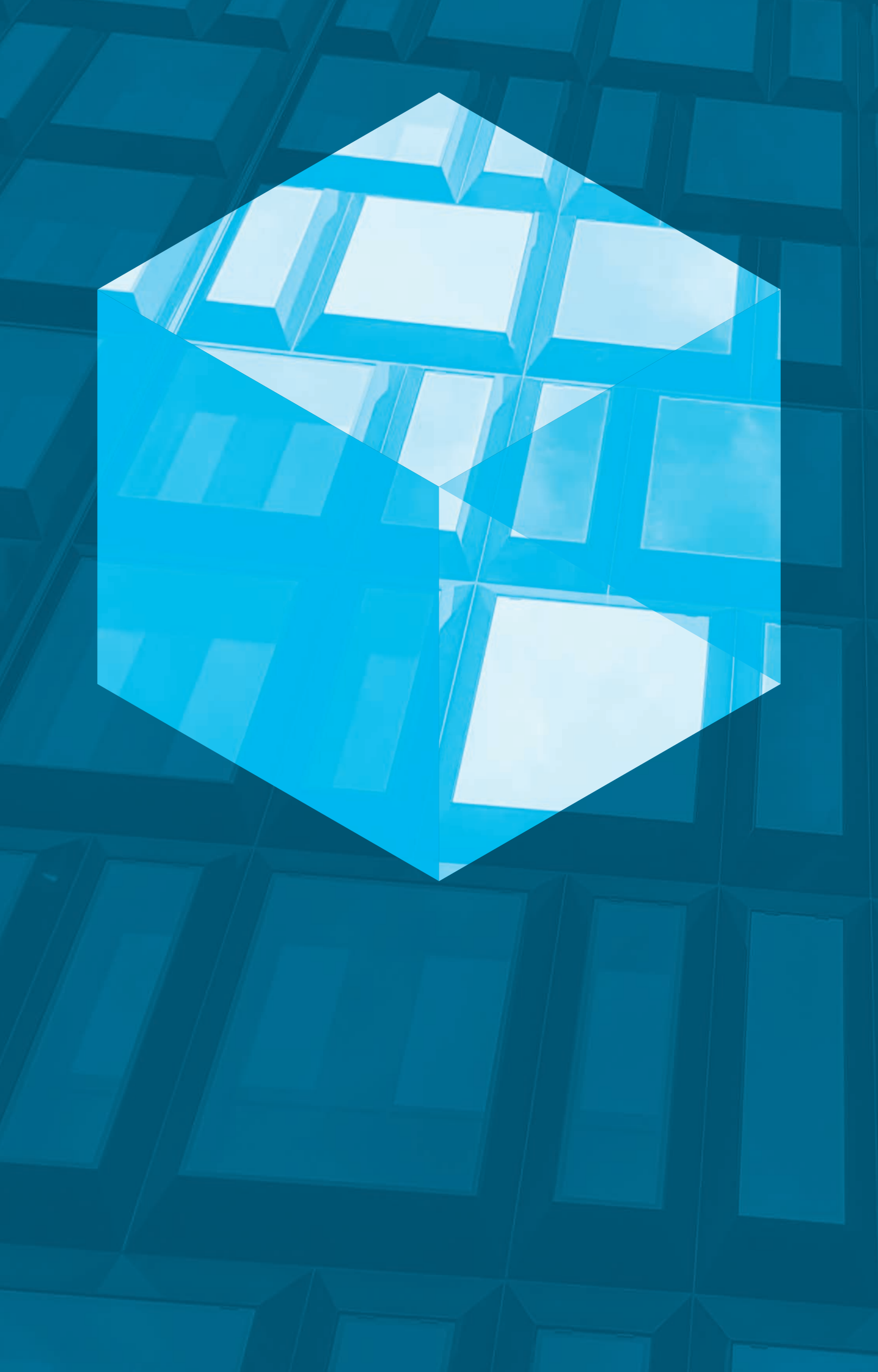
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5 - List of holdings in other companies

Company name	SHAREHOLDING %	SHAREHOLDER	CARRYING AMOUNT AT 12 31 2019 (THOUSANDS)
Immobiliare-Fiera di Brescia S.p.A.	0.90%	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.	
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.	
IBF Servizi S.p.A..	14.50%	A2A Smart City S.p.A.	
DI.T.N.E. S.c.a.r.l.	1.86%	A2A S.p.A.	
E.M.I.T. S.r.l. in liquidation	10.00%	A2A S.p.A.	
COMIECO	7.50%	A2A Recycling S.r.l. (4.61%) A2A Ambiente S.p.A. (2.89%)	
CONAPI S.c.a.r.l.	18.18%	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.	
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.	
Futura S.r.l.	1.00%	A2A Calore & Servizi 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.p.A.	0.25%	ACSM - AGAM S.p.A.	
Società Cooperativa Polo dell'Innovazione della Valtellina in liquidation	n.s.	ACSM - AGAM S.p.A. A2A S.p.A.	
Total investments in other companies			7,433

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.

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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 2019.

2. It is also certified that:

2.1 the Consolidated Financial Statements:

- a) have been 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 July 19, 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, March 19, 2020

Luca Camerano
(for the Board of Directors)

Andrea Crenna
(Manager in charge of
preparing the corporate
accounting documents)



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Independent Auditors' Report

Independent Auditors' Report



EY S.p.A.
Via Po, 32
00198 Roma

Tel: +39 06 324751
Fax: +39 06 32475504
ey.com

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, 2019, 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, 2019, 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.
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We identified the following key audit matters:

Key Audit Matter	Audit Response
<p>Estimate of revenues for the sale of electricity and gas</p> <p>Revenues from the sale of goods and services include the estimated revenues accrued for electricity and gas services delivered to the customers between the date of last meter reading and December 31, 2019, as well as billed revenues based on effective consumptions of the period.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Our audit procedures in response to this key audit matter included, among others:</p> <ul style="list-style-type: none">• 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 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. <p>Lastly, we reviewed the adequacy of the disclosure included in the notes to the consolidated financial statements.</p>

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Impairment of assets

The consolidated financial statements of A2A Group include tangible assets for Euro 4.869 million and intangible assets for Euro 2.379 million, of which Euro 374 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 2020-2024, 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 authorization processes in progress and by regulatory and macroeconomic scenarios.

Considering the judgment involved 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 authorization processes in progress 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 2020-2024 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 amounts.

Lastly, we reviewed the adequacy of the disclosures included in the notes to the consolidated financial statements.



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;

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- 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, 2019, 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, 2019 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, 2019 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 3, 2020

EY S.p.A.

Signed by: Paolo Zocchi, Auditor

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

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