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2018

Separate
Financial
Statements



Separate financial statements

2018

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Overview of performance, financial conditions and net debt

A2A S.p.A.

The Parent Company is responsible for strategic vision, planning, control, financial management and coordination of the A2A Group activities. It also provides services to support the business and operating activities of Group companies (administrative, legal, supply, and personnel management services, information technology and communications) in order to optimize the resources available and use existing expertise in the most efficient manner. These services are governed by intercompany service agreements.

Finally, A2A S.p.A. provides its subsidiaries with office space and operating areas, as well as related services.

A2A S.p.A. owns some hydroelectric plants in Valtellina, the hydroelectric unit in Calabria, as well as the hydroelectric plants of the units in Udine and Mese (former Edipower S.p.A.).

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

The items in the financial statements at December 31, 2018 of A2A S.p.A. include the effects of the following extraordinary transactions:

- conferral of the e-mobility business unit in the favour of the subsidiary A2A Energy Solutions S.r.l. with effect starting January 1, 2018;
- conferral of the “RAMO IDRO” business unit comprising the hydroelectric powerhouses in San Pietro Sovera, Rescia, Gravedona and Crema in the favour of the subsidiary A2A IDRO4 S.r.l., with effect starting April 1, 2018.

Results <i>millions of euro</i>	01 01 2018 12 31 2018	01 01 2017 12 31 2017	Changes
Revenues			
Revenues from the sale of goods and services	3,742.6	3,037.5	705.1
Other operating income	83.0	51.8	31.2
Total revenues	3,825.6	3,089.3	736.3
Operating expenses	(3,515.9)	(2,787.9)	(728.0)
Labour costs	(134.5)	(127.8)	(6.7)
Gross operating income - EBITDA	175.2	173.6	1.6
Depreciation, amortization and write-downs	(87.5)	(81.3)	(6.2)
Provisions	(2.9)	(6.4)	3.5
Net operating income - EBIT	84.8	85.9	(1.1)
Result from non-recurring transactions	5.7	0.1	5.6
Financial balance	276.1	239.4	36.7
Result before taxes	366.6	325.4	41.2
Income taxes	(14.1)	(2.1)	(12.0)
Result after taxes from operating activities	352.5	323.3	29.2
Net result from discontinued operations	20.6	(54.8)	75.4
Net result of the year	373.1	268.5	104.6

In the year in question A2A S.p.A. shows revenues for a total of 3,825.6 million euro (3,089.3 million euro in the previous year). Sales revenues (3,578.0 million euro) mainly refer to electricity sales to wholesalers, institutional operators, even on IPEX markets (Italian Power Exchange) and subsidiaries, sales of gas and fuels to third parties and subsidiaries and the sale of environmental certificates. Revenues from services (164.6 million euro) mainly refer to services to subsidiaries of an administrative, fiscal, legal, managerial and technical nature. Other revenues (83.0 million euro) include incentives on net production from renewable sources.

Operating expenses amounted to 3,515.9 million euro (2,787.9 million euro at December 31, 2017) and refer to costs for raw materials (2,983.3 million euro) related primarily to purchases of energy and fuels, both for electricity production and for resale, purchases of materials and environmental certificates; service costs (220.5 million euro), which refer to the costs for the transport and storage of natural gas, costs for plant maintenance as well as for professional and technical services costs and other operating costs (312.1 million euro), which include the contracting of thermoelectric production plants "tolling agreement" of both subsidiaries and associates, as well as water derivation fees, damages and penalties.

Labour costs amounted to 134.5 million euro (127.8 million euro at December 31, 2017), the increase is mainly attributable to the increase in the company's workforce.

Due to the dynamics mentioned above the Gross Operating Margin amounted to 175.2 million euro (173.6 million euro at December 31, 2017).

"Amortization and depreciation, provisions and write-downs" of the year amounted to 90.4 million euro (87.7 million euro at December 31, 2017) and include amortisation, depreciation and write-downs of the tangible and intangible assets for 87.5 million euro (81.3 million euro at December 31, 2017) and provisions for 2.9 million euro (6.4 million euro at December 31, 2017), mainly related to provisions for risks.

"Net operating income" was positive for 84.8 million euro (positive for 85.9 million euro at December 31, 2017).

The "Result from non-recurring transactions" amounted to 5.7 million euro and includes the gain deriving from the sale of the investment held in the company Rudnik Uglja ad Pljevlja. At December 31, 2017, this item had a balance of 0.1 million euro and included the income deriving from the sale of the business segment relating to "Security Control Room and Inspection Service" to the subsidiary A2A Security S.c.p.a..

Financial operations reported a positive balance of 276.1 million euro (positive for 239.4 million euro at December 31, 2017). This item includes dividends from investees for 366.8 million euro (345.8 million euro at December 31, 2017), impairment of equity investments for 73.1 million euro relative to A2A Energiefuture S.p.A. (1.5 million euro in the previous year), the measurement of the exchange deriving from the transaction on the equity investment of ACSM-AGAM S.p.A. (76.3 million euro) net of the capital loss deriving from the restoration of the float on the stock exchange of its shares (-7.9 million euro), as well as net financial expenses of 86.0 million euro (104.9 million euro at December 31, 2017).

The Result before taxes was positive for 366.6 million euro (positive for 325.4 million euro at December 31, 2017).

Income taxes were 14.1 million euro (2.1 million euro at December 31, 2017).

Taxation mainly derives from the booking of: i) current tax calculated on taxable income for IRES and IRAP; ii) reduction in deferred tax liabilities following reversal of the temporary differences from previous years, partly offset by a reduction in prepaid tax, also due to the reversal of temporary differences from previous years.

The "Net result from discontinued operations" was positive for 20.6 million euro (negative for 54.8 million euro at December 31, 2017) and includes for 15.8 million euro the collection of dividends by the investee company EPCG and for 4.8 million euro the discounting proceeds to adjust the value of equity investment of EPCG at fair value following the renegotiation of the agreement with the Government of Montenegro, and approved by the same on April 27, 2018, which provides for the execution of the put option exercised by A2A S.p.A. on July 3, 2017 in four tranches in the period between May 1, 2018 and July 31, 2019, with an acceleration compared to the terms set by the Shareholders' Agreement of August 29, 2016 (i.e. 7 tranches from May 1, 2018 to May 1, 2024). In the previous year, this item had a negative value of 54.8 million euro that was related for 29.0 million euro to the impairment and 25.8 million euro to the discounting expenses for the equity investment held in EPCG, so as to adjust the value to fair value.

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The “Net result of the year” was positive for 373.1 million euro (268.5 million euro at December 31, 2017).

Investments for the year amounted to 51.8 million euro and in particular concerned work on hydroelectric plants, improvements to third party assets, investments on the Group’s IT systems, as well as investments in shareholdings, mainly in connection with the business combination with ACSM-AGAM S.p.A, as further described in the paragraph “Significant events during the year” of the Report On Operations.

Balance sheet and financial position <i>millions of euro</i>	12 31 2018	12 31 2017	Changes
CAPITAL EMPLOYED			
Net fixed capital	4,556.1	4,613.9	(57.8)
- Tangible assets	1,038.9	1,118.6	(79.7)
- Intangible assets	80.2	95.2	(15.0)
- Shareholdings and other non-current financial assets (*)	3,703.5	3,657.2	46.3
- Other non-current assets/liabilities (*)	(9.9)	(9.9)	-
- Prepaid/deferred tax assets/liabilities	66.0	61.2	4.8
- Provisions for risks, charges and liabilities for landfills	(180.3)	(164.9)	(15.4)
- Employee benefits	(142.3)	(143.5)	1.2
<i>of which with counter-entry to equity</i>	<i>(35.2)</i>	<i>(29.2)</i>	
Working capital	52.5	(49.3)	101.8
- Inventories	94.7	78.6	16.1
- Trade receivables and other current assets (*)	977.6	716.7	260.9
- Trade payables and other current liabilities (*)	(1,026.5)	(931.7)	(94.8)
- Current tax assets/tax liabilities	6.7	87.1	(80.4)
<i>of which with counter-entry to equity</i>	<i>10.1</i>	<i>1.4</i>	
Assets/liabilities held for sale (*)	109.0	224.2	(115.2)
<i>of which with counter-entry to equity</i>	<i>-</i>	<i>-</i>	
TOTAL CAPITAL EMPLOYED	4,717.6	4,788.8	(71.2)
SOURCES OF FUNDS			
Equity	2,635.6	2,430.0	205.6
Total financial position beyond one year	2,233.4	3,339.2	(1,105.8)
Total financial position within one year	(151.4)	(980.4)	829.0
Total net financial position	2,082.0	2,358.8	(276.8)
<i>of which with counter-entry to equity</i>	<i>(14.7)</i>	<i>(24.2)</i>	
TOTAL SOURCES	4,717.6	4,788.8	(71.2)

(*) Excluding balances included in the Net Financial Position.

“Capital employed” totalled 4,717.6 million euro at December 31, 2018, partly covered by “Equity” in the amount of 2,635.6 million euro and net debt of 2,082.0 million euro; provided below are the main items that make up the Capital Employed.

Net fixed capital amounted to 4,556.1 million euro and includes:

- tangible assets for 1,038.9 million euro mainly related to the hydroelectric plants in Valtellina, the Calabria, Mese and Udine units;
- intangible assets for 80.2 million euro that include software licenses and development projects of IT systems, goodwill and inventories of the environmental certificates related to the industrial portfolio;

- shareholdings and other non-current financial assets for 3,703.5 million euro, which include shareholdings in subsidiaries (3,700.5 million euro), including the business combination with ACSM-AGAM S.p.A., in associates (2.1 million euro) and other minor shareholdings (0.9 million euro);
- other non-current assets/liabilities (-9.9 million euro) which mainly relate to the payable to the minority shareholders of Linea Group Holding S.p.A.;
- deferred tax assets/liabilities for 66.0 million euro both IRES and IRAP on changes and provisions made solely for tax purposes;
- provision for risks, charges and liabilities for landfills for 180.3 million euro, which refer to tax provisions (2.0 million euro) for pending or potential disputes with the tax authorities; provisions for lawsuits and disputes with staff (14.6 million euro) in particular related to disputes with social security institutions and third parties; other risk provisions (163.7 million euro), which include provisions concerning the burden of the contractual obligations in the tolling contract with the company Ergosud S.p.A., the provisions relating to the public water derivation fees, the provisions relating to contractual charges as well as other risk provisions;
- employee benefits for 142.3 million euro that include the leaving entitlement (TFR) accrued to employees for 27.5 million euro and other provisions for benefits for 114.8 million euro.

Working capital amounted to 52.5 million euro and includes:

- inventories for 94.7 million euro relating primarily to inventories of fuels, also stored at third parties to produce electricity as well as gas inventories for the sale and storage thereof;
- trade receivables and other current assets of for 977.6 million that include trade receivables from third parties and Group companies for a total of 717.2 million euro and other current assets totalling 260.4 million euro, which mainly include: assets for commodity derivatives (163.0 million euro); receivables from subsidiaries for tax consolidation (60.6 million euro); tax receivables for excise and withholding taxes (3.6 million euro); advances to suppliers (17.4 million euro); and receivables from Ergosud S.p.A. related to portions of emission rights for the Scandale plant (2.2 million euro);
- trade payables and other current liabilities for 1,026.5 million euro that include trade payables to third parties and to Group companies for a total of 776.0 million euro and other current liabilities totalling 250.5 million euro, which mainly include: liabilities for commodity derivatives (155.5 million euro); payables to subsidiaries for tax consolidation (26.4 million euro); payables to social security institutions and to employees (31.6 million euro); payables for fiscal transparency to Ergosud S.p.A. (7.2 million euro); and tax payables for VAT, excise and withholdings (14.1 million euro);
- current tax assets/payables for 6.7 million euro related to IRAP and IRES receivables for amounts requested for reimbursement and receivables for Robin Tax paid in previous years, partially offset by IRES and IRAP current payables.

Assets/liabilities held for sale amounted to 109.0 million euro and refer to the fair value of the investment in EPCG, 18.70% held by A2A S.p.A. (41.75% at December 31, 2017).

The decrease compared to December 31, 2017 is due to the collections made during the year under review under a new agreement negotiated with the Government of Montenegro, and approved by the same on April 27, 2018.

The Net debt of 2,082.0 million euro, improved by 276.8 million euro compared to December 31, 2017 and includes the effect of the non-recurring transactions during the year, which was positive by 0.1 million euro. Operations during the year generated resources of 494.8 million euro, partly offset by the resources absorbed by net investments in tangible and intangible assets and shareholdings of 51.8 million euro and dividends paid to shareholders of 179.7 million euro.

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<i>millions of euro</i>	12 31 2018	12 31 2017
NET FINANCIAL POSITION AT THE START OF THE YEAR	(2,358.8)	(2,726.9)
CONTRIBUTIONS FROM NON-RECURRING TRANSACTIONS	0.1	2.8
Result of the year (**)	298.8	268.0
Amortization and depreciation	83.3	81.3
Net interest for the year	86.1	106.0
Net interest paid	(90.0)	(74.0)
Net taxes paid/receivables for taxes paid	(6.2)	23.4
Write-downs on shareholdings and fixed assets	77.4	1.9
Change in the assets and liabilities (*)	45.4	206.2
Cash flow from operating activities	494.8	612.8
Cash flow from investment activities	(51.8)	(49.3)
Dividends paid	(179.7)	(153.0)
Other changes	3.9	(32.0)
Changes in financial assets/liabilities with counter-entry to equity	9.5	(13.2)
NET FINANCIAL POSITION AT THE END OF THE YEAR	(2,082.0)	(2,358.8)

- (*) Excluding balances with counter-entry to equity.
(**) Result of the year is exposed net of gains on shareholdings' and fixed assets' disposals.

Below is a detail of the net debt:

<i>millions of euro</i>	12 31 2018	12 31 2017
Medium/long-term debt	2,849.4	3,411.4
Medium/long-term financial receivables	(616.0)	(72.2)
Total non-current net debt	2,233.4	3,339.2
Short-term debt	1,019.9	510.1
Short-term financial receivables	(661.4)	(878.6)
Cash and cash equivalents	(509.9)	(611.9)
Total current net debt	(151.4)	(980.4)
Net debt	2,082.0	2,358.8



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Balance sheet ⁽¹⁾

Assets

<i>amounts in euro</i>	Note	12 31 2018	12 31 2017
NON-CURRENT ASSETS			
Tangible assets	1	1,038,947,161	1,118,635,048
Intangible assets	2	80,249,610	95,200,291
Shareholdings	3	3,702,584,390	3,653,742,408
Other non-current financial assets	3	609,165,937	75,696,307
Deferred tax assets	4	65,999,810	61,172,835
Other non-current assets	5	8,401,311	604,072
Total non-current assets		5,505,348,219	5,005,050,961
CURRENT ASSETS			
Inventories	6	94,736,836	78,566,348
Trade receivables	7	717,191,968	551,660,011
Other current assets	8	260,381,762	164,991,718
Current financial assets	9	661,376,728	878,625,624
Current tax assets	10	35,542,548	87,134,265
Cash and cash equivalents	11	509,947,205	611,941,606
Total current assets		2,279,177,047	2,372,919,572
NON-CURRENT ASSETS HELD FOR SALE	12	108,960,169	224,186,503
TOTAL ASSETS		7,893,485,435	7,602,157,036

(1) As required by Consob Resolution no. 17221 of March 12, 2010, the effects of relations with related parties in the separate financial statements are highlighted in the accounting statements in section 2 and commented on in Note 36. Significant non-recurring events and transactions in the separate financial statements are provided in Note 37 pursuant to Consob Communication DEM/6064293 of July 28, 2006.

Equity and liabilities

amounts in euro	Note	12 31 2018	12 31 2017
EQUITY			
Share capital	13	1,629,110,744	1,629,110,744
(Treasury shares)	14	(53,660,996)	(53,660,996)
Reserves	15	687,046,600	586,135,725
Net result of the year	16	373,091,108	268,461,294
Total equity		2,635,587,456	2,430,046,767
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	17	2,841,406,962	3,392,948,136
Employee benefits	18	142,277,393	143,512,115
Provisions for risks, charges and liabilities for landfills	19	180,304,233	164,897,725
Other non-current liabilities	20	18,622,107	28,945,973
Total non-current liabilities		3,182,610,695	3,730,303,949
Current liabilities			
Trade payables	21	776,005,156	689,579,544
Other current liabilities	21	250,475,901	242,079,728
Current financial liabilities	22	1,019,911,736	510,147,048
Tax liabilities	23	28,894,491	-
Total current liabilities		2,075,287,284	1,441,806,320
Total liabilities		5,257,897,979	5,172,110,269
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		-	-
TOTAL EQUITY AND LIABILITIES		7,893,485,435	7,602,157,036

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Income statement ⁽¹⁾

<i>amounts in euro</i>	Note	01 01 2018 12 31 2018	01 01 2017 12 31 2017
Revenues			
Revenues from the sale of goods and services		3,742,583,396	3,037,519,957
Other operating income		83,044,739	51,791,339
Total revenues	25	3,825,628,135	3,089,311,296
Operating expenses			
Expenses for raw materials and services		3,203,793,757	2,486,302,113
Other operating expenses		312,079,537	301,574,408
Total operating expenses	26	3,515,873,294	2,787,876,521
Labour costs	27	134,536,395	127,819,310
Gross operating income - EBITDA	28	175,218,446	173,615,465
Depreciation, amortization, provisions and write-downs	29	90,452,044	87,733,466
Net operating income - EBIT	30	84,766,402	85,881,999
Result from non-recurring transactions	31	5,723,742	156,721
Financial balance			
Financial income		460,220,389	361,022,925
Financial expenses		184,096,679	121,591,560
Result from disposal of other shareholdings		-	-
Total financial balance	32	276,123,710	239,431,365
Result before taxes		366,613,854	325,470,085
Income taxes	33	14,172,353	2,177,578
Result after taxes from operating activities		352,441,501	323,292,507
Net result from discontinued operations	34	20,649,607	(54,831,213)
NET RESULT OF THE YEAR	35	373,091,108	268,461,294

(1) As required by Consob Resolution no. 17221 of March 12, 2010, the effects of relations with related parties in the separate financial statements are highlighted in the accounting statements in section 2 and commented on in Note 36. Significant non-recurring events and transactions in the separate financial statements are provided in Note 37 pursuant to Consob Communication DEM/6064293 of July 28, 2006.

Statement of comprehensive income

amounts in euro	12 31 2018	12 31 2017
Net result of the year (A)	373,091,108	268,461,294
Actuarial gains/(losses) on Employee's Benefits booked in the Net equity	(2,276,775)	17,889,911
Tax effect of other actuarial gains/(losses)	692,421	(5,332,920)
Total actuarial gains/(losses) net of the tax effect (B)	(1,584,354)	12,556,991
Effective part of gains/(losses) on cash flow hedge	19,453,212	(19,968,842)
Tax effect of other gains/(losses)	(4,737,540)	5,484,777
Total other gains/(losses) net of the tax effect (C)	14,715,672	(14,484,065)
Gains/(losses) from recalculation of available for sale	-	-
Tax effect of other gains/(losses)	-	-
Gains/(losses) from the restatement of financial assets available for sale (D)	-	-
Total comprehensive result (A) + (B) + (C) + (D)	386,222,426	266,534,220

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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Cash-flow statement

<i>amounts in euro</i>	12 31 2018	12 31 2017
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	611,941,606	278,207,406
Operating activities		
Result of the year (**)	298,845,667	268,044,777
Tangible assets depreciation	72,868,919	72,961,284
Intangible assets amortization	10,420,174	8,299,165
Fixed assets write-downs	4,317,618	423,449
Shareholdings write-downs	73,118,996	1,458,940
Net financial interests	86,063,433	106,326,911
Net financial interests paid	(90,002,400)	(74,043,539)
<i>Net taxes paid/receivables for disposed taxes (a)</i>	<i>(6,246,891)</i>	<i>23,433,395</i>
<i>Gross change in assets and liabilities (b)</i>	<i>45,451,234</i>	<i>206,172,308</i>
<i>Total change of assets and liabilities (a+b) (*)</i>	<i>39,204,343</i>	<i>229,605,703</i>
Cash flow from operating activities	494,836,750	613,076,690
Investment activities		
Investments in tangible assets	(22,021,758)	(24,753,413)
Investments in intangible assets and goodwill	(22,552,233)	(17,617,453)
Investments in shareholdings and securities (*)	(20,087,607)	(7,563,057)
Disposal of fixed assets and shareholdings	12,849,050	660,869
Cash flow from investment activities	(51,812,548)	(49,273,054)
FREE CASH FLOW	443,024,202	563,803,636

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

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

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amounts in euro	12 31 2018	12 31 2017
Financing activities		
Changes in financial assets		
Monetary changes:		
Change in intercompany currency accounts	286,180,791	(482,471,142)
Issuance of loans	(611,257,260)	(86,845,341)
Proceeds from loans	10,538,593	403,389,260
Other monetary changes	-	200,000
Total monetary changes	(314,537,876)	(165,727,223)
Non-monetary changes:		
Other non-monetary changes	(4,210,394)	3,144,944
Total non-monetary changes	(4,210,394)	3,144,944
Total changes in financial assets (*)	(318,748,270)	(162,582,279)
Changes in financial liabilities		
Monetary changes:		
Change in intercompany currency accounts	3,215,599	(154,781,888)
Borrowings/bond issued	30,000,000	742,000,000
Repayment of borrowings/bond	(77,695,807)	(476,886,822)
Dividends paid	(179,710,827)	(152,971,846)
Other monetary changes	(2,651,742)	2,649,117
Total monetary changes	(226,842,777)	(39,991,439)
Non-monetary changes:		
Amortized cost valuations	3,237,235	(1,826,939)
Other non-monetary changes	(2,664,791)	(25,668,779)
Total non-monetary changes	572,444	(27,495,718)
Total changes in financial liabilities (*)	(226,270,333)	(67,487,157)
Cash flow from financing activities	(545,018,603)	(230,069,436)
CHANGE IN CASH AND CASH EQUIVALENTS	(101,994,401)	333,734,200
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	509,947,205	611,941,606

Statement of changes in equity

Description <i>amounts in euro</i>	Share Capital Note 13	Treasury Shares Note 14	
Equity at December 31, 2016	1,629,110,744	(53,660,996)	
Allocation of 2016 net result			
Ordinary dividend distribution			
Contribution from non-recurring transactions			
Cash flow hedge reserves (*)			
IAS 19 reserve "Employee Benefits" (*)			
Other changes			
Net result of the year (*)			
Equity at December 31, 2017	1,629,110,744	(53,660,996)	
IFRS9 - FTA			
Equity at January 1, 2018	1,629,110,744	(53,660,996)	
Allocation of 2017 net result			
Ordinary dividend distribution			
Cash flow hedge reserves (*)			
IAS 19 reserve "Employee Benefits" (*)			
Other changes			
Net result of the year (*)			
Equity at December 31, 2018	1,629,110,744	(53,660,996)	
Availability of Equity Reserves			
A: For share capital increase			
B: To cover losses			
C: For distribution to Shareholders - available for euro 407,031,497 (**)			
D: Reserves not available			

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

(**) Of which to fyscal moderate suspension equal to euro 124,783,022.

	Reserves	Cash Flow hedge Reserve	Available for sale Reserve	Net result of the year	Total equity
	Note 15	Note 15	Note 15	Note 16	
	470,049,624	(2,602,562)	(462,146)	274,049,714	2,316,484,378
	274,049,714			(274,049,714)	
	(152,971,846)				(152,971,846)
				156,721	156,721
		(14,484,064)			(14,484,064)
	12,556,991				12,556,991
	14				14
				268,304,573	268,304,573
	603,684,497	(17,086,626)	(462,146)	268,461,294	2,430,046,767
	(970,910)				(970,910)
	602,713,587	(17,086,626)	(462,146)	268,461,294	2,429,075,857
	268,461,294			(268,461,294)	
	(179,710,827)				(179,710,827)
		14,715,672			14,715,672
	(1,584,354)				(1,584,354)
				373,091,108	373,091,108
	689,879,700	(2,370,954)	(462,146)	373,091,108	2,635,587,456
	A-B-C	D			

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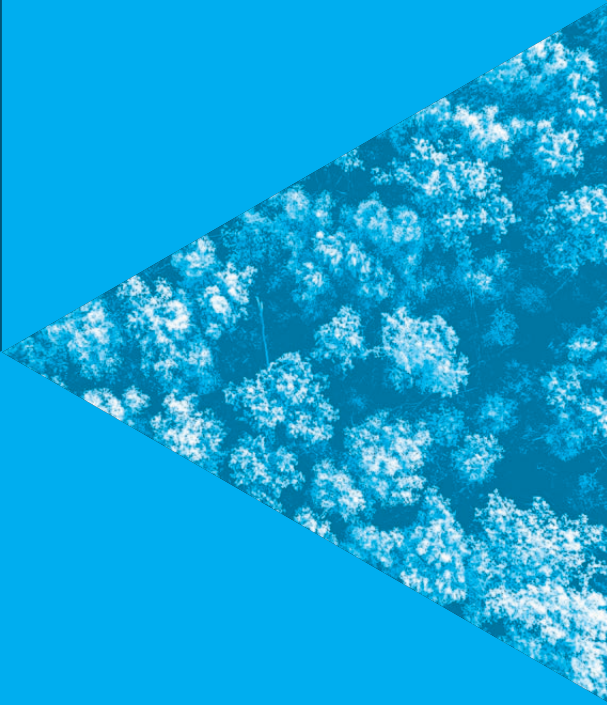
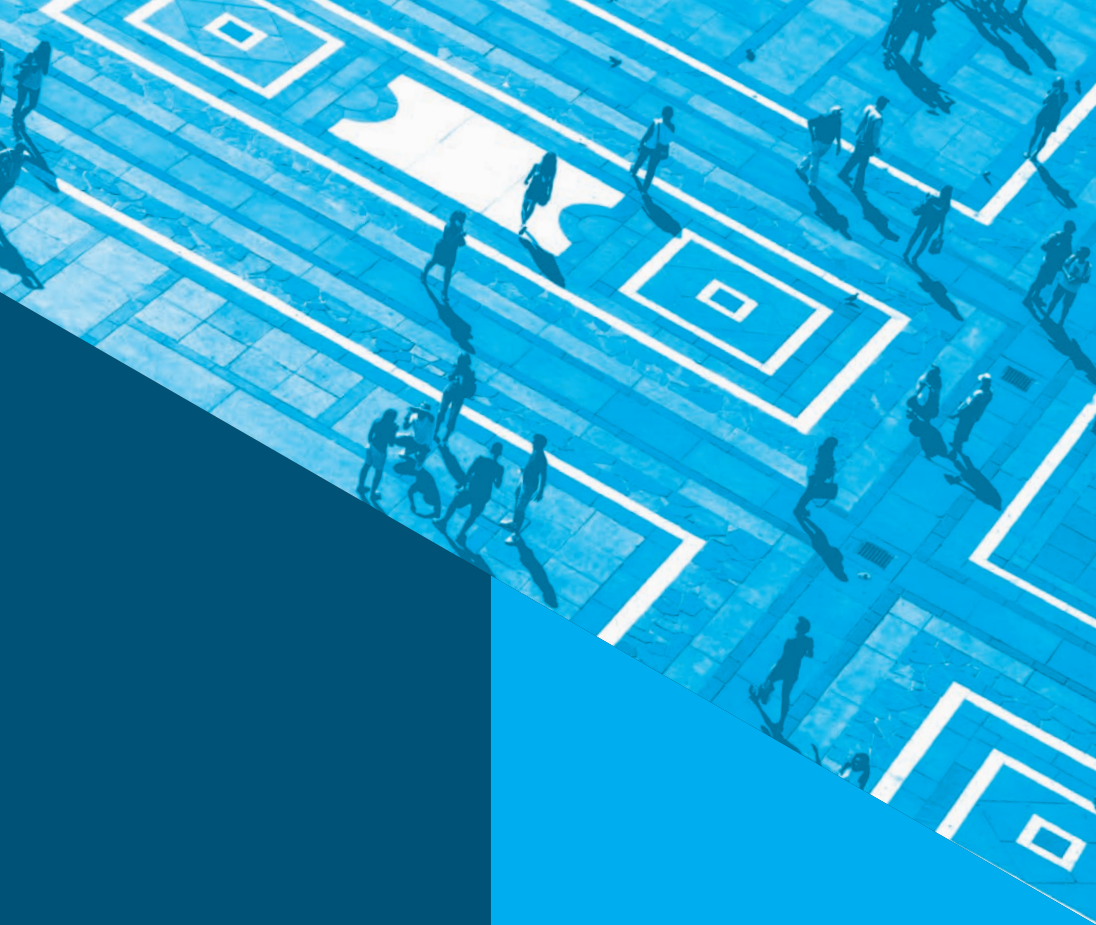
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Balance sheet

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

Assets

<i>amounts in euro</i>	12 31 2018	of which Related Parties (note 36)	12 31 2017	of which Related Parties (note 36)
NON-CURRENT ASSETS				
Tangible assets	1,038,947,161		1,118,635,048	
Intangible assets	80,249,610		95,200,291	
Shareholdings	3,702,584,390	3,702,584,390	3,653,742,408	3,653,742,408
Other non-current financial assets	609,165,937	608,312,150	75,696,307	72,258,893
Deferred tax assets	65,999,810		61,172,835	
Other non-current assets	8,401,311		604,072	
Total non-current assets	5,505,348,219		5,005,050,961	
CURRENT ASSETS				
Inventories	94,736,836		78,566,348	
Trade receivables	717,191,968	234,474,296	551,660,011	122,996,348
Other current assets	260,381,762	60,626,739	164,991,718	40,874,836
Current financial assets	661,376,728	660,176,728	878,625,624	877,425,624
Current tax assets	35,542,548		87,134,265	
Cash and cash equivalents	509,947,205		611,941,606	
Total current assets	2,279,177,047		2,372,919,572	
NON-CURRENT ASSETS HELD FOR SALE	108,960,169	108,960,169	224,186,503	224,186,503
TOTAL ASSETS	7,893,485,435		7,602,157,036	

Equity and liabilities

amounts in euro	12 31 2018	of which Related Parties (note 36)	12 31 2017	of which Related Parties (note 36)
EQUITY				
Share capital	1,629,110,744		1,629,110,744	
(Treasury shares)	(53,660,996)		(53,660,996)	
Reserves	687,046,600		586,135,725	
Net result of the year	373,091,108		268,461,294	
Total equity	2,635,587,456		2,430,046,767	
LIABILITIES				
Non-current liabilities				
Non-current financial liabilities	2,841,406,962		3,392,948,136	
Employee benefits	142,277,393		143,512,115	
Provisions for risks, charges and liabilities for landfills	180,304,233	83,000,656	164,897,725	85,562,099
Other non-current liabilities	18,622,107		28,945,973	
Total non-current liabilities	3,182,610,695		3,730,303,949	
Current liabilities				
Trade payables	776,005,156	98,608,894	689,579,544	76,991,347
Other current liabilities	250,475,901	34,114,640	242,079,728	73,865,565
Current financial liabilities	1,019,911,736	411,429,595	510,147,048	414,817,753
Tax liabilities	28,894,491		-	
Total current liabilities	2,075,287,284		1,441,806,320	
Total liabilities	5,257,897,979		5,172,110,269	
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	-		-	
TOTAL EQUITY AND LIABILITIES	7,893,485,435		7,602,157,036	

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Income statement

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

<i>amounts in euro</i>	01 01 2018 12 31 2018	of which Related Parties (note 36)	01 01 2017 12 31 2017	of which Related Parties (note 36)
Revenues				
Revenues from the sale of goods and services	3,742,583,396	1,193,615,688	3,037,519,957	824,056,295
Other operating income	83,044,739	23,939,509	51,791,339	7,987,565
Total revenues	3,825,628,135		3,089,311,296	
Operating expenses				
Expenses for raw materials and services	3,203,793,757	182,341,644	2,486,302,113	111,509,436
Other operating expenses	312,079,537	208,425,315	301,574,408	183,350,873
Total operating expenses	3,515,873,294		2,787,876,521	
Labour costs	134,536,395	1,696,754	127,819,310	1,787,280
Gross operating income - EBITDA	175,218,446		173,615,465	
Depreciation, amortization, provisions and write-downs	90,452,044		87,733,466	
Net operating income - EBIT	84,766,402		85,881,999	
Result from non-recurring transactions	5,723,742	5,723,742	156,721	
Financial balance				
Financial income	460,220,389	456,524,317	361,022,925	356,932,677
Financial expenses	184,096,679	80,950,478	121,591,560	1,498,808
Result from disposal of other shareholdings	-		-	
Total financial balance	276,123,710		239,431,365	
Result before taxes	366,613,854		325,470,085	
Income taxes	14,172,353		2,177,578	
Result after taxes from operating activities	352,441,501		323,292,507	
Net result from discontinued operations	20,649,607	20,649,607	(54,831,213)	(54,831,213)
NET RESULT OF THE YEAR	373,091,108		268,461,294	



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Notes



General information on A2A S.p.A.

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.

In particular, as the "Parent Company", A2A S.p.A. is responsible for the guiding strategy, administration, planning and control, financial management and coordinating the activities of the A2A Group.

Therefore, Group companies benefit from administrative, tax, legal, personnel management, procurement and communication services, so as to optimize the resources that are available within the Group and to use the existing known how in a cost-effective way.

The A2A Group mainly operates in the following sectors:

- production, sale and distribution of electricity even from renewable resources;
- sale and distribution of gas;
- 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.

The separate financial statements for A2A S.p.A. are presented in euro, which is also the functional currency in the economies in which the company operates. In particular, the following notes are prepared in thousands of euro.

The separate financial statements of A2A S.p.A. at December 31, 2018, have been prepared on a going-concern basis and comprise the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and these notes.

The separate financial statements of A2A S.p.A. at December 31, 2018 have 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 separate financial statements, the same standards used for the financial statements at December 31, 2017 were applied, other than the principles and interpretations described in detail in the paragraph below "Changes in accounting principles" adopted for the first time on January 1, 2018.

These explanatory notes include the supplemental information required by the Italian civil code, by Consob Resolutions no. 15519 and 15520 of July 27, 2006, and Consob communication no. 6064293 of July 28, 2006.

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

These separate financial statements for the year ended December 31, 2018, were approved on April 3, 2019, by the Board of Directors, which authorized its publication, and has been audited by EY S.p.A. in accordance with their appointment by the shareholders of June 11, 2015, for the nine years from 2016 to 2024.

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For the balance sheet, the company A2A S.p.A. has adopted a format which separates current and non-current assets and liabilities, as required by paras. 60 et seq. of IAS 1.

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

The specific line items "Result from non-recurring transactions" and "Result from disposal of other shareholdings" are in the format of the income statement in order to provide clear and immediate identification of the results arising from non-recurring transactions forming part of continuing operations, separating these from the results from discontinued operations/held for sale. 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 has been prepared using the indirect method as permitted by IAS 7.

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 separate financial statements at December 31, 2017.

Basis of preparation

The separate financial statements as at December 31, 2018, have been prepared on a historical cost basis, with the exception of those items which under IFRS must be or can be measured at fair value, as discussed in further detail in the accounting policies.

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

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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, 2018.

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

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

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

- IFRS 9 “Financial instruments”: this standard, approved by the European Union on November 29, 2016, entirely replaces IAS 39 “Financial instruments: recognition and measurement” and introduces two new criteria to recognize and measure financial assets and liabilities. The main changes introduced by IFRS 9 may be summarized as follows: financial assets can be measured either at fair value or at their amortized cost. As a result, the categories “loans and receivables”, “available- for-sale financial assets” and “held-to-maturity investments” disappear. Classification within the two categories is carried out on the basis of an entity’s business model and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost if both of the following requirements are met: the objective of the entity’s business model is to hold assets to collect contractual cash flows (and therefore in substance not to earn trading profits) and the characteristics of the cash flows of the asset are solely payments of principal and interest. A financial asset is measured at fair value if it is not measured at amortized cost. The rules to account for derivatives have been simplified, as the embedded derivative and the host financial asset are no longer recognized separately.

All equity instruments - listed or unlisted - must be measured at fair value (IAS 39 established on the other hand that unlisted equity instruments should be valued at cost if fair value could not be reliably measured).

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

IFRS 9 does not permit reclassifications between the two categories of financial asset except in the rare case of a change in an entity’s business model. In this case the effects of the reclassification are applied prospectively.

The disclosures required to be made in the notes have been adjusted to the classification and measurements rules introduced by IFRS 9. On November 19, 2013, the IASB issued an amendment to this standard which mainly regards the following:

- i. the substantial revision of the “Hedge accounting”, which will allow entities to better reflect their risk management activities in the financial statements;
- ii. enabling entities to change the accounting of liabilities measure at fair value: in particular the effects of a worsening of an entity’s own credit risk will no longer be recognized in the income statement.

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

Said impairment model uses a “forward looking” information in order to obtain early recognition of losses on receivables with respect to the “incurred loss” model that defers the recognition of the loss until occurrence of the event with reference to financial assets measured at amortized cost, financial assets measured at fair value recorded in other items of the comprehensive income statement, receivables arising from lease contracts, as well as assets arising from contracts and certain loan commitments and financial guarantee contracts.

In 2017, the A2A Group carried out an in-depth analysis of the financial instruments in the portfolio impacted by the application of IFRS 9 and the write-down of receivables from customers according to the new logic (expected losses). The analysis ended with the identification of non-significant impacts on the valuation of financial assets and liabilities and on the method used to calculate the Group’s provision for risks on receivables.

The Group has adopted the new standard starting from January 1, 2018, without restating the comparative figures. The consequent impacts are not significant both on the valuation of financial assets and liabilities and on the calculation method of the provision for risks on receivables.

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

- i. the contract has been approved by the parties to the contract, who have undertaken to carry out their respective obligations;
- ii. each party’s rights in relation to the goods and services to be transferred can be identified and the payment terms have been identified;
- iii. the contract has commercial substance (the risks, the timing or the cash flows may change as the result of the contract);
- iv. it is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected.

IFRS 15 also includes the disclosure requirements that are significantly more extensive than the existing standard concerning the nature, amounts, timing and uncertainty of revenues and cash flows arising from contracts with customers.

The provisions of IFRS 15, following the amendments made with the amendment issued respectively on September 11, 2015 and April 12, 2016, will be effective for years beginning on or after January 1, 2018. The A2A Group applied IFRS 15 using the modified retrospective approach.

The impacts on the consolidated financial statements are not significant.

- IFRIC 22 “Transactions in foreign currency and recognition of prepayments or collections”: approved on April 3, 2016, the interpretation of IAS 21 “Transactions in foreign currency” aims to clarify the date on which to use the exchange rate for the purpose of recording the non-monetary asset/liability relating to transactions in foreign currency. Specifically, the recognition of the advance asset/liability must be carried out at the exchange rate on the day of payment/collection of the advance and in the same terms the “derecognition” of the same, once the transaction is concluded with the recognition of the related sales revenues, will take place at the same exchange rate with which the non-monetary asset/liability was recorded.

No impacts are expected on the Group’s economic and financial situation.

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

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- IFRS 2 “Share-based payments”: approved on February 27, 2018 some amendments to the standard, which deal with two main areas: the classification of a share-based payment transaction settled net of obligations for withholding tax; accounting if a change in the terms and conditions of a share-based payment transaction changes its classification from settled in cash to settled with equity instruments. The adoption of the standard does not have any impact on the A2A Group as no share-based payments are envisaged.
- IFRS 4 “Insurance contracts”: published in the Official Journal of the European Union in November 2017, the amendment to this standard that allows companies that issue insurance contracts to defer the application of IFRS 9 for the accounting of financial investments aligning the date of first application with that of IFRS 17, expected in 2021 (deferral approach) and at the same time eliminating from the income statement some distorting effects deriving from the early application of IFRS 9 with respect to the application of IFRS 17 (overlay approach). There were no impacts on the Group’s economic and financial situation.

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

- IFRS 17 “Insurance contracts”: issued by the IASB on May 18, 2017, will be applicable to companies that issue insurance contracts from the financial statements closed as of January 1, 2021. No impact on the A2A Group is expected;
- on October 22, 2018, the IASB issued a supplement to IFRS 3 (Business Combination) that helps companies understand whether an acquisition is definable as an asset combination or a business. In particular, it clarifies that, to define an acquisition as a business, there must be the ability to provide goods or services to customers, unlike as indicated by the original standard that has a focus on the ability to produce dividends or economic benefits to stakeholders;
- on March 29, 2018, the IASB issued an addition to the framework of international accounting standards, which slightly changes the wording of the definitions of assets, liabilities, costs and revenues. Increasing emphasis is being placed on the concept of substance over form;
- an amendment to IAS 19 (Employee benefits) was published by the IASB on February 7, 2018, which deals with the accounting of pension expenses in the event of changes to defined benefit plans. Specifically, the amendment introduces the calculation of the service cost using the basic assumptions updated after any change made to the plan;
- issued by the IASB on December 12, 2017, some amendments to the standards approved in the three-year period 2015 - 2017. The following standards issued between 2015 and 2017 are amended:
 - i. IAS 12 (Income Taxes): it is specified that taxes related to the distribution of dividends must be recognized when the obligation to recognize the liability to pay the dividend arises;
 - ii. IAS 23 (Financial expenses): the amendment aims to clarify the amount and timing within which it is allowed to capitalize the financial expenses related to financial liabilities entered into in order to acquire assets of lasting value;
 - iii. IAS 28 (Investments in associates): further cases of investments in associates or joint ventures are specified which, although valued at equity, are subject to the provisions of IFRS 9 (including impairment valuations).

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

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

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

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

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Accounting standards and policies

Translation of foreign currency items

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

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

Tangible assets

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

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

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

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

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

Assets acquired under finance and operating leases are accounted for in accordance with IFRS 16, which requires the recognition of assets equal to the right to use the asset and a financial liability corresponding to the present value of future lease payments. The subsequent valuation involves the recognition of the amortization of the right of use on the basis of IAS 16 (or alternative valuation method) and the discounting of the financial liability created during initial recognition using a discount rate defined in the leasing contract. Financial expenses and depreciation/amortization are recognized separately in the income statement.

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. During the reporting year, the useful lives of the CCGT plants were reviewed, as described in note “1) Tangible assets”.

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	0.1 % - 11.1 %
• production plants	0.2 % - 40.7 %
• distribution networks	1.4 % - 10 %
• fiber-optic networks	5%
• miscellaneous equipment	10% - 33.3 %
• mobile phones	100 %
• furniture and fittings	6 % - 16.7 %
• electric and electronic office machines	10 %- 33.3 %
• means of transport	10%
• improvements to third-party assets - buildings	6.3 %

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

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

Intangible assets

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

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

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

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

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

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

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

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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 _____ 4.8 % - 33.3 %
- other intangible assets _____ 2.1% - 20.0 %

Service concession arrangements

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

Impairment of non-current assets

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

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

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 those companies over which A2A S.p.A. exercises control as it “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.

Associates are companies in which the company 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.

Investments in subsidiaries, associates and joint ventures are recognized in the separate financial statements at their purchase cost less any distributions of capital or impairment losses determined through the Impairment Test.

Should the portion attributable to the company of any impairment losses for the shareholding exceed the carrying value of the investment, the value of the investment is set to zero, and the excess share of the loss is recognized among liabilities as a provision in the event the company in responsible for said liability.

The cost is restored in subsequent periods if the reasons for the impairment should cease to apply.

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.

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Financial instruments

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

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

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

Financial assets

Initial recognition

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

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

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

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

Subsequent valuation

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

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

Financial assets at amortized cost

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

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

Investments in equity instruments

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

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

Financial assets measured at fair value through the income statement

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

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

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

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

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

Derecognition

A financial asset is derecognized when:

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

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

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an associated liability. The transferred asset and the associated liability are valued to reflect the rights and obligations that remain with the Group.

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

Financial liabilities

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

Directly attributable transaction costs are added to the valuation.

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

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

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

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

Derivative financial instruments and hedge accounting

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

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

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

The hedging relationship is effective if:

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

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

Fair value hedging

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

Cash flow hedges

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

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

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

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

Non-current assets held for sale, disposal groups and discontinued operations/held for sale – 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/held for sale 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/held for sale”.

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.

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

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

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

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 recognition thereof 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 of the Italian Regulation Authority for Energy Networks and Environment and similar foreign bodies;

- connection contributions paid by users, if not for costs incurred to extend the network, are recognized in the income statement on collection and presented as “revenues from services”;
- the revenues billed to users for an extension of the gas network are accounted for as a reduction in the carrying amount of tangible assets and are recognized in the income statement as a reduction in the depreciation charged over the useful life of the cost capitalized to extend the network;
- the revenues and costs involved in withdrawing quantities that are higher or lower than the Group’s share are measured at the prices envisaged in the related purchase or sale contract;
- revenues from the provision of services are recognized according to the stage of completion based on the same criteria as for contract work in progress. If it is impossible to calculate revenues on a reliable basis they are recognized up to the amount of the costs incurred providing they are expected to be recovered;
- revenues from the sale of certificates are recognized at the time of sale.

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

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

Result from non-recurring transactions

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

Financial income and expenses

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

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

Dividends

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

Income taxes

Current taxes

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

Deferred tax assets and liabilities

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

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

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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 for making assessments for impairment testing, for calculating certain sales revenues, provisions for risks and charges, provisions for receivables and other provisions, depreciation and amortization and for measuring derivatives, employee benefits and taxation. 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 book value of the investments is subjected to periodic verification and whenever circumstances or events require more frequent verification. If it is considered that the carrying amount is impaired, the same is written down to its recoverable amount which is estimated with reference to its use or future disposal, depending on the company's latest plans. Management is of the opinion that the estimates of such recoverable amounts are reasonable, although possible 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 on the shareholdings of the Parent Company and the results of such testing, reference is made to the specific paragraph.

Revenue recognition

Revenues are recognized to the extent that it is probable that the economic benefits are achieved by the company and the related amount can be determined reliably, regardless of the date of collection. Revenues are valued at the fair value of the amount received or to be received, taking into account the payment terms contractually defined and excluding commercial discounts and rebates.

The recognition of revenues presupposes the use of estimates based on the best information available that may be subject, however, to changes as a result of new information, not available at the time of estimation.

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.

Bad debts provision

The provision for bad debts reflects the estimated losses in the company's receivables portfolio. Provisions have been made to cover specific cases of insolvency as well as estimated losses expected on the basis of past experience with balances of similar credit risk.

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

Amortization, depreciation

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

Measurement of derivative instruments

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

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

Employee benefits

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

Business combinations

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

Current taxes and future recovery of deferred tax assets

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

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

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Notes to the balance sheet

The Balance Sheet of A2A S.p.A. includes, with respect to the situation at December 31, 2017, the effect of the following non-recurring transactions:

- conferral of the e-mobility business unit in the favour of the subsidiary A2A Energy Solutions S.r.l. with effect starting January 1, 2018;
- conferral of the “RAMO IDRO” business unit comprising the hydroelectric powerhouses in San Pietro Sovera, Rescia, Gravedona and Crema in the favour of the subsidiary A2A IDRO4 S.r.l., with effect starting April 1, 2018.

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ASSETS

NON-CURRENT ASSETS

1) Tangible assets

thousands of euro	Balance at 12 31 2017	Effect of non- recurring transactions	Changes during the year						Balance at 12 31 2018
			Invest.	Others changes	Reclassi- fications net of the provision	Write- downs	Amort.	Total changes	
Land	33,240	(752)	12	232	(58)			186	32,674
Buildings	240,782	(1,332)	1,145	1,514		(4,196)	(12,925)	(14,462)	224,988
Plant and machinery	812,465	(21,684)	3,854	15,428	(64)		(55,567)	(36,349)	754,432
Industrial and commercial equipment	1,398		409				(321)	88	1,486
Other assets	13,237	(706)	3,150	17			(4,053)	(886)	11,645
Construction in progress and advances	17,500	(19)	13,452	(17,221)				(3,769)	13,712
Leasehold improvements	13						(3)	(3)	10
Total tangible assets	1,118,635	(24,493)	22,022	(30)	(122)	(4,196)	(72,869)	(55,195)	1,038,947
of which:									
Historical cost	2,836,170	(57,186)	22,022	(30)	(1,752)	(4,196)		16,044	2,795,028
Accumulated amortization	(1,351,562)	19,209			1,630		(72,869)	(71,239)	(1,403,592)
Write-downs	(365,973)	13,484							(352,489)

At December 31, 2018, “Tangible assets” amounted to 1,038,947 thousand euro (1,118,635 thousand euro in the previous year) and include the negative effect of non-recurring transactions for the year for a total of 24,493 thousand euro.

“Tangible assets” in 2018, net of non-recurring transactions, show a decrease of 55,195 thousand euro resulting from the following:

- investments for 22,022 thousand euro;
- other negative changes amounting to 30 thousand euro;
- disposal of assets, net of accumulated depreciation, for 122 thousand euro;
- write-downs for 4,196 thousand euro on certain industrial buildings as a consequence of the results obtained from the impairment testing performed by an independent external appraiser appointed by the Group;
- depreciation for the year for 72,869 thousand euro.

For a detailed analysis of changes in the year, reference shall be made to annex “1 Statement of changes in tangible assets”.

Investments made during the year refer to:

- “Land” for a total of 12 thousand euro, referring to the purchase of the new land of the Calabria Unit Power Station Satriano I Salto;
- “Buildings” for a total amount of 1,145 thousand euro.
In detail, they refer: for 633 thousand euro to various interventions on the buildings in Via della Signora, Piazza Po, Piazza Trento, Via Orobia, Canavese, Caracciolo and Gonin Warehouse in Milan; for 429 thousand euro to investments in the office in via Lamarmora in Brescia; for 36 thousand euro to interventions on the buildings in Via Suardi and Via Codussi in Bergamo; for 34 thousand euro to interventions on the buildings in Vobarno, Pontevico and Codignole; for 13 thousand euro to interventions on the buildings of Bormio;

- “Plant and machinery” for 3,854 thousand euro.
In particular, they refer to interventions for 2,739 thousand euro at the power stations of the Unit of Calabria; for 382 thousand euro to the power stations of the Valtellina Unit; for 467 thousand euro to the power stations of the Mese and Udine Unit; 266 thousand euro for telematic and telephone wiring of buildings in Valtellina;
- “Industrial and commercial equipment” for 409 thousand euro;
- “Other assets” relating to furniture, furnishings, IT equipment and assets worth less than 516 euro, for 3,150 thousand euro;
- “Construction in progress and advances” for an amount of 13,452 thousand euro.

“Tangible assets” include “Construction in progress and advances” for 13,712 thousand euro (17,500 thousand euro at December 31, 2017), presenting, net of non-recurring transactions, a decrease of 3,769 thousand euro resulting from the counter effects of the following items:

- the increase of 13,452 thousand euro is mainly due: for 2,474 thousand euro to works on buildings (mainly in the Piazza Trento area in Milan, for the Canavese plant, on the Via Lamarmora site in Brescia and for buildings of Ricevitrice Sud, Grosio and Vobarno); 10,624 thousand euro to interventions on plants and machinery, on the Calabria Unit hydroelectric plants (3,253 thousand euro), on the Valtellina Unit plants (3,636 thousand euro), interventions on data, electricity and telephone networks in Valtellina (107 thousand euro), on the Mese and Udine hydroelectric plants (2,915 thousand euro) and to the improvement of other plants (713 thousand euro);
- the decrease resulting from entry into service, amounting to 16,998 thousand euro, including: 132 thousand euro for the completion of the works mainly related to the buildings of the Canavese and Lamarmora site; 16,690 thousand euro for works related to the production plants (of which 4,468 thousand euro for the hydroelectric plants of Calabria, 7,744 thousand euro for the plants in Valtellina, 4,478 thousand euro for the plants in Mese and Udine); 176 thousand euro for other assets;
- the decrease of 65 thousand euro due to other changes in the accounts.
- a decrease of 158 thousand euro due to other changes for reclassifications to other items of the financial statements.

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 (“Competitiveness Decree Law”), the Legislator intervened in article 11-quater with overall review of the regulations governing large-scale diversion hydroelectric concessions (> 3 MW), as explained in greater detail in the Report on Operations in the section “Regulatory Changes and Impacts on the Business Units of the A2A Group - Generation and Trading Business Unit”. While waiting for the Regions to regulate with their own laws the methods, procedures and criteria for awarding concessions, the company 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

thousands of euro	Balance at 12 31 2017	Changes during the year				Balance at 12 31 2018
		Invest.	Others changes	Amort.	Total changes	
Industrial patents and intellectual property rights	6,880	3,036	2,120	(4,462)	694	7,574
Concessions, licences, trademarks and similar rights	7,772	4,741	10,459	(5,947)	9,253	17,025
Goodwill	38,687					38,687
Assets in progress	12,426	14,775	(13,075)		1,700	14,126
Other intangible assets	29,435		(26,586)	(11)	(26,597)	2,838
Total intangible assets	95,200	22,552	(27,082)	(10,420)	(14,950)	80,250

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At the reporting date, “Intangible assets” amounted to 80,250 thousand euro (95,200 thousand euro at December 31, 2017).

A decrease of 14,950 thousand euro was the result of the combined effect of the following:

- investments for 22,552 thousand euro;
- negative changes for 27,082 thousand euro mainly related to the change in environmental certificates and industrial CO₂ portions;
- amortization for 10,420 thousand euro accounted for in the year.

More specifically, investments made during the year refer to the following:

- 3,036 thousand euro for industrial patents and intellectual property rights mainly concerning the implementation of information technology and computer systems;
- 4,741 thousand euro for concessions, licences, trademarks and similar rights related to the purchase of software;
- 14,775 thousand euro for intangible assets under construction.

Included in the total balance of “Intangible assets” are “Assets in progress” for 14,126 thousand euro (12,426 thousand euro as at December 31, 2017), resulting in an increase of 1,700 thousand euro due to the combined effect of the following items:

- the increase of 14,775 thousand euro mainly refers to investments in IT projects;
- the decrease of 13,075 thousand euro due to the entry into service of software and IT applications.

For more in-depth information, refer to annex “2. Statement of changes in intangible assets”.

Goodwill

thousands of euro	Balance at 12 31 2017	Changes during the year					Balance at 12 31 2018
		Invest.	Reclass./ Other changes	Disp./ Write- downs	Amort.	Total changes	
Goodwill	38,687						38,687
Total goodwill	38,687						38,687

Goodwill equal to 38,687 thousand euro at December 31, 2018 (unchanged compared to December 31, 2017), was formed as a result of non-recurring transactions with third parties.

This goodwill was allocated to the following CGUs: “A2A Reti elettriche” for 4,000 thousand euro, “A2A Reti Gas” for 3,700 thousand euro, “A2A Gas” for 6,800 thousand euro, “A2A Calore” for 18,000 thousand euro and “A2A Ambiente” for 6,187 thousand euro.

Under IAS 36 goodwill, an intangible asset with an indefinite useful life, is not amortized systematically but tested at least once a year (“Impairment Test”). As goodwill neither generates independent cash flow nor can it be sold separately, IAS 36 calls for a secondary audit of its recoverable amount, determining cash flows generated by a set of assets that constitute the business to which it belongs, i.e. the Cash Generating Unit (CGU).

The verification of the recoverable value has been carried out within the broader Impairment Test activities of the various CGU carried out for the Consolidated Financial Statements, which includes the goodwill in question.

From the impairment test carried out, the recoverable value of the CGU revealed no need for write-downs. More specifically, the future cash flows associated with the goodwill of A2A S.p.A. allow the recovery thereof.

The parameters used for the purposes of the Impairment Test are set out in note 2 of the Consolidated Annual Financial Report, to which reference is made for further details.

3) Shareholdings and other non-current financial assets

thousands of euro	Balance at 12 31 2017	Effect of non- recurring transactions	Changes during the year	Balance at 12 31 2018	of which included in the NFP	
					12 31 2017	12 31 2018
Shareholdings in subsidiaries	3,610,546	21,744	68,217	3,700,507		
Shareholdings in affiliates	43,196		(41,119)	2,077		
Other non-current financial assets	75,696		533,470	609,166	72,216	608,269
Total shareholdings and other non-current financial assets	3,729,438	21,744	560,568	4,311,750	72,216	608,269

Shareholdings in subsidiaries

“Shareholdings in subsidiaries” amounted to 3,700,507 thousand euro (3,610,546 thousand euro as at December 31, 2017).

The following table illustrates the changes during the year:

Shareholdings in subsidiaries thousands of euro	TOTAL
Balance at December 31, 2017	3,610,546
Effect of non-recurring transactions	21,744
Changes during the year:	
- acquisitions and capital increases	20,088
- sales and decreases	(271)
- revaluations	-
- write-downs	(73,000)
- exchange assessments	93,209
- losses for free float recovery	(7,946)
- reclassifications	36,055
- other changes	82
Total changes in the year	68,217
Balance at December 31, 2018	3,700,507

The value of shareholdings in subsidiaries, net of the positive effect of non-recurring transactions for the year 2018 for 21,744 thousand euro, a total increase of 68,217 thousand euro compared to the previous year-end and is due:

- 141,206 thousand euro from the total effect of the merger with ACSM-AGAM S.p.A.; for further details, reference should be made to the section “Significant events during the year” in the Report on Operations, deriving:
 - for 36,055 thousand euro from the reclassification of the investment in ACSM-AGAM S.p.A. from “Investments in associated companies” and from the item “Financial assets at fair value through profit or loss” of the investment in Azienda Energetica Valtellina e Valchiavenna S.p.A.;
 - 93,209 thousand euro arising from the valuation of the exchange rate defined in the agreements between the parties for the conclusion of the industrial partnership transaction;
 - 7,946 thousand euro for the negative effect of the loss on the free float of ACSM-AGAM S.p.A. shares on the Stock Exchange;
 - 19,788 thousand euro from the increase deriving from the Takeover Bid on ACSM-AGAM S.p.A. shares, net of the recovery of the free float;
- 300 thousand euro for the establishment of A2Abroad S.p.A.;

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- 271 thousand euro decrease of the investment in Ecofert S.r.l. in liquidation due to both the repayment of the shareholders' loan (94 thousand euro) and the repayment received at the end of the company's liquidation process;
- 73,000 thousand euro for the write-down of the equity investment in A2A Energiefuture S.p.A. following the results of the specific impairment test carried out by an external expert on the equity investments attributable to the Monfalcone CGU.

Further information regarding movements involving shareholdings in subsidiary companies may be found within annexes 3a and 4a to compare their book value and corresponding portions of net assets.

Shareholdings in affiliates and joint ventures

“Shareholdings in affiliates and joint ventures” amounted to 2,077 thousand euro (43,196 thousand euro as at December 31, 2017).

The changes in the year are shown below:

Shareholdings in affiliates and joint ventures thousands of euro	TOTAL
Balance at December 31, 2017	43,196
Changes in the year:	
- effect of non-recurring transactions	-
- acquisitions and capital increases	-
- sales and decreases	(7,068)
- revaluations	-
- write-downs	-
- reclassifications	(34,051)
Total net changes in the year	(41,119)
Balance at December 31, 2018	2,077

The value of investments in associated companies amounted to 2,077 thousand euro (43,196 thousand euro at December 31, 2017), and the changes during the reporting year are detailed below:

- for 7,068 thousand euro the decrease mainly deriving from the sale of the investment in Rudnik Uglja Ad Pljevlja;
- for 34,051 thousand euro the effect of the reclassification of the investment in ACSM-AGAM S.p.A. to “Investments in subsidiaries”.

Further details regarding shareholdings in affiliates may be found in annexes 3/b and 4/b.

Impairment of shareholdings in subsidiaries, affiliates and joint ventures

The recoverable value of shareholdings has been measured based on the present value of the corresponding expected net cash flows attributable to the shareholdings of A2A S.p.A.. The cash flows used are in line with those used for the Impairment Test of the CGU for the consolidated financial statements. The same applies to the methodological approach and discount rates adopted further detailed in the Consolidated Annual Financial Report (note 2).

Shown below are the carrying values of the individual shareholdings subject to Impairment Test by an external expert, along with a specification of the type and discount rate applied. It shall be recalled that the Impairment Test is carried out for all investments which have a carrying value higher than the corresponding fraction of shareholders' equity of competence and/or in the presence of specific impairment indicators.

In 2018, the Impairment Test conducted on A2A Energiefuture S.p.A. resulted in a write-down of 73,000 thousand euro, while the other equity investments did not require any write-down.

Shareholdings <i>millions of euro</i>	Pre- impairment test values at 12 31 2018	Recoverable amount (use value) at 12 31 2018	Post-tax WACC	Growth rate g	Write-down
A2A Energiefuture S.p.A.	263	190	7.4%	0.0%	(73)

Other non-current financial assets

“Other non-current financial assets” amounted to 609,166 thousand euro (75,696 thousand euro as at December 31, 2017), of which:

- financial assets measured at amortized cost (HTC) for 608,269 thousand euro (72,216 thousand euro at December 31, 2017), which refer:
 - for 608,173 thousand euro (72,120 thousand euro at December 31, 2017) to financial assets with related parties. This item refers to financial receivables from subsidiaries: Linea Group Holding S.p.A. (315,000 thousand euro), A2A Calore & Servizi S.r.l. (120,000 thousand euro), Unareti S.p.A. (80,000 thousand euro), Aprica S.p.A. (28,000 thousand euro), A2A Smart City S.p.A. (12,000 thousand euro), companies acquired by A2A Rinnovabili S.p.A. (HELIOS 1 S.r.l., INTHE 1 S.r.l., INTHE 2 S.r.l., Tfv 1 S.r.l., Tfv 2 S.r.l., Bellariva Enertel 01 S.r.l., Bellariva Enertel 06 S.r.l., Bellariva Enertel 10 S.r.l. and Free Energy S.r.l. for a total of 51,173 thousand euro) and Azienda Servizi Valtrompia S.p.A. (2,000 thousand euro). During the year under review, loans to A2A Montenegro d.o.o. (400 thousand euro) and Seasm S.r.l. (281 thousand euro) have been reclassified to “Current financial assets”;
 - for 96 thousand euro (unchanged compared to the previous year) to other government securities;
- financial assets at fair value through profit or loss (FVTPL) of 897 thousand euro (3,480 thousand euro at December 31, 2017), which show an overall decrease of 2,583 thousand euro due to the reclassification of the investment in Azienda Energetica Valtellina e Valchiavenna S.p.A. (1,847 thousand euro), as part of the transaction with ACSM-AGAM S.p.A., to “Investments in subsidiaries”, as well as the liquidation of other minority interests during the year.

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4) Deferred tax assets

<i>thousands of euro</i>	Balance at 12 31 2017	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2018
Deferred tax assets	61,173	2,730	2,097	66,000

This item, which includes the net effect of deferred tax liabilities and deferred tax assets as per corporate income tax and regional tax as well as provisions made solely for tax purposes, resulted in a net asset of 66,000 thousand euro. The recoverability of "Deferred tax assets" recognized in the financial statements is considered likely, since future plans include IRES taxable income sufficient to absorb the temporary differences that will be reversed; for the years of the plan for which the IRAP taxable income is not provided sufficiently to absorb IRAP temporary differences, it was decided to repay the related IRAP deferred tax assets and liabilities.

Deferred tax assets are calculated using the tax rate applicable at the time of repayment.

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

This item is detailed within the table below:

<i>thousands of euro</i>	Balance at 12 31 2018	Balance at 12 31 2017
Value differences of tangible assets	142,605	159,959
Application of financial lease standard (IAS 17)	5,374	5,528
Measurement differences of intangible assets	2,922	2,906
Deferred capital gains	23	30
Employee leaving entitlement (TFR)	1,226	1,226
Other deferred tax liabilities	9,066	5,980
Deferred tax liabilities (A)	161,216	175,629
Taxed risk provisions	82,997	83,586
Amortization, depreciation and write-downs	78,083	85,392
Application of the financial instrument standard (IFRS 9)	359	359
Bad debts provision	2,716	2,716
Grants	2,654	2,654
Goodwill	50,466	50,466
Other deferred tax assets	9,941	11,629
Deferred tax assets (B)	227,216	236,802
Net effect deferred tax assets (B-A)	66,000	61,173

For further details and information, please refer to the item "Income/expenses for income tax" on the income statement.

5) Other non-current assets

thousands of euro	Balance at 12 31 2017	Effect of non- recurring transactions	Changes during the year	Balance at 12 31 2018	of which included in the NFP	
					12 31 2017	12 31 2018
Non-current derivatives	-	-	7,693	7,693	-	7,693
Other non-current assets	605	-	103	708	-	-
Total other non-current assets	605	-	7,796	8,401	-	7,693

“Other non-current assets” amounted to 8,401 thousand euro (605 thousand euro at December 31, 2017), presenting an increase of 7,796 thousand euro over the previous year and consist of:

- non-current derivative instruments for 7,693 thousand euro related to the fair value valuation of a financial instrument at the end of the year; at December 31, 2017, said derivative instrument had a fair value valuation recognized under non-current liabilities;
- other non-current receivables of 708 thousand euro (605 thousand euro at December 31, 2017) relating to security deposits.

CURRENT ASSETS

6) Inventories

thousands of euro	Balance at 12 31 2017	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2018
- Materials	1,310	(29)	(9)	1,272
- Material obsolescence provision	(605)		(15)	(620)
Total materials	705	(29)	(24)	652
- Fuel	74,084		16,462	90,546
- Others (include environmental certificates)	10		38	48
Raw and ancillary materials and consumables	74,799	(29)	16,476	91,246
Third-party fuel	3,767		(276)	3,491
Total inventory	78,566	(29)	16,200	94,737

Inventories at December 31, 2018 amounted to 94,737 thousand euro (78,566 thousand euro at December 31, 2017); changes during the year, net of the negative effect of extraordinary transactions for 29 thousand euro, were positive for 16,200 thousand euro and mainly refer to the increase in inventories of natural gas. This item includes:

- inventories of materials amounting to 652 thousand euro, net of relative provisions for obsolescence for 620 thousand euro;
- inventories of fuels, for 90,546 thousand euro, which include the inventories of fuels for the production of electricity, as well as the gas inventories for the sale and storage thereof;
- inventories of environmental certificates related to the trading portfolio for 48 thousand euro;
- fuels at third parties, for 3,491 thousand euro, relating to coal at the warehouse in Koper that have not cleared customs in Italy yet.

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7) Trade receivables

<i>thousands of euro</i>	Balance at 12 31 2017	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2018
Trade receivables invoices issued	262,343	(154)	85,872	348,061
Trade receivables invoices to be issued	303,916	(83)	80,181	384,014
Bad debts provision	(14,599)		(284)	(14,883)
Total trade receivables	551,660	(237)	165,769	717,192

At December 31, 2018, trade receivables amounted to 717,192 thousand euro (551,660 thousand euro at December 31, 2017) and increased by 165,769 thousand euro, net of the effect of non-recurring transactions, negative for 237 thousand euro. These receivables include:

- 482,718 thousand euro of receivables from customers;
- 234,474 thousand euro of receivables from subsidiaries, controlling entities and associates.

As of the balance sheet date, the bad debt provision calculated in compliance with the IFRS 9 standard amounted to 14,883 thousand euro, an increase of 284 thousand euro. This provision is considered adequate to cover the risks to which it relates.

The detailed changes in the provisions to adjust the values of receivables are outlined in the following table:

<i>thousands of euro</i>	Balance at 12 31 2017	Effect of non-recurring transactions	Accruals	Utilizations	Others changes	Balance at 12 31 2018
Bad debts provision	14,599	-	849	(643)	78	14,883

It is noted that the first application of IFRS 9 led to the restatement of the opening bad debt provision at January 1, 2018, up 78 thousand euro. The balancing entry of this change is a shareholders' equity reserve.

The following is the aging of trade receivables:

<i>thousands of euro</i>	Balance at 12 31 2018	Balance at 12 31 2017
Trade receivables of which:	717,192	551,660
Current	287,032	219,563
Past due of which:	61,029	42,780
- Past due up to 30 days	25,497	12,956
- Past due from 31 to 180 days	6,520	12,112
- Past due from 181 to 365 days	884	1,350
- Past due over 365 days	28,128	16,362
Invoices to be issued	384,014	303,916
Bad debts provision	(14,883)	(14,599)

8) Other current assets

thousands of euro	Balance at 12 31 2017	Effect of non- recurring transactions	Changes during the year	Balance at 12 31 2018	of which included in the NFP	
					12 31 2017	12 31 2018
Current derivatives	96,172	-	66,871	163,043	-	-
Other current assets of which:	68,820	-	28,519	97,339	-	-
- advances to suppliers	19,619		(2,210)	17,409		
- receivables from employees	215		(11)	204		
- tax receivables	1,380		2,265	3,645		
- receivables related to future years	1,522		6,540	8,062		
- receivables from subsidiaries for tax consolidation	39,577		20,998	60,575		
- receivables from social security entities	975		(65)	910		
- receivables for water derivation fees	53		(1)	52		
- stamp office	126		(2)	124		
- receivables for security deposits	1,006		270	1,276		
- receivables from Ergosud	2,175		-	2,175		
- other sundry receivables	2,172		735	2,907		
Total other current assets	164,992	-	95,390	260,382	-	-

“Other current assets” presented a balance of 260,382 thousand euro (164,992 thousand euro at December 31, 2017), an increase of 95,390 thousand euro with respect to the previous year.

“Current derivative instruments” amounting to 163,043 thousand euro (96,172 thousand euro at December 31, 2017) refer to the fair value valuation of commodity derivatives at the end of the year under review. The increase is due both to the increase in the fair value valuation of the year and to the change in the amounts covered.

Tax receivables, amounting to 3,645 thousand euro, mainly relate to tax receivables from the tax authorities for excise and withholding taxes.

Receivables from Ergosud, amounting to 2,175 thousand euro, unchanged over the previous year, refer to the receivable due for new entry plants (Scandale Plant), regarding portions of emission allowances as provided by ARERA Resolutions no. ARG/elt 194/10 and no. 117/10.

9) Current financial assets

thousands of euro	Balance at 12 31 2017	Effect of non- recurring transactions	Changes during the year	Balance at 12 31 2018	of which included in the NFP	
					12 31 2017	12 31 2018
Financial assets measured at amortized cost (HTC) of which:						
- third parties	1,200	-	-	1,200	1,200	1,200
- related parties	877,425	56	(217,304)	660,177	877,425	660,177
Total financial assets measured at amortized cost (HTC)	878,625	56	(217,304)	661,377	878,625	661,377
Total current financial assets	878,625	56	(217,304)	661,377	878,625	661,377

“Current financial assets” refer to “Financial assets measured at amortized cost (HTC)” totalling 661,377 thousand euro and refer:

- for 1,200 thousand euro, to financial receivables from third parties;

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- for 659,927 thousand euro to financial receivables from subsidiaries for both the balance of intra-group current accounts on which interest rates are applied, at market conditions, with a variable Euribor basis with specific spreads for companies and for the current portion of loans granted to Linea Group Holding S.p.A., A2A Calore & Servizi S.r.l., Unareti S.p.A., Aprica S.p.A., A2A Smart City S.p.A., and the companies acquired by A2A Rinnovabili S.p.A. (HELIOS 1 S.r.l., INTHE 1 S.r.l., INTHE 2 S.r.l., TFV 1 S.r.l., TFV 2 S.r.l., Bellariva Enertel 01 S.r.l., Bellariva Enertel 06 S.r.l., Bellariva Enertel 10 S.r.l. and Free Energy S.r.l.), Azienda Servizi Valtrompia S.p.A., Seasm S.r.l. and A2A Montenegro d.o.o. for a total of 75,204 thousand euro;
- for 250 thousand euro, to financial receivables from associates.

This item, net of the effect of non-recurring transactions, positive for 56 thousand euro, decreased by 217,304 thousand euro and refers to lower receivables accrued on the correspondence current accounts partly offset by higher receivables for new loans granted to subsidiaries.

10) Current tax assets

<i>thousands of euro</i>	Balance at 12 31 2017	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2018
Current tax assets	87,135	-	(51,593)	35,542

At December 31, 2018, this item amounted to 35,542 thousand euro (87,135 thousand euro at December 31, 2017) and refers to IRAP receivables (11,318 thousand euro), as well as to IRES receivables (23,599 thousand euro), relating to IRES for amounts requested for reimbursement on payments of previous years, and the remaining credit for Robin Tax (625 thousand euro) paid in previous years and that will be recovered in subsequent years.

11) Cash and cash equivalents

<i>thousands of euro</i>	Balance at 12 31 2017	Effect of non- recurring transactions	Changes during the year	Balance at 12 31 2018	<i>of which included in the NFP</i>	
					12 31 2017	12 31 2018
Cash and cash equivalents	611,942	-	(101,995)	509,947	611,942	509,947

“Cash and cash equivalents” at December 31, 2018 amounted to 509,947 thousand euro (611,942 thousand euro at December 31, 2017), with a decrease of 101,995 thousand euro compared with the end of the previous year. Bank deposits include accrued interest not yet credited by the end of the year.

12) Non-current assets held for sale

<i>thousands of euro</i>	Balance at 12 31 2017	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2018
Non-current assets held for sale	224,186	-	(115,226)	108,960

“Non-current assets held for sale” at December 31, 2018 show a balance of 108,960 thousand euro and refer to the fair value of the investment in EPCG, 18.70% held by A2A S.p.A. (41.75% at December 31, 2017).

The decrease compared to December 31, 2017 is due to the collections in the year under review by virtue of a new agreement negotiated with the Government of Montenegro, and approved by the same on April 27, 2018, which provides for the execution of the put option exercised by A2A S.p.A. on July 3, 2017 in four tranches in the period between May 1, 2018 and July 31, 2019, with an acceleration compared to the terms set by the Shareholders’ Agreement of August 29, 2016 (i.e. 7 tranches from May 1, 2018 to May 1, 2024).

EQUITY AND LIABILITIES

EQUITY

Equity, which at December 31, 2018 amounted to 2,635,588 thousand euro (2,430,047 thousand euro at December 31, 2017), is set forth within the following table:

<i>thousands of euro</i>	Balance at 12 31 2017	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2018
Equity				
Share capital	1,629,111	-	-	1,629,111
(Treasury shares)	(53,661)	-	-	(53,661)
Reserves	586,136	-	100,911	687,047
Net result of the year	268,461	-	104,630	373,091
Total equity	2,430,047	-	205,541	2,635,588

13) Share capital

At December 31, 2018, the “Share capital” amounted to 1,629,111 thousand euro and is comprised of 3,132,905,277 ordinary shares with a unitary value of 0.52 euro each.

14) Treasury shares

The “Treasury shares” amounted to 53,661 thousand euro, unchanged with respect to December 31, 2017 and consist of 23,721,421 own shares held by the company.

15) Reserves

<i>thousands of euro</i>	Balance at 12 31 2017	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2018
Reserves	586,136	-	100,911	687,047
of which:				
Change in fair value of derivatives Cash flow hedges and fair value bonds	(22,799)	-	19,453	(3,346)
Tax effect	5,712	-	(4,737)	975
Cash flow hedge reserves and fair value bonds	(17,087)	-	14,716	(2,371)
Change in the IAS 19 Revised reserve - Employee Benefits	(47,833)	-	(2,276)	(50,109)
Tax effect	13,393	-	692	14,085
IAS 19 Revised reserves - Employee benefits	(34,440)	-	(1,584)	(36,024)
Change in the Available for sale reserves	(608)	-	-	(608)
Tax effect	146	-	-	146
Change in Available for sale	(462)	-	-	(462)

“Reserves”, which at December 31, 2018 amounted to 687,047 thousand euro (586,136 thousand euro at December 31, 2017), increased by 100,911 thousand euro mainly due to the distribution of the 2016 dividend. The total impact of the first-time application of IFRS 9 on shareholders’ equity attributable, net of deferred taxes, was a negative 971 thousand euro and was mainly due to the restatement of the amortized cost on committed lines and the opening bad debt provision at January 1, 2018.

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This item includes the following unavailable reserves:

- for 100,041 thousand euro the reserve arising from the corporate separation occurred in 1999. Such reserve will be available for distribution in portions in the following years based on the amortization carried out by the receiving company on the higher values determining capital gains from contribution;
- 2,371 thousand euro for the negative cash flow hedge reserve including the fair value of hedging derivatives and bonds in foreign currency, net of tax;
- for 36,024 thousand euro, the negative reserve arising from the adoption of IAS 19 Revised - Employee Benefits which requires actuarial profits and losses to be recognized directly in an equity reserve, net of the tax effect;
- for 462 thousand euro, the negative available for sale reserve including the fair value of certain available for sale shareholdings net of the tax effect;
- for 213,593 thousand euro, the legal reserve.

It should be noted that during 2018, dividends amounting to 179,711 thousand euro corresponding to 0.0578 euro per share were distributed, as approved by the shareholders' meeting on April 27, 2018.

16) Result of the year

This item was positive for 373,091 thousand euro and includes the net result for the reporting year.
Reserves and the profits that in case of distribution must be considered as IRES tax suspension amounted to 72,180 thousand euro.

LIABILITIES

NON-CURRENT LIABILITIES

17) Non-current financial liabilities

<i>thousands of euro</i>	Balance at 12 31 2017	Effect of non- recurring transactions	Changes during the year	Balance at 12 31 2018	<i>of which included in the NFP</i>	
					12 31 2017	12 31 2018
Non-convertible bonds	2,649,910	-	(499,540)	2,150,370	2,649,910	2,150,370
Payables to banks	743,038	-	(52,001)	691,037	743,038	691,037
Total non-current financial liabilities	3,392,948	-	(551,541)	2,841,407	3,392,948	2,841,407

"Non-current financial liabilities" amounted to 2,841,407 thousand euro (3,392,948 thousand euro at December 31, 2017), reflecting a decrease of 551,541 thousand euro.

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

- 350,114 thousand euro, maturing in January 2021 and coupon of 4.375%, the nominal value of which is equal to 351,457 thousand euro;
- 498,141 thousand euro, maturing in January 2022 and coupon of 3.625%, the nominal value of which is equal to 500,000 thousand euro;
- 299,249 thousand euro, Private Placement maturing in December 2023 and coupon of 4.00%, the nominal value of which is equal to 300,000 thousand euro;
- 299,250 thousand euro, Private Placement maturing in December 2024 and coupon of 1.25%, the nominal value of which is equal to 300,000 thousand euro;

- 297,455 thousand euro, maturing in February 2025 and coupon of 1.75%, the nominal value of which is equal to 300,000 thousand euro;
- 295,310 thousand euro, maturing in December 2027 and coupon of 1.625%, the nominal value of which is equal to 300,000 thousand euro;
- 110,851 thousand 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.

The net decrease in the non-current component of “Non-convertible bonds”, amounting to 499,540 thousand euro compared with December 31, 2017, is mainly due to the reclassification under “Current financial liabilities” of the bond maturing in 2019, net of the increase in the ECB exchange rate applied to the bond in yen.

Non-current “Payables to banks” amounted to 691,037 thousand euro, a decrease of 52,001 thousand euro compared to the previous year-end, due to the reclassification under current liabilities of the portions of capital maturing within the following year.

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 A2A S.p.A..

<i>thousands of euro</i>	Nominal value	Book value	Current portion	Non-current portion	Fair Value
Bonds	2,673,404	2,706,287	555,917	2,150,370	2,831,389
Bank loans	744,067	743,602	52,565	691,037	705,580
Total	3,417,471	3,449,889	608,482	2,841,407	3,536,969

18) Employee benefits

At the end of the fiscal year, “Employee Benefits” amounted to 142,277 thousand euro (143,512 thousand euro as of December 31, 2017) with changes as follows during the period:

<i>thousands of euro</i>	Balance at 12 31 2017	Effect of non-recurring transactions	Provisions	Utilizations	Others changes	Balance at 12 31 2018
Employee leaving entitlement (TFR)	28,006	(26)	5,462	(1,206)	(4,732)	27,504
Employee benefits	115,506	(27)	-	(5,374)	4,668	114,773
Total employee benefits	143,512	(53)	5,462	(6,580)	(64)	142,277

Changes during the year include 5,462 thousand euro in provisions for the year, 6,580 thousand euro in the decrease due to disbursements during the year, 53 thousand euro in the decrease due to the effect of extraordinary transactions during the year and 64 thousand euro in the net decrease due to actuarial valuations for the year, which include the increase of 277 thousand euro in the service cost and the interest cost for 1,988 thousand, the increase deriving from actuarial gains/losses for 2,277 thousand euro and other negative changes for 4,606 thousand euro.

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

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

It is noted that:

- the discount rate used by the Group varies from company to company on the basis of the average financial term of the bond. The discount rate used is that corresponding to Iboxx Eurozone 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 TG62 (Premungas) AS62 (Electricity and gas discount) and RG48 (other plans) 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 updated;
 - 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.

As required by IAS 19, the sensitivity for post-employment employee benefit obligations is outlined below:

<i>thousands of euro</i>	Turnover rate +1%	Turnover rate -1%	Inflation rate +0.25%	Inflation rate -0.25%	Actualization rate + 0.25%	Actualization rate - 0.25%
TFR	27,104	27,295	27,467	26,928	26,767	27,635

<i>thousands of euro</i>	Actualization rate + 0.25%	Actualization rate - 0.25%	Mortality table increased by 10%	Mortality table decreased by 10%
Premungas	21,040	21,775	20,368	22,563
Electricity and gas discount	87,397	90,444	90,547	85,470
Additional months	3,203	3,369	n.s.	n.s.

19) Provisions for risks, charges and liabilities for landfills

<i>thousands of euro</i>	Balance at 12 31 2017	Effect of non- recurring transactions	Provisions	Releases	Uses	Others changes	Balance at 12 31 2018
Tax provisions	2,307	-	130	(427)	(24)	-	1,986
Personnel lawsuits and disputes provisions	20,743	-	200	(4,253)	(2,424)	375	14,641
Other risk provisions	141,848	(127)	7,628	(1,160)	(1,519)	17,007	163,677
Provisions for risks, charges and liabilities for landfills	164,898	(127)	7,958	(5,840)	(3,967)	17,382	180,304

“Tax Provisions”, which amounted to 1,986 thousand euro, refer to provisions for pending or potential litigation with the tax authorities or territorial entities for levies and direct and indirect taxes. The changes in the year were related to the provisions for 130 thousand euro and releases for 427 thousand euro, mainly relating to the ICI/IMU dispute with some regional authorities and disputes with the tax authorities for VAT. Utilizations, for 24 thousand euro, refer to disbursements for the year resulting from the closure of some disputes in which the company was unsuccessful.

The “Personnel lawsuits and disputes provisions” amounted to 14,641 thousand euro and refer to lawsuits pending with social security institutions, for contributions not paid for 5,582 thousand euro, to lawsuits with third parties for 7,491 thousand euro and with employees for 1,568 thousand euro, to cover the liabilities that could arise from litigations in progress. Provisions for the year, for 200 thousand euro, mainly refer to disputes pending with third parties. Releases amounting to 4,253 thousand euro mainly refer to the disputes in progress with Social Security Institutions following the resolution of the dispute. Utilizations, for 2,424 thousand euro, mainly refer to the payment made following the resolution of the disputes with Social Security Institutions and with third parties. Other changes totalled 375 thousand euro.

“Other risk provisions”, amounting to 163,677 thousand euro, relate to the provision concerning the burden of existing bonds present in the tolling contract with the company Ergosud S.p.A. for 82,001 thousand euro, to provisions relating to public water derivation fees for 42,987 thousand euro, to provisions for contractual charges for 14,601 thousand euro and other risk provisions for 24,088 thousand euro. Non-recurring transactions brought a negative effect of 127 thousand euro. Provisions for the year amounted to 7,628 thousand euro and mainly refer to allocations to provisions relating to public water derivation fees. Releases amounted to 1,160 thousand euro. Utilizations, amounting to 1,519 thousand euro mainly refer to outlays during the year for onerous contracts.

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20) Other non-current liabilities

<i>thousands of euro</i>	Balance at 12 31 2017	Effect of non- recurring transactions	Changes during the year	Balance at 12 31 2018	<i>of which included in the NFP</i>	
					12 31 2017	12 31 2018
Other non-current liabilities	10,462	-	202	10,664	-	-
Non-current derivatives	18,484	-	(10,526)	7,958	18,484	7,958
Total other non-current liabilities	28,946	-	(10,324)	18,622	18,484	7,958

“Other non-current liabilities” amounted to 18,622 thousand euro and are divided as follows:

- 7,958 thousand euro for the fair value of financial derivatives to hedge interest rate risk on variable rate mortgages;
- for 7,032 thousand euro to the payable to the minority shareholders of Linea Group Holding S.p.A. recognized according to the contractual agreements signed by A2A S.p.A., regulated by specific and clearly identified earn-out clauses, the occurrence of which is considered probable, whereby it is agreed that by the third year following the closing date of the acquisition and upon the fulfilment of certain conditions, up to a maximum of 7,032 thousand euro will be paid;
- for 3,354 thousand euro to non-current liabilities related to long-term service agreements relating to the maintenance of the plants;
- 278 thousand euro for “Other non-current liabilities”.

CURRENT LIABILITIES

21) Trade payables and other current liabilities

thousands of euro	Balance at 12 31 2017	Effect of non- recurring transactions	Changes during the year	Balance at 12 31 2018	of which included in the NFP	
					12 31 2017	12 31 2018
Advances	7	-	105	112		
Payables to suppliers	613,095	(14)	64,751	677,832		
Trade payables to related parties:	76,478	-	21,583	98,061		
- subsidiaries	63,653	-	19,952	83,605		
- parent companies	545	-	-	545		
- associates	12,280	-	1,631	13,911		
Total trade payables	689,580	(14)	86,439	776,005	-	-
Payables to pension and social security institutions	13,125	-	800	13,925		
Current derivatives	86,520	-	69,022	155,542		
Other payables:	142,434	(34)	(61,391)	81,009		
- payables for tax consolidation	64,823	-	(38,447)	26,376		
- payables for tax transparency	7,167	-	-	7,167		
- payables to personnel	16,450	(31)	1,231	17,650		
- payables to Cassa per i Servizi Energetici e Ambientali	3	-	-	3		
- tax payables	39,774	-	(25,633)	14,141		
- payables for liabilities of competence of the following year	497	(3)	38	532		
- payables for collections to be allocated	5,948	-	(1,874)	4,074		
- payables to insurance companies	1,598	-	341	1,939		
- payables to customers for work to be performed	-	-	-	-		
- payables to waterway municipalities	1,183	-	25	1,208		
- others	4,991	-	2,928	7,919		
Total other current liabilities	242,079	(34)	8,431	250,476	-	-
Total trade payables and other current liabilities	931,659	(48)	94,870	1,026,481	-	-

“Trade payables and other current liabilities” amounted to 1,026,481 thousand euro (931,659 thousand euro at December 31, 2017), representing an overall increase of 94,870 thousand euro net of the effect of non-recurring transactions, negative for 48 thousand euro.

“Trade payables” amounted to 776,005 thousand euro and include both debt exposure to third-party suppliers (677,944 thousand euro) and trade payables to related parties (98,061 thousand euro).

“Payables to social security institutions” amounted to 13,925 thousand euro and relate to the company’s debt position with social security and pension institutions, related to contributions of the month of December 2018 not yet paid.

“Current derivative instruments” amounted to 155,542 thousand euro and refer to the fair value valuation of commodity derivatives. The increase is due both to the increase in the fair value valuation of the year and to the change in the amounts covered.

“Other current liabilities” mainly refer to:

- payables to subsidiaries for the Group tax consolidation and VAT regime for 26,376 thousand euro;
- payables for fiscal transparency for 7,167 thousand euro to the associate Ergosud S.p.A.;

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- payables to employees for 17,650 thousand euro relating to payables to employees for the productivity bonus accrued during the year, as well as the expense for holidays accrued but not taken at December 31, 2018;
- tax payables for 14,141 thousand euro that mainly refer to payables to the tax authorities for VAT, excise and withholding taxes.

22) Current financial liabilities

<i>thousands of euro</i>	Balance at 12 31 2017	Effect of non- recurring transactions	Changes during the year	Balance at 12 31 2018	<i>of which included in the NFP</i>	
					12 31 2017	12 31 2018
Non-convertible bonds	45,859	-	510,058	555,917	45,859	555,917
Payables to banks	47,121	-	5,444	52,565	47,121	52,565
Other current financial liabilities	2,349	-	(2,349)	-	2,349	-
Financial payables to related parties	414,818	-	(3,388)	411,430	414,818	411,430
Total current financial liabilities	510,147	-	509,765	1,019,912	510,147	1,019,912

“Current financial liabilities” amounted to 1,019,912 thousand euro, an increase of 509,765 thousand euro.

“Non-convertible bonds” show an increase of 510,058 thousand euro, due to the reclassification of the bond maturing in November 2019 and a coupon of 4.50%, with a nominal value of 510,703 thousand euro. At December 31, 2018, the calculation of interest coupons amounted to 45,859 thousand euro (unchanged from December 31, 2017).

Current “Payables to banks” increased by 5,444 thousand euro during the year, mainly due to the reclassification of the portion due within one year of a loan from the item “Non-current financial liabilities” net of the repayments of credit lines and portions of loans during the year under review.

“Other current financial liabilities” had no value at December 31, 2018 (2,349 thousand euro at December 31, 2017).

“Financial payables to related parties” amounted to 411,430 thousand euro and relate to intercompany current accounts on which rates are applied at market conditions, with variable Euribor base with specific spreads for companies.

23) Tax liabilities

<i>thousands of euro</i>	Balance at 12 31 2017	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2018
Tax liabilities	-	-	28,894	28,894

At December 31, 2018, this item amounted to 28,894 thousand euro (no value at December 31, 2017) and refers to the payable for current IRES and IRAP.

Net debt

24) 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:

<i>thousands of euro</i>	Notes	12 31 2018	Effect of non-recurring transactions	12 31 2017
Bonds - non-current portion	17	2,150,370	-	2,649,910
Bank loans - non-current portion	17	691,037	-	743,038
Other non-current liabilities	20	7,958	-	18,484
Total medium/long-term debt		2,849,365	-	3,411,432
Non-current financial assets with related parties	3	(608,173)	-	(72,120)
Other non-current financial assets and other non-current assets	3-5	(7,789)	-	(96)
Total medium/long-term financial receivables		(615,962)	-	(72,216)
Total non-current net debt		2,233,403	-	3,339,216
Bonds - current portion	22	555,917	-	45,859
Bank loans - current portion	22	52,565	-	47,121
Financial liabilities with third parties - current portion	22	-	-	2,349
Financial liabilities with related parties - current portion	22	411,430	-	414,818
Total short-term debt		1,019,912	-	510,147
Other current assets	8	-	-	-
Financial assets with third parties - current portion	9	(1,200)	-	(1,200)
Financial assets with related parties - current portion	9	(660,177)	(56)	(877,425)
Total short-term financial receivables		(661,377)	(56)	(878,625)
Cash and cash equivalents	11	(509,947)	-	(611,942)
Total current net debt		(151,412)	(56)	(980,420)
Net financial debt		2,081,991	(56)	2,358,796

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

<i>thousands of euro</i>	12 31 2017	Cash flow	Non-cash flow			12 31 2018
			Effect of non-recurring transactions	Change in fair value	Other changes	
Bonds	2,695,769	-	-	7,547	2,971	2,706,287
Financial payables	1,207,326	(47,131)	-	-	(5,163)	1,155,032
Other liabilities	18,484	-	-	(10,526)	-	7,958
Financial assets	(950,841)	(314,538)	(56)	-	(4,211)	(1,269,646)
Other assets	-	-	-	(7,693)	-	(7,693)
Net liabilities deriving from financing activities	2,970,738	(361,669)	(56)	(10,672)	(6,403)	2,591,938
Cash and cash equivalents	(611,942)	101,995	-	-	-	(509,947)
Net financial debt	2,358,796	(259,674)	(56)	(10,672)	(6,403)	2,081,991

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Notes to the income statement

The income statement items of A2A S.p.A. at December 31, 2018 include the effects of the following extraordinary transactions:

- conferral of the e-mobility business unit in the favour of the subsidiary A2A Energy Solutions S.r.l. with effect starting January 1, 2018;
- conferral of the “RAMO IDRO” business unit comprising the hydroelectric powerhouses in San Pietro Sovera, Rescia, Gravedona and Crema in the favour of the subsidiary A2A IDRO4 S.r.l., with effect starting April 1, 2018.

25) Revenues

Revenues in 2018 amounted to 3,825,628 thousand euro (3,089,311 thousand euro at December 31, 2017).

Details of the most important sources of revenues are provided below:

Revenues thousands of euro	12 31 2018	12 31 2017	CHANGE
Revenues from the sale of goods	3,578,015	2,885,105	692,910
Revenues from services	164,568	152,415	12,153
Total revenues from the sale of goods and services	3,742,583	3,037,520	705,063
Other operating revenues	83,045	51,791	31,254
Total revenues	3,825,628	3,089,311	736,317

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Details of the main items are as follows:

<i>thousands of euro</i>	12 31 2018	12 31 2017	CHANGE
Sales of electricity of which:	2,295,143	1,938,607	356,536
- third-party customers	1,798,929	1,662,298	136,631
- subsidiaries	496,214	274,335	221,879
- associates	-	1,974	(1,974)
Sales of gas and fuels of which:	1,159,345	922,216	237,129
- third-party customers	648,998	539,913	109,085
- subsidiaries	506,089	382,194	123,895
- associates	4,258	109	4,149
Sales of heat of which:	375	285	90
- third-party customers	-	-	-
- subsidiaries	375	285	90
Sales of materials and equipment of which:	13,187	5,520	7,667
- third-party customers	7,375	1,151	6,224
- subsidiaries	5,773	4,323	1,450
- associates	39	46	(7)
Sales of emission certificates and allowances of which:	109,965	18,477	91,488
- third-party customers and inventory change	89,610	7,036	82,574
- subsidiaries	20,355	11,441	8,914
Total revenues from the sale of goods	3,578,015	2,885,105	692,910
Services of which:			
- third-party customers	4,100	3,407	693
- subsidiaries	156,524	144,963	11,561
- Municipalities of Milan and Brescia	3,311	3,249	62
- associates	633	796	(163)
Total revenues from services	164,568	152,415	12,153
Total revenues from the sale of goods and services	3,742,583	3,037,520	705,063
Other operating revenues of which:			
Other revenues from subsidiaries	23,925	7,971	15,954
Other revenues from associates	15	16	(1)
Damage compensation	837	607	230
Contingent assets	7,698	6,565	1,133
Incentives for production from renewable sources (feed-in-tariff)	47,589	34,137	13,452
Gains on disposals of tangible assets	631	66	565
Other revenues	2,350	2,429	(79)
Total other operating revenues	83,045	51,791	31,254
Total revenues	3,825,628	3,089,311	736,317

“Revenues from the sale of goods and services” amounted to 3,742,583 thousand euro (3,037,520 thousand euro in 2017).

Sales revenues amount to 3,578,015 thousand euro and mainly refer to the sale of electricity (2,295,143 thousand euro) to wholesalers and institutional operators (Gestore Mercato Elettrico S.p.A. and Terna S.p.A.), also through sales on the IPEX (Italian Power Exchange) markets as well as to subsidiaries and associates for a total of 8,088 million kWh (+44% compared to December 31, 2017), the sale of gas and fuels to third parties and to subsidiaries (1,159,345 thousand euro) resulting from the sale of 2,805 million cubic meters of natural gas (+21% compared with the previous year), the sale of heat, materials and equipment to third parties and subsidiaries (13,562 thousand euro), the increase of which compared with the end of the previous year is due mainly to the construction of a turn-key plant for the bio-drying of municipal solid waste in Spain, and the sale of environmental certificates to third parties and subsidiaries (109,965 thousand euro), the increase in which derives mainly from the sale of all the inventories of green certificates (approximately 63 GWh) still held in A2A S.p.A.’s portfolio, as well as higher revenues on CO₂ mainly due to the effect of the increase in the sale price of the same in relation to the increase recorded in the reference scenario.

Revenues from services amount to 164,568 thousand euro and mainly relate to revenues from provisions to subsidiaries of administrative, fiscal, legal, managerial and technical services, and revenues from the Municipality of Milan for the video surveillance service.

“Other operating revenues”, equal to 83,045 thousand euro (51,791 thousand euro in the previous year), refer to the recognition of incentives on net production from renewable sources (47,589 thousand euro) for the entire remaining period of right to Green Certificates after 2015 recognized by the Energy Services Operator, in implementation of the Ministerial Decree of July 6, 2012 as regards plants from renewable sources (entered into service by December 31, 2012 and that have acquired the right to benefit from Green Certificates); as well as rents from subsidiaries and associates, contingent assets recorded as a result of the difference of appropriations in previous years, reimbursements for damages and penalties received from customers, insurance and private entities.

26) Operating expenses

“Operating expenses” totalled 3,515,874 thousand euro (2,787,877 thousand euro in 2017).

The main components of this item are as follows:

Operating expenses thousands of euro	12 31 2018	12 31 2017	CHANGE
Expenses for raw materials and consumables	2,983,280	2,297,983	685,297
Expenses for services	220,514	188,319	32,195
Total expenses for raw materials and services	3,203,794	2,486,302	717,492
Other operating expenses	312,080	301,575	10,505
Total operating expenses	3,515,874	2,787,877	727,997

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The following table sets out details of the more significant components:

<i>thousands of euro</i>	12 31 2018	12 31 2017	CHANGE
Purchases of power and fuel of which:	2,884,211	2,264,696	619,515
- third-party suppliers	2,721,637	2,187,882	533,755
- subsidiaries	161,804	76,727	85,077
- associates	770	87	683
Change in inventories of fuel	(16,480)	(10,363)	(6,117)
Purchases of water of which:	184	220	(36)
- third-party suppliers	88	145	(57)
- subsidiaries	96	75	21
Purchases of materials of which:	11,782	7,227	4,555
- third-party suppliers	11,756	7,209	4,547
- subsidiaries	26	18	8
Change in inventories of materials	41	146	(105)
Hedging gains on operating derivatives	(26,241)	(13,665)	(12,576)
Hedging losses on operating derivatives	16,109	6,689	9,420
Purchases of emission certificates and allowances of which:	113,674	43,033	70,641
- third-party suppliers	112,966	42,879	70,087
- subsidiaries	708	154	554
- associates	-	-	-
Total expenses for raw materials and consumables	2,983,280	2,297,983	685,297
Delivery and transmission costs of which:	115,650	90,651	24,999
- third-party suppliers	113,051	87,590	25,461
- subsidiaries	2,599	3,061	(462)
Maintenance and repairs	30,062	27,503	2,559
Services of which:	74,802	70,165	4,637
- third-party suppliers	59,053	55,896	3,157
- Municipalities of Milan and Brescia	-	-	-
- subsidiaries	15,486	13,977	1,509
- associates	263	292	(29)
Total expenses for services	220,514	188,319	32,195
Total expenses for raw materials and services	3,203,794	2,486,302	717,492
Leaseholds:	231,159	227,493	3,666
- third-party suppliers	26,995	44,322	(17,327)
- subsidiaries	182,201	166,716	15,485
- associates	21,963	16,455	5,508
Other operating expenses of which:	80,921	74,082	6,839
Other expenses from subsidiaries	4,203	104	4,099
Other expenses from associates	58	76	(18)
Water derivation concession fees	35,811	35,499	312
Damages and penalties	811	808	3
Contingent liabilities	16,399	13,433	2,966
Losses on disposal of tangible assets	222	417	(195)
Other operating expenses	23,417	23,745	(328)
Total other operating expenses	312,080	301,575	10,505
Total operating expenses	3,515,874	2,787,877	727,997

“Expenses for raw materials and services” amounted to 3,203,794 thousand euro (2,486,302 thousand euro in 2017).

Costs for raw materials and consumables amounted to 2,983,280 thousand euro and refer to costs for purchases of electricity and fuel (2,884,211 thousand euro) from third parties and subsidiaries for both electricity production and for resale to customers and wholesalers, the increase of which derives from both an increase in procurement unit prices and higher volumes of electricity and other fuels purchased; the change in inventories of fuels (-16,480 thousand euro), net of the positive effect of gains/losses from hedging derivatives (-10,132 thousand euro); the purchase of materials and water (12,007 thousand euro including the change in inventories); and the purchase of environmental certificates (113,674 thousand euro), the increase of which refers in particular to higher purchases of CO₂ mainly due to the increase in the average procurement price as a result of as recorded in the reference scenario in the year.

Service costs amounted to 220,514 thousand euro and relate to the logistics costs for transport on the natural gas network (115,650 thousand euro), costs for maintenance and repairs (30,062 thousand euro) related to both the plants and information systems of the company, as well as costs for services from third parties and subsidiaries and associates (74,802 thousand euro) that include costs for administrative and technical professional services, costs for certification activities, gas storage costs, expenses for insurance, monitoring, banking and other services. The increase compared to the previous year is mainly due to the higher costs for the transport of natural gas due to the higher volumes intermediated compared to the previous year.

“Other operating expenses” amounted to 312,080 thousand euro (301,575 thousand euro in 2017). This item includes the use of third-party assets for 231,159 thousand euro mainly relating to the contracting of thermoelectric production plants “tolling agreement” owned by the subsidiaries A2A Energiefuture S.p.A. and A2A gencogas S.p.A., costs related to the use of part of a portion of the electricity capacity of Ergosud S.p.A. under the “tolling” contract and administration stipulated between the parties. Other costs amounted to 80,921 thousand euro and mainly refer to public water derivation fees, damages and penalties and contingent liabilities.

During the year, the Company paid 2,000 thousand euro in donations to the AEM and ASM Foundations.

Trading margin

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

Trading margin thousands of euro	NOTES	12 31 2018	12 31 2017
Revenues	25	1,405,722	1,497,038
Operating expenses	26	(1,401,361)	(1,494,586)
Total trading margin		4,361	2,452

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

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27) Labour costs

Net of capitalized expenses, labour costs at December 31, 2018, amounted to 134,536 thousand euro (127,819 thousand euro in the previous year).

“Labour costs” may be analysed as follows:

Labour costs <i>thousands of euro</i>	12 31 2018	12 31 2017	CHANGE
Wages and salaries	89,349	85,264	4,085
Social security charges	29,160	27,663	1,497
Employee leaving entitlement (TFR)	5,462	5,125	337
Other costs	13,529	11,126	2,403
Total labour costs before capitalizations	137,500	129,178	8,322
Capitalized labour costs	(2,964)	(1,359)	(1,605)
Total labour costs	134,536	127,819	6,717

The table below shows the average number of employees during the year, broken down by category:

	2018	2017	CHANGE
Managers	98	92	6
Supervisors	277	259	18
White-collar workers	1,001	969	32
Blue-collar workers	169	167	2
Total	1,545	1,487	58

At December 31, 2018, A2A S.p.A. employees totalled 1,581, including the effects of non-recurring transactions for the year, while at December 31, 2017, they were equal to 1,500.

The item “Other labour costs” includes early retirement incentives for 8 thousand euro (-191 thousand euro at December 31, 2017).

The item also includes the remuneration paid by A2A S.p.A. to the members of the Board of Directors in the year for a total of 1,697 thousand euro; for further details, reference is made to the specific file “Remuneration Report - 2019”.

28) Gross operating margin

Due to the effect of the dynamics explained above, “Gross operating margin” totalled 175,218 thousand euro (173,615 thousand euro in 2017).

29) Depreciation, amortization, provisions and write-downs

“Depreciation, amortization, provisions and write-downs” equalled 90,452 thousand euro (87,733 thousand euro at December 31, 2017).

The following table provides details of the individual items:

Depreciation, amortization, provisions and write-downs thousands of euro	12 31 2018	12 31 2017	CHANGE
Amortization of intangible assets	10,420	8,299	2,121
Depreciation of tangible assets	72,869	72,961	(92)
Other write-downs of fixed assets	4,196	-	4,196
Total depreciation, amortization and write-downs	87,485	81,260	6,225
Bad debt provision on receivables recognized as current assets	849	5,750	(4,901)
Provisions for risks	2,118	723	1,395
Total depreciation, amortization, provisions and write-downs	90,452	87,733	2,719

In particular, “Depreciation and Amortization” totalled 83,289 thousand euro (81,260 thousand euro in 2017). This item includes, in addition to the effect of non-recurring operations, depreciation and amortization resulting from investments made during the year in question net of the depreciation and amortization following the conclusion of the process of depreciation of plant parts and disposals during the year. Depreciation is calculated on the basis of technical and economic rates considered representative of the remaining useful life of the related tangible assets.

At December 31, 2018, write-downs of fixed assets amounted to 4,196 thousand euro (no value at December 31, 2017) and refer to the write-down of a building owned by A2A S.p.A. relating to the Monfalcone thermoelectric plant following the results of the Impairment Test carried out by an independent external expert.

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

The “Bad debt provision” amounted to 849 thousand euro (5,750 thousand euro at December 31, 2017).

The balance of “Provisions for risks and charges” shows a net effect of 2,118 thousand euro (723 thousand euro at December 31, 2017) due to allocations of 7,958 thousand euro made during the year, offset by the 5,840 thousand euro of risk provisions made in previous years, released in the current year since the original disputes have ceased to exist. Provisions in the year included for 7,628 thousand euro provisions to “Other risk provisions” mainly related to public water derivation fees and contractual charges, for 200 thousand euro provisions to “Personnel lawsuits and disputes provision”, for 130 thousand euro provisions to “Tax provisions”; releases mainly refer to “Personnel lawsuits and disputes provisions” relating to ongoing lawsuits with Social Security Institutions. For further details, reference is made to note 19) Provisions for risks, charges and liabilities for landfills.

30) Net operating result

The “Net Operating Result” is positive by 84,766 thousand euro (85,882 thousand euro at December 31, 2017).

31) Result from non-recurring transactions

At December 31, 2018, the item in question amounted to 5,724 thousand euro and includes the gain deriving from the sale of the investment held in the company Rudnik Uglja ad Pljevlja. At December 31, 2017, this item had a balance of 157 thousand euro and included the income deriving from the sale of the business segment relating to “Security Control Room and Inspection Service” to the subsidiary A2A Security S.c.p.a..

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32) Financial balance

Financial income exceeded financial expenses by 276,123 thousand euro (positive for 239,431 thousand euro at December 31, 2017). Details of the most significant items are shown in the table below:

Financial income

Financial income thousands of euro	12 31 2018	12 31 2017	CHANGE
Income on derivatives	-	28	(28)
Income from financial assets	460,220	360,995	99,225
Income from dividends:	366,784	345,758	21,026
- subsidiaries	365,505	344,202	21,303
- associates	1,057	1,444	(387)
- in other companies	222	112	110
Gains on financial assets	76,311	495	75,816
Income on receivables/securities recorded as non-current assets:	-	-	-
- from others	-	-	-
Income on receivables/securities recorded as current assets:	14,188	13,823	365
- from subsidiaries	13,753	11,253	2,500
- from associates	-	34	(34)
- from parent companies	-	-	-
- from others:	435	2,536	(2,101)
a) on bank accounts	191	153	38
b) on other receivables	244	2,383	(2,139)
Foreign exchange gains	2,937	919	2,018
Total financial income	460,220	361,023	99,197

“Financial income” totalled 460,220 thousand euro (361,023 thousand euro at December 31, 2017), and relate to income from financial assets.

Income from derivatives did not show any value at December 31, 2018, while at the end of the previous year, it amounted to 28 thousand euro and referred to the realized part of contracts on financial derivatives.

Income on financial assets amounted to 460,220 thousand euro (360,995 thousand euro at December 31, 2017) and concerned:

- income on dividends in the amount of 366,784 thousand euro (345,758 thousand euro in the previous year) which refer to dividends distributed by subsidiaries, 365,505 thousand euro, associates, 1,057 thousand euro, and certain investees of A2A S.p.A., 222 thousand euro;
- income from gains on financial assets, amounting to 76,311 thousand euro, deriving essentially from the exchange ratios defined in the agreements between the parties for the conclusion of the acquisition of the equity investment in ACSM-AGAM S.p.A.;
- income on receivables/securities booked under current assets in the amount of 14,188 thousand euro (13,823 thousand euro at December 31, 2017), including 13,753 thousand euro (11,253 thousand euro at December 31, 2017) interest from subsidiaries on intercompany accounts and 435 thousand euro (2,536 thousand euro at December 31, 2017) in interest on bank deposits and sundry receivables;
- foreign exchange gains in the amount of 2,937 thousand euro (919 thousand euro in the previous year).

Financial expenses

Financial expenses thousands of euro	12 31 2018	12 31 2017	CHANGE
Expenses on financial assets held for trading	80,908	1,459	79,449
- Shareholdings write-downs/losses	80,908	1,459	79,449
Expenses on derivatives	3,610	4,190	(580)
Expenses on financial assets	99,579	115,943	(16,364)
- from subsidiaries	42	40	2
- from associates	-	-	-
- parent company	-	-	-
- others:	99,537	115,903	(16,366)
a) interest on bond loans	90,624	91,043	(419)
b) banks	3,903	4,827	(924)
c) discounting charges	2,091	2,120	(29)
d) sundry	93	16,618	(16,525)
e) foreign exchange losses	2,826	1,295	1,531
Total financial expenses	184,097	121,592	62,505

“Financial expenses” amounted to 184,097 thousand euro (121,592 thousand euro in 2017) and referred to:

- 80,908 thousand euro (1,459 thousand euro at December 31, 2017) for the write-down of the equity investments held in A2A Energiefuture S.p.A. (73,000 thousand euro), Ecofert S.r.l. in liquidation and Centrale Termoelettrica del Mincio S.r.l. in liquidation, as well as the loss deriving from the recovery of the free float of ACSM-AGAM S.p.A. shares on the Stock Exchange. In 2017, this item included the write-downs of the equity investments in A2A gencogas S.p.A., Camuna Energia S.r.l., Ecofert S.r.l. in liquidation, Sviluppo Turistico Lago d’Iseo S.p.A. and Centrale Termoelettrica del Mincio S.r.l. in liquidation;
- realized losses on derivatives for 3,610 thousand euro (4,190 thousand euro at December 31, 2017);
- for 99,579 thousand euro (115,943 thousand euro at December 31, 2017) for expenses from financial liabilities, made up of:
 - interest charged by subsidiaries in the amount of 42 thousand euro (40 thousand euro in 2017) on intercompany loans extended under the Group’s cash management system;
 - other financial expenses in the amount of 99,537 thousand euro (115,903 thousand euro at December 31, 2017), which relate to interest on bonds and interest on the revolving credit lines used with various banks and other financial expenses. In the previous year, other financial expenses included 16,722 thousand euro for the cost incurred by the company for the partial repurchase of bonds maturing in 2019 and 2021.

The nature and content of derivatives are described in the section “Other information”.

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33) Income taxes

Losses/gains for income taxes <i>thousands of euro</i>	12 31 2018	12 31 2017	CHANGE
Current IRES	15,929	(7,511)	23,440
Current IRAP	2,622	-	2,622
Effect of differences - taxes of previous years	1,473	(823)	2,296
Total current taxes	20,024	(8,334)	28,358
Deferred tax assets	4,788	21,797	(17,009)
Deferred tax liabilities	(10,640)	(11,285)	645
Total losses/gains for income taxes	14,172	2,178	11,994

It is noted that for IRES purposes, the company filed for tax on a consolidated basis, together with its main subsidiaries, in accordance with arts. 117-129 of DPR 917/86.

To this end, a contract has been entered into with each of the subsidiaries to regulate the tax benefits and burdens transferred, with specific reference to current items.

The deferred tax assets and liabilities calculated when determining the subsidiaries' taxable income, again only for IRES purposes, are not transferred to the parent company, A2A S.p.A., but are recognized in the income statement of the individual subsidiary each time there is an effective divergence between net income calculated for tax reporting purposes and net income calculated for financial reporting purposes due to any temporary differences. The deferred tax assets and liabilities shown in the income statement of A2A are therefore calculated exclusively on the divergences between its income for taxable purposes and income for financial reporting purposes.

Current income tax (IRES) of A2A S.p.A. is calculated on its own taxable income net of the adjustments relating to the national tax consolidation filing, in accordance with appendix E of accounting standard OIC 25 of August 2014.

In compliance with accounting standard OIC 25, the "income/expense related to consolidation", which constitute the remuneration/counter-entry for the transfer to the parent company A2A of a tax loss or taxable income, are recognized in the balance sheet.

The total amount of IRAP is calculated at 5.57% of the net value of production, suitably adjusted for the items foreseen in the relevant tax legislation (see below for information on the rate).

The deferred tax assets and liabilities for IRAP purposes are booked to the income statement so as to show the total tax charge for the year, taking into account the tax effects of temporary differences. The recoverability of the "IRES deferred tax assets" recorded in the financial statements is considered probable, as the future plans provide for IRES taxable income sufficient for the absorption of the temporary differences that will be reversed; on the other hand, deferred tax assets and liabilities recorded for IRAP purposes are those considered adequate with respect to the best forecast of absorption from future taxable income.

No items have been excluded from the calculation of deferred taxation for IRES or IRAP purposes, with the exceptions highlighted above, and deferred tax liabilities and assets are recognized according to the balance sheet method.

At December 31, 2018, income taxes for the year (IRES and IRAP), amounted to 14,172 thousand euro (2,178 thousand euro at the end of the previous year) and were made up as follows:

- 20,736 thousand euro in current IRES for the year;
- 2,622 thousand euro in current IRAP for the year;
- -5,351 thousand euro for remuneration for the transfer of interest payable to the tax consolidation system;
- -83 thousand euro for transfer to Equity reserve of part of income taxes;
- -767 thousand euro for the recognition of tax receivables on "art bonus" disbursements;
- 1,394 thousand euro for non-recoverable foreign taxes;

- 1,473 thousand euro related to taxes of previous years;
- -10,649 thousand euro for deferred tax liabilities for IRES purposes;
- 9 thousand euro for deferred tax liabilities for IRAP purposes;
- 4,942 thousand euro in deferred tax assets for IRES purposes;
- -154 thousand euro in deferred tax assets for IRAP purposes.

The main permanent increases in IRES include write-downs of shareholding in the amount of 73,000 thousand euro, non-deductible extraordinary expenses in the amount of 4,622 thousand euro, as well as property taxes (IMU) in the amount of 10,403 thousand euro.

Reconciliation between the statutory tax rate and the effective tax rate for IRES and IRAP purposes are presented in the statements below.

IRES - Reconciliation between theoretical and effective taxation

Pre-tax profit	387,263,461	
Theoretical tax expense		92,943,231
Permanent differences	(325,377,436)	
Income before taxes adjusted for permanent differences	61,886,025	
Temporary differences deductible in subsequent years	16,963,891	
Temporary differences taxable in subsequent years	(67,045)	
Reversal of prior year temporary differences	7,617,538	
Taxable income	86,400,409	
Current taxes on income for the year		20,736,098
Other income to be deducted from tax consolidation		(5,351,409)
Taxes to be deducted to equity		(82,636)
Other tax receivables to be deducted		(767,000)
Other non-recoverable taxes to be deducted		1,393,916
Total current income taxes for the year		15,928,969

IRAP - Reconciliation between theoretical and effective taxation

Difference between production value and costs	172,005,442	
Costs not relevant for IRAP purposes	125,575,425	
Total	46,430,017	
Theoretical tax expense (5.57%)		2,586,152
Temporary differences deductible in subsequent years	14,271,400	
Temporary differences taxable in subsequent years	-	
Reversal of prior year temporary differences	(13,624,543)	
Taxable income for IRAP purposes	47,076,874	
Current IRAP on income for the year		2,622,182

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Details are provided below on the analytic situation of the deferred tax assets and liabilities which, as required by international accounting standards, also shows the changes in equity reserves.

IRES - Deferred tax assets and liabilities for the year

Taxable temporary differences

Case description amounts in euro	Deferred tax liabilities A2A previous year	Non-recurring transactions 2018	Deferred tax liabilities previous year			Adjustments			Uses in current year			
	Taxable amount	Taxable amount	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	
Measurement differences for tangible assets	578,766,925	(23,606,297)	555,160,628	24.0%	133,238,551	-	24.0%	-	44,757,111	24.0%	10,741,707	
Adoption of the finance lease standard (IAS 17)	19,636,091	-	19,636,091	24.0%	4,712,662	-	24.0%	-	639,491	24.0%	153,478	
Measurement differences of intangible assets	12,090,445	-	12,090,445	24.0%	2,901,707	-	24.0%	-	-	24.0%	-	
Deferred capital gains	125,377	-	125,377	24.0%	30,090	-	24.0%	-	31,344	24.0%	7,523	
Employee leaving entitlement (TFR)	5,108,781	-	5,108,781	24.0%	1,226,107	-	24.0%	-	-	24.0%	-	
Other deferred tax liabilities	22,105,695	-	22,105,695	24.0%	5,305,367	1,360,702	24.0%	326,568	372,235	24.0%	89,336	
Total	637,833,315	(23,606,297)	614,227,018		147,414,484	1,360,702		326,568	45,800,181		10,992,043	

Deductible temporary differences

Case description amounts in euro	Deferred tax assets A2A previous year	Non-recurring transactions 2018	Deferred tax assets previous year			Adjustments			Uses in current year			
	Taxable amount	Taxable amount	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	
Taxed risk provisions	284,643,268	(127,063)	284,516,205	24.0%	68,283,889	(16,750)	24.0%	(4,020)	15,036,283	24.0%	3,608,708	
Amortization, depreciation and write-downs	302,360,346	(13,811,836)	288,548,510	24.0%	69,251,642	-	24.0%	-	21,862,810	24.0%	5,247,074	
Application of the financial instrument standard (IAS 39)	1,497,250	-	1,497,250	24.0%	359,340	-	24.0%	-	-	24.0%	-	
Bad debts provision	11,317,016	-	11,317,016	24.0%	2,716,084	-	24.0%	-	-	24.0%	-	
Grants	9,644,123	-	9,644,123	24.0%	2,314,590	-	24.0%	-	-	24.0%	-	
Goodwill	198,729,915	-	198,729,915	24.0%	47,695,180	-	24.0%	-	-	24.0%	-	
Other deferred tax assets	47,732,324	-	47,732,324	24.0%	11,455,758	645,416	24.0%	154,900	1,283,550	24.0%	308,052	
Total	855,924,242	(13,938,899)	841,985,343		202,076,482	628,666		150,880	38,182,643		9,163,834	

Sub-total			Changes in tax rate			Increases for the year			Increases/uses to equity			Total deferred tax liabilities		
Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax
510,403,517	24.0%	122,496,844	510,403,517	24.0%	122,496,844	-	24.0%	-	-	24.0%	-	510,403,517	24.0%	122,496,844
18,996,600	24.0%	4,559,184	18,996,600	24.0%	4,559,184	-	24.0%	-	-	24.0%	-	18,996,600	24.0%	4,559,184
12,090,445	24.0%	2,901,707	12,090,445	24.0%	2,901,707	67,045	24.0%	16,091	-	24.0%	-	12,157,490	24.0%	2,917,798
94,033	24.0%	22,568	94,033	24.0%	22,568	-	24.0%	-	-	24.0%	-	94,033	24.0%	22,568
5,108,781	24.0%	1,226,107	5,108,781	24.0%	1,226,107	-	24.0%	-	-	24.0%	-	5,108,781	24.0%	1,226,107
23,094,162	24.0%	5,542,599	23,094,162	24.0%	5,542,599	-	24.0%	-	8,782,179	24.0%	2,107,723	31,876,341	24.0%	7,650,322
569,787,539		136,749,009	569,787,539		136,749,009	67,045		16,091	8,782,179		2,107,723	578,636,763		138,872,823

Sub-total			Changes in tax rate			Increases for the year			Increases/uses to equity			Total deferred tax assets		
Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax
269,463,172	24.0%	64,671,161	269,463,172	24.0%	64,671,161	10,075,343	24.0%	2,418,082	2,621,092	24.0%	629,062	282,159,607	24.0%	67,718,306
266,685,700	24.0%	64,004,568	266,685,700	24.0%	64,004,568	6,308,548	24.0%	1,514,052	-	24.0%	-	272,994,248	24.0%	65,518,620
1,497,250	24.0%	359,340	1,497,250	24.0%	359,340	-	24.0%	-	-	24.0%	-	1,497,250	24.0%	359,340
11,317,016	24.0%	2,716,084	11,317,016	24.0%	2,716,084	-	24.0%	-	-	24.0%	-	11,317,016	24.0%	2,716,084
9,644,123	24.0%	2,314,590	9,644,123	24.0%	2,314,590	-	24.0%	-	-	24.0%	-	9,644,123	24.0%	2,314,590
198,729,915	24.0%	47,695,180	198,729,915	24.0%	47,695,180	-	24.0%	-	-	24.0%	-	198,729,915	24.0%	47,695,180
47,094,190	24.0%	11,302,606	47,094,190	24.0%	11,302,606	580,000	24.0%	139,200	(9,496,567)	24.0%	(2,279,176)	38,177,623	24.0%	9,162,630
804,431,366		193,063,528	804,431,366		193,063,528	16,963,891		4,071,334	(6,875,475)		(1,650,114)	814,519,782		195,484,748

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IRAP - Deferred tax assets and liabilities for the year

Taxable temporary differences

Case description amounts in euro	Deferred tax liabilities A2A previous year	Non-recurring transactions 2018	Deferred tax liabilities previous year			Adjustments			Uses in current year			
	Taxable amount	Taxable amount	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	
Measurement differences for tangible assets	378,011,065	(12,628,297)	365,382,768	5.57%	20,351,820	(4,119,230)	5.57%	(229,441)	251,051	5.57%	13,984	
Adoption of the finance lease standard (IAS 17)	14,629,909	-	14,629,909	5.57%	814,886	-	5.57%	-	-	5.57%	-	
Measurement differences of intangible assets	75,934	-	75,934	5.57%	4,230	-	5.57%	-	-	5.57%	-	
Other deferred tax liabilities	12,109,066	-	12,109,066	5.57%	674,475	4,907,147	5.57%	273,328	371,741	5.57%	20,706	
Total	404,825,974	(12,628,297)	392,197,677		21,845,411	787,917		43,887	622,792		34,690	

Deductible temporary differences

Case description amounts in euro	Deferred tax assets A2A previous year	Non-recurring transactions 2018	Deferred tax assets previous year			Adjustments			Uses in current year			
	Taxable amount	Taxable amount	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	
Taxed risk provisions	274,178,286	(95,817)	274,082,469	5.57%	15,266,393	1,456,408	5.57%	81,122	13,931,117	5.57%	775,963	
Amortization, depreciation and write-downs	230,265,082	(6,515,257)	223,749,825	5.57%	12,462,865	(2,125,215)	5.57%	(118,374)	244,861	5.57%	13,639	
Grants	6,087,924	-	6,087,924	5.57%	339,097	-	5.57%	-	-	5.57%	-	
Goodwill	49,744,604	-	49,744,604	5.57%	2,770,774	-	5.57%	-	-	5.57%	-	
Other deferred tax assets	3,096,048	-	3,096,048	5.57%	172,450	3,402,743	5.57%	189,533	71,357	5.57%	3,975	
Total	563,371,944	(6,611,074)	556,760,870		31,011,580	2,733,936		152,280	14,247,335		793,577	

	Sub-total			Changes in tax rate			Increases for the year			Increases/uses to equity			Total deferred tax liabilities		
	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax
	361,012,487	5.57%	20,108,396	361,012,487	5.57%	20,108,396	-	5.57%	-	-	5.57%	-	361,012,487	5.57%	20,108,396
	14,629,909	5.57%	814,886	14,629,909	5.57%	814,886	-	5.57%	-	-	5.57%	-	14,629,909	5.57%	814,886
	75,934	5.57%	4,230	75,934	5.57%	4,230	-	5.57%	-	-	5.57%	-	75,934	5.57%	4,230
	16,644,472	5.57%	927,097	16,644,472	5.57%	927,097	-	5.57%	-	8,782,179	5.57%	489,167	25,426,651	5.57%	1,416,264
	392,362,802		21,854,608	392,362,802		21,854,608	-		-	8,782,179		489,167	401,144,981		22,343,775

	Sub-total			Changes in tax rate			Increases for the year			Increases/uses to equity			Total deferred tax assets		
	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax
	261,607,760	5.57%	14,571,552	261,607,760	5.57%	14,571,552	10,075,343	5.57%	561,197	2,621,092	5.57%	145,995	274,304,195	5.57%	15,278,744
	221,379,749	5.57%	12,330,852	221,379,749	5.57%	12,330,852	4,196,057	5.57%	233,720	-	5.57%	-	225,575,806	5.57%	12,564,572
	6,087,924	5.57%	339,097	6,087,924	5.57%	339,097	-	5.57%	-	-	5.57%	-	6,087,924	5.57%	339,097
	49,744,604	5.57%	2,770,774	49,744,604	5.57%	2,770,774	-	5.57%	-	-	5.57%	-	49,744,604	5.57%	2,770,774
	6,427,434	5.57%	358,008	6,427,434	5.57%	358,008	-	5.57%	-	7,547,521	5.57%	420,397	13,974,955	5.57%	778,405
	545,247,471		30,370,284	545,247,471		30,370,284	14,271,400		794,917	10,168,613		566,392	569,687,484		31,731,593

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34) Net result from discontinued operations

The “Net result from discontinued operations” was positive for 20,650 thousand euro (negative for 54,831 thousand euro at December 31, 2017) and includes for 15,811 thousand euro the collection of dividends by the investee company EPCG and for 4,839 thousand euro the discounting proceeds to adjust the value of equity investment of EPCG at fair value following the renegotiation of the agreement with the Government of Montenegro, and approved by the same on April 27, 2018, which provides for the execution of the put option exercised by A2A S.p.A. on July 3, 2017 in four tranches in the period between May 1, 2018 and July 31, 2019, with an acceleration compared to the terms set by the Shareholders’ Agreement of August 29, 2016 (i.e. 7 tranches from May 1, 2018 to May 1, 2024).

In the previous year, this item had a negative value of 54,831 thousand euro that was related for 29,017 thousand euro to the impairment and 25,814 thousand euro to the discounting expenses for the equity investment held in EPCG, so as to adjust the value to fair value.

35) Result of the year

The net income of the year amounted to 373,091 thousand euro (268,461 thousand euro at December 31, 2017).

Note on related party transactions

36) Note on related party transactions

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

Relationships with parent companies and their subsidiaries

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

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

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

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

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

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

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

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

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

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

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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 2018, A2A S.p.A. and its subsidiaries have adopted the VAT procedure of the Group.

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

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

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

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

As of July 1, 2018, related-party transactions with companies of the ACSM-AGAM Group are reported 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 2018	Of which with related parties								% effect on the balance sheet item
		Subsidiary companies	Associated companies	Municipality of Milan	Subsidiaries Municipality of Milan	Municipality of Brescia	Subsidiaries Municipality of Brescia	Related parties individuals	Total related parties	
thousands of euro										
TOTAL ASSETS OF WHICH:	7,893,485	5,251,256	120,253	3,254	-	232	139	-	5,375,134	68.1%
Non-current assets	5,505,348	4,308,680	2,077	-	-	-	139	-	4,310,896	78.3%
Shareholdings	3,702,584	3,700,507	2,077	-	-	-	-	-	3,702,584	100.0%
Other non-current financial assets	609,166	608,173	-	-	-	-	139	-	608,312	99.9%
Current assets	2,279,177	942,576	9,216	3,254	-	232	-	-	955,278	41.9%
Trade receivables	717,192	222,022	8,966	3,254	-	232	-	-	234,474	32.7%
Other current assets	260,382	60,627	-	-	-	-	-	-	60,627	23.3%
Current financial assets	661,377	659,927	250	-	-	-	-	-	660,177	99.8%
Non-current assets held for sale	108,960	-	108,960	-	-	-	-	-	108,960	100.0%
TOTAL LIABILITIES OF WHICH:	5,257,897	519,543	106,438	545	548	-	-	80	627,154	11.9%
Non-current liabilities	3,182,610	-	83,001	-	-	-	-	-	83,001	2.6%
Provisions for risks, charges and liabilities for landfills	180,304	-	83,001	-	-	-	-	-	83,001	46.0%
Current liabilities	2,075,287	519,543	23,437	545	548	-	-	80	544,153	26.2%
Trade payables	776,005	83,605	13,911	545	548	-	-	-	98,609	12.7%
Other current liabilities	250,476	26,867	7,167	-	-	-	-	80	34,114	13.6%
Current financial liabilities	1,019,912	409,071	2,359	-	-	-	-	-	411,430	40.3%

Income statement	Total 12 31 2018	Of which with related parties								% effect on the balance sheet item
		Subsidiary companies	Associated companies	Municipality of Milan	Subsidiaries Municipality of Milan	Municipality of Brescia	Subsidiaries Municipality of Brescia	Related parties individuals	Total related parties	
thousands of euro										
REVENUES	3,825,628	1,209,255	4,945	3,224	44	87	-	-	1,217,555	31.8%
Revenues from the sale of goods and services	3,742,583	1,185,330	4,930	3,224	44	87	-	-	1,193,615	31.9%
Other operating revenues	83,045	23,925	15	-	-	-	-	-	23,940	28.8%
OPERATING EXPENSES	3,515,874	367,123	23,054	-	297	-	2	290	390,766	11.1%
Expenses for raw materials and services	3,203,794	180,719	1,033	-	297	-	2	290	182,341	5.7%
Other operating expenses	312,080	186,404	22,021	-	-	-	-	-	208,425	66.8%
LABOUR COSTS	134,536	-	-	-	-	-	-	1,697	1,697	1.3%
RESULT FROM NON-RECURRING TRANSACTIONS	5,724	-	5,724	-	-	-	-	-	5,724	100.0%
FINANCIAL BALANCE	276,123	374,518	1,056	-	-	-	-	-	375,574	n.s.
Financial income	460,220	455,467	1,057	-	-	-	-	-	456,524	99.2%
Financial expenses	184,097	80,949	1	-	-	-	-	-	80,950	44.0%
Net result from discontinued operations	20,650	-	20,650	-	-	-	-	-	20,650	100.0%

Section 2 of this file provides complete schedules as required under 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 – 2019” available on the website www.a2a.eu.

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

The year in question has seen the following non-recurring transactions:

- conferral of the e-mobility business unit in the favour of the subsidiary A2A Energy Solutions S.r.l. with effect starting January 1, 2018;
- conferral of the “RAMO IDRO” business unit comprising the hydroelectric powerhouses in San Pietro Sovera, Rescia, Gravedona and Crema in the favour of the subsidiary A2A IDRO4 S.r.l., with effect starting April 1, 2018.

Below is the table with the effects of the non-recurring transactions described above.

Detail of non-recurring transactions amounts in euro	NOTES	A2A S.p.A. transfer of "e-mobility" unit to A2A Energy Solutions S.r.l. 01 01 2018	A2A S.p.A. transfer of "RAMO IDRO" unit to A2A IDRO4 S.r.l. 04 01 2018	EFFECT NON-RECURRING TRANSACTIONS
ASSETS				
NON-CURRENT ASSETS				
Tangible assets	1	(706,178)	(23,786,734)	(24,492,912)
Intangible assets	2			-
Shareholdings	3	575,897	21,168,828	21,744,725
Other non-current financial assets	3			-
Deferred tax assets	4	(9,580)	2,739,713	2,730,133
Other non-current assets	5			-
TOTAL NON-CURRENT ASSETS		(139,861)	121,807	(18,054)
CURRENT ASSETS				
Inventories	6		(28,689)	(28,689)
Trade receivables	7		(237,678)	(237,678)
Other current assets	8			-
Current financial assets	9	56,092		56,092
Current tax assets	10			-
Cash and cash equivalents	11			-
TOTAL CURRENT ASSETS		56,092	(266,367)	(210,275)
NON-CURRENT ASSETS HELD FOR SALE	12			-
TOTAL ASSETS		(83,769)	(144,560)	(228,329)
EQUITY AND LIABILITIES				
EQUITY				
Share capital	13			-
(Treasury shares)	14			-
Reserves	15			-
Result of the year	16			-
EQUITY		-	-	-
LIABILITIES				
NON-CURRENT LIABILITIES				
Non-current financial liabilities	17			-
Employee benefits	18	(53,022)		(53,022)
Provisions for risks, charges and liabilities for landfills	19		(127,063)	(127,063)
Other non-current liabilities	20			-
TOTAL NON-CURRENT LIABILITIES		(53,022)	(127,063)	(180,085)
CURRENT LIABILITIES				
Trade payables	21		(14,088)	(14,088)
Other current liabilities	21	(30,747)	(3,409)	(34,156)
Current financial liabilities	22			-
Tax payables	23			-
TOTAL CURRENT LIABILITIES		(30,747)	(17,497)	(48,244)
TOTAL LIABILITIES		(83,769)	(144,560)	(228,329)
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE				-
TOTAL EQUITY AND LIABILITIES		(83,769)	(144,560)	(228,329)

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Guarantees and commitments with third parties

<i>thousands of euro</i>	2018	2017
Guarantees received	233,772	209,523
Guarantees provided	187,099	221,939

Guarantees received

Guarantees received amounted to 233,772 thousand euro (209,523 thousand euro at December 31, 2017) and include 79,509 million euro for sureties and security deposits issued by subcontractors to guarantee the proper execution of the work assigned and 154,263 thousand euro for sureties and security deposits received from customers to guarantee the regularity of payments.

Guarantees provided and commitments with third parties

Guarantees provided amounted to 187,099 thousand euro (221,939 thousand euro at December 31, 2017), of which for obligations undertaken in the loan agreements of 5,350 thousand euro. Said guarantees include bank sureties for 150,115 thousand euro, insurance for 528 thousand euro and parent company guarantees related to associated companies for 36,456 thousand euro.

Other information

1) Significant events after December 31, 2018

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, 2018, A2A S.p.A. held 23,721,421 treasury shares, unchanged compared to December 31, 2017, equal to 0.757% of the share capital consisting of 3,132,905,277 shares.

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

3) Information on non-current assets held for sale and discontinued operations (IFRS 5)

“Non-current assets held for sale” at December 31, 2018 showed a balance of 108,960 thousand euro (224,186 thousand euro at December 31, 2017) and refer to the fair value of the investment in EPCG, 18.70% held by A2A S.p.A. (41.75% at December 31, 2017), since this was a discontinued operation in compliance with IFRS 5 following management’s decision of July 3, 2017 to exercise the put option on the entire share package. The decrease compared to December 31, 2017 is due to the collections in the year under review by virtue of a new agreement negotiated with the Government of Montenegro, and approved by the same on April 27, 2018, which provides for the execution of the put option exercised by A2A S.p.A. on July 3, 2017 in four tranches in the period between May 1, 2018 and July 31, 2019, with an acceleration compared to the terms set by the Shareholders’ Agreement of August 29, 2016 (i.e. 7 tranches from May 1, 2018 to May 1, 2024).

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

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

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

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

RECEIVING PARTY	DISBURSING PARTY	TYPE	UNIT OF MEASUREMENT	ENTITY
A2A S.p.A.	GSE	Former Green Certificates	euro	47,589,429
A2A S.p.A.	GSE	Green Certificates	MWh	180,948
A2A S.p.A.	GSE	Guarantees of origin	MWh	4,617,893
A2A S.p.A.	GSE	Withdrawal regime	euro	243,001
A2A S.p.A.	GSE	All-inclusive rate	euro	377,684
A2A S.p.A.	Lombardy Region	2002 T 12 - Interventions for the network management of services and for the Electronic Government in the PA expiry 06/30/2025	euro	15,043
A2A S.p.A.	Lombardy Region	2000 B 203 - House of Energy expiry 06/30/2023	euro	271,914
A2A S.p.A.	CDP- MPS	Decree Law 74/2012-Decree Law 95/2012 Granting of subsidized loans to subjects damaged by the earthquake of May 2012	euro	181,911

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

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

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

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

It should also be noted that the companies of the A2A Group operate (for the most part) in regulated sectors. Therefore, some sums are recognized by public bodies, but not as subsidies/contributions, but as recognition of the activities they provide or as forms of compensation for costs incurred to meet specific regulatory obligations¹. Also all these forms of payment have not been indicated in the annexed table: also in compliance both with the principles of proportionality and reasonableness and with the interpretation criteria that the company has identified (see above).

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

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

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

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

5) IFRS 16 “Leases”

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

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

It should be noted that the discount rate used to determine the present values of assets and liabilities deriving from lease contracts is that corresponding to the average rate of financing of the A2A Group.

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

- a) short-term leases;
- b) leases whose underlying assets are of low value.

The analyses carried out have identified the impacts on the economic and financial situations shown in the table below.

thousands of euro	01/01/2019
Assets	
Tangible assets	11,642.0
Deferred assets	(86.8)
Liabilities	
Deferred tax provision	0.1
Financial payables	11,554.9
Net impact on equity	0.2

thousands of euro	01/01/2019
Depreciation and amortisation	3,617.9
Operating lease costs (included in administrative expenses)	(3,575.3)
Operating income	(42.6)
Financial expenses	(28.8)
Pre-tax	(71.4)
Current taxes	22.5
Net result for the year	(48.9)

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6) Financial risk management

The parent company, A2A S.p.A., provides centralized risk management for Group companies.

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 A2A S.p.A. is exposed are provided below.

a. Commodity risk

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

A2A S.p.A. is exposed to price risk, including the related exchange rate risk, on all of the energy commodities that it handles, namely electricity, natural gas, heat, coal, fuel oil, and environmental certificates; the financial performance of production, purchasing and sales activities is affected by the related price fluctuations. These fluctuations act both directly and indirectly, through formulas and indexing in the pricing structure.

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

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

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

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

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

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

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

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

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

a.2) Commodity derivatives, analysis of transactions

Derivatives of the industrial portfolio considered hedges

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

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

The fair value at December 31, 2018 was 10,164 thousand euro (1,382 thousand euro at December 31, 2017).

Derivatives of the industrial portfolio not considered hedges

Again with a view to optimising the Industrial Portfolio, A2A S.p.A. entered into Future contracts on the ICE ECX (European Climate Exchange) stock exchange price. These do not qualify as hedging transactions from an accounting point of view as they fail to meet the requirement set out in the accounting standards.

The fair value at December 31, 2018 was 16 thousand euro (-86 thousand euro at December 31, 2017).

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Derivatives of the Trading Portfolio

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

The fair value at December 31, 2018 was 2,679 thousand euro (8,357 thousand euro at December 31, 2017).

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

PaR⁽²⁾ or Profit at Risk, is used to assess the impact that fluctuations in the market price of the underlying have on the financial derivatives taken out by A2A S.p.A. 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 change in financial derivatives outstanding at December 31, 2018 was 75,530 thousand euro (28,839 thousand euro at December 31, 2017).

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

thousands of euro	12 31 2018		12 31 2017	
	Worst case	Best case	Worst case	Best case
Profit at Risk (PaR)				
Confidence level 99%	(75,530)	89,251	(28,839)	35,046

This means that with a 99% probability, A2A S.p.A. expects not to have changes in fair value exceeding 75,530 thousand euro of its entire portfolio of financial instruments at December 31, 2018 due to commodity price fluctuations in the 12 months following. If there are any negative changes in the fair value of derivatives, these would be compensated by changes in the underlying as the result of changes in market prices.

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

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

Under this method, in the case of extreme market movements, with a confidence level of 99% and a holding period of 3 days, the maximum estimated loss on the derivatives in question was 251 thousand euro at December 31, 2018 (314 thousand euro at December 31, 2017).

In order to ensure closer monitoring of activities, VaR and Stop Loss limits are also set, understood as the sum of VaR, P&L Realized and P&L Unrealized.

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

The following are the results of the assessments:

thousands of euro	12 31 2018		12 31 2017	
	VaR	Stop loss	VaR	Stop loss
Value at Risk (VaR)				
Confidence level 99%, holding period 3 days	(251)	(251)	(314)	(314)

b. Interest rate risk

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

The book value of bank borrowings and other financing may be analyzed as follows at December 31, 2018:

millions of euro	DECEMBER 31, 2018			DECEMBER 31, 2017		
	Without derivatives	With derivatives	% with derivatives	Without derivatives	With derivatives	% with derivatives
Fixed rate	2,643	2,852	83%	2,696	2,810	81%
Floating rate	807	598	17%	793	679	19%
Total	3,450	3,450	100%	3,489	3,489	100%

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

millions of euro	HEDGING INSTRUMENT	HEDGED ASSET	DECEMBER 31, 2018		DECEMBER 31, 2017	
			Fair value	Notional	Fair value	Notional
	Collar	Floating rate loan	(8.0)	95.2	(10.6)	114.3
	Total		(8.0)	95.2	(10.6)	114.3

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	at	at	at	at	at	at	at
			12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018	12/31/2017
	Cash flow hedge	Collar	-	-	-	-	95.2	114.3	(8.0)	(10.6)
	Total				-	-	95.2	114.3	(8.0)	(10.6)

The table below illustrates the underlying of outstanding derivatives at December 31, 2018:

Loan	Derivative	Accounting
A2A S.p.A. loan with BEI: expiring in November 2023, residual balance at December 31, 2018 amounting to 95.2 million euro, at floating rate interest.	Collar to fully cover the loan and the same maturity, with a floor on Euribor rate 2.99% and 4.65% cap. At December 31, 2018, the fair value was negative for 8.0 million euro.	The loan is measured at amortized cost. The collar is a cash flow hedge, with 100% recognized in a specific equity reserve.

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In order to allow a broader understanding of the risks of changes in the interest rates to which the company is subject, a sensitivity analysis of financial expenses was conducted as interest rates varied, applying to financial indebtedness and derivative financial contracts in place a retrospective variation upwards and downwards of 50 basis points of the reference Euribor interest rates. The following table shows the results of this analysis:

<i>millions of euro</i>	YEAR 2018	
	-50 bps	+50 bps
Increase (decrease) in net financial expenses	(1.8)	1.8

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:

<i>millions of euro</i>	12 31 2018 (base case: -8.0)		12 31 2017 (base case: -10.6)	
	-50 bps	+50 bps	-50 bps	+50 bps
Change in fair value of derivatives	(1.2)	1.2	(1.9)	1.8
(of which cash flow hedges)	(1.2)	1.2	(1.9)	1.8
(of which fair value hedges)	-	-	-	-

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

c. Exchange rate risk not related to commodities

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

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

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

The accounting treatment of the derivatives indicated above is as follows:

<i>millions of euro</i>	ACCOUNTING TREATMENT	DERIVATIVES	NOTIONAL		FAIR VALUE ASSETS		NOTIONAL		FAIR VALUE LIABILITIES	
			at 12/31/2018	at 12/31/2017	at 12/31/2018	at 12/31/2017	at 12/31/2018	at 12/31/2017	at 12/31/2018	at 12/31/2017
	Cash flow hedge	CCIRS	111.2	-	7.7	-	-	103.7	-	(7.9)

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

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

At December 31, 2018, the fair value of the hedge was positive for 7.7 million euro. This fair value would improve by 19.8 million euro in the event of a 10% decline in the forward curve of the euro/ yen exchange rate (appreciation of the yen) and would worsen by 16.2 million euro in the event of a 10% rise in the forward curve of the euro/yen exchange rate (depreciation of the yen). This 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 company, despite being solvent, 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 gross debt maturities of A2A is as follows:

thousands of euro	Accounting balance 12 31 2018	Portions maturing within 12 months	Portions maturing after 12 months	Portions maturing by				
				12 31 2020	12 31 2021	12 31 2022	12 31 2023	After
Bonds	2,706,287	555,917	2,150,370	-	350,114	498,141	299,249	1,002,866
Bank loans	743,602	52,565	691,037	107,504	79,827	79,836	79,884	343,986
TOTAL	3,449,889	608,482	2,841,407	107,504	429,941	577,977	379,133	1,346,852

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

At December 31, 2018, the company had a total of 1,170 million euro, as follows: (i) revolving committed credit lines for 540 million euro, of which 140 maturing in 2021 and 400 in 2023, unused; (ii) unused long-term financing for a total of 120 million euro; (iii) cash and cash equivalents totalling 510 million euro.

A2A also maintains a Bond Issue Program (Euro Medium Term Note Programme) of 4 billion euro, of which 1,438 million euro still available.

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

12 31 2018 millions of euro	1-3 MONTHS	4-12 MONTHS	AFTER 12 MONTHS
Bonds	45	553	2,475
Payables and other financial liabilities	2	55	731
Total financial flows	47	608	3,206
Payables to suppliers	204	1	-
Total trade payables	204	1	-

12 31 2017 millions of euro	1-3 MONTHS	4-12 MONTHS	AFTER 12 MONTHS
Bonds	45	43	3,066
Payables and other financial liabilities	6	48	800
Total financial flows	51	91	3,866
Payables to suppliers	163	4	1
Total trade payables	163	4	1

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e. Credit risk

Credit risk relates to the possibility that a counterparty 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. 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 recognized on the balance sheet net of any write-downs. It is felt that the amount shown provides an accurate representation of the fair value of the trade receivables portfolio.

For the aging of trade receivables, reference is made to note 7) Trade receivables.

f. Equity risk

A2A S.p.A. was not exposed to equity risk at December 31, 2018.

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

As prescribed by IAS/IFRS, treasury shares do not constitute an equity risk as their purchase cost is deducted from equity, and even if they are sold any gain or loss on the purchase cost does not have any effect on income statement.

g. Covenants non-compliance risk

Bonds (book value at December 31, 2018 equal to 2,706 million euro), loans (book value at December 31, 2018 equal to 744 million euro) and revolving committed 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 A2A S.p.A. 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 direct subsidiaries.

Bonds include (i) 2,562 million euro nominal (book value at December 31, 2018 2,593 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) 111 million euro nominal (book value at December 31, 2018 113 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 689 million euro contain a Credit Rating clause (if rating below BBB- or equivalent level to sub-investment grade), and a change of control clause of A2A S.p.A., 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 reference to the bank lines revolving committed available, the line for 400 million euro with maturity August 2023 and the bilateral line for 100 million euro with maturity February 2021, include a Change of Control clause which in the event of a change of control of the company causing a Material Adverse Effect allows the banks to request the facility to be extinguished and early repayment of any amounts drawn.

At December 31, 2018, there was no situation of non-compliance with the covenants of A2A S.p.A..

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.

A2A S.p.A. 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 S.p.A. 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 a counterparty defaults and, at the same time, A2A S.p.A. has a claim against the counterparty;
- the DVA is a positive component and contemplates the probability that A2A S.p.A. defaults and, at the same time, a counterparty has a claim against A2A S.p.A..

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.

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Instruments outstanding at December 31, 2018

A) On interest and exchange rates

The following analyses show the outstanding amounts of derivative contracts stipulated and not expired at the balance sheet date, by maturity.

<i>thousands of euro</i>	Notional value (a) expiring within 1 year		Notional value (a) expiring within 1 and 5 years		Notional value (a) expiring over 5 years	Balance sheet value (b)	Progressive effect to income statement at 12 31 2018 (c)
	to be received	to be paid	to be received	to be paid			
Interest rate risk management							
- cash flow hedges as per IFRS 9		19,047		76,191		(7,958)	
- not considered hedges as per IFRS 9							
Total derivatives on interest rates	-	19,047	-	76,191	-	(7,958)	-
Exchange rate risk management							
- considered hedges as per IFRS 9 on commercial transactions on financial transactions					111,244	7,693	
- not considered hedges as per IFRS 9 on commercial transactions on financial transactions							
Total exchange rate derivatives	-	-	-	-	111,244	7,693	-

- (a) Represents the sum of the notional value of the elementary contracts that derive from any dismantling of complex contracts.
- (b) Represents the net receivable (+) or payable (-) recognized in the balance sheet following the measurement of derivatives at fair value.
- (c) Represents the adjustment of derivatives to fair value recognized progressively over time in the income statement from the stipulation of the contract to the present day.

B) On commodities

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

	Notional Value thousands of euro	Unit of measurement of the notional value	Notional value expiring within 1 year	Notional value expiring within 2 years	Notional value expiring within 5 years	Balance sheet value (*) thousands of euro	Progressive effect to income statement (**) thousands of euro
Energy product price risk management							
A. Cash flow hedges as per IFRS 9, including:						10,163.7	-
- Electricity	306,554.4	TWh	8.4	1.1		1,431.7	
- Oil		Bbl					
- Coal	32,892.3	Tons	360,358			(2,460.1)	
- Natural Gas	10,427.7	TWh	0.417			(1,302.5)	
- Natural Gas		Millions of cubic metres					
- Exchange rate		Millions of dollars					
- CO ₂ Emission rights	48,574.6	Tons	2,464,000			12,494.6	
B. considered fair value hedges as per IFRS 9						-	-
C. not considered hedges as per IFRS 9 of which:						(2,663.1)	(10,933.8)
C.1 hedge margin						16.3	102.7
- Electricity		TWh					86.4
- Oil		Bbl					
- Natural Gas		MWh					
- Natural Gas		Millions of cubic metres					
- CO ₂ Emission rights	1,266.8	Tons	50,000			16.3	16.3
- Exchange rate		Millions of dollars					
C.2 trading transactions						(2,679.4)	(11,036.5)
- Electricity	1,309,728.5	TWh	19.5	2.8		(5,432.8)	(13,134.7)
- Natural Gas	1,666,355.2	TWh	59.6	10.4		3,083.0	2,427.7
- CO ₂ Emission rights	21,984.4	Tons	717,000	340,000		(329.5)	(329.5)
- Environmental Certificates		MWh					
- Environmental Certificates		Tep					
Total						7,500.6	(10,933.8)

(*) 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.

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C) On investments

At December 31, 2018, there are no derivatives on shareholdings like in the previous year.

Financial and operating results for derivative transactions in 2018

Effects on the balance sheet

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

<i>thousands of euro</i>	NOTES	TOTAL
ASSETS		
NON-CURRENT ASSETS		7,693
Other non-current assets - Derivatives	5	7,693
CURRENT ASSETS		163,043
Other current assets - Derivatives	8	163,043
TOTAL ASSETS		170,736
LIABILITIES		
NON-CURRENT LIABILITIES		7,958
Other non-current liabilities - Derivatives	20	7,958
CURRENT LIABILITIES		155,542
Trade payables and other current liabilities - Derivatives	21	155,542
TOTAL LIABILITIES		163,500

Effect on the income statement

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

thousands of euro	Notes	Realised during the year	Change in fair value during the year	Amounts recognized in the income statement
REVENUES	25			
Revenues from the sale of goods				
Energy product price risk management and exchange rate risk management on commodities				
- considered hedges as per IFRS 9		38,653	-	38,653
- not considered hedges as per IFRS 9		57,892	97,549	155,441
Total revenues from the sale of goods		96,545	97,549	194,094
OPERATING EXPENSES	26			
Expenses for raw materials and services				
Energy product price risk management and exchange rate risk management on commodities				
- considered hedges as per IFRS 9		10,158	-	10,158
- not considered hedges as per IFRS 9		(19,948)	(108,483)	(128,431)
Total costs for raw materials and services		(9,790)	(108,483)	(118,273)
Total recognized in Gross operating income (*)		86,755	(10,934)	75,821
FINANCIAL BALANCE	32			
Financial income				
Interest rate risk management and equity risk management				
Expenses on derivatives				
- considered hedges as per IFRS 9		-	-	-
- not considered hedges as per IFRS 9		-	-	-
Total		-	-	-
Total financial income		-	-	-
Financial expenses				
Interest rate risk management and equity risk management				
Expenses on derivatives				
- considered hedges as per IFRS 9		(3,610)	-	(3,610)
- not considered hedges as per IFRS 9		-	-	-
Total		(3,610)	-	(3,610)
Total financial expenses		(3,610)	-	(3,610)
TOTAL RECOGNIZED IN FINANCIAL BALANCE		(3,610)	-	(3,610)

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

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Classes of financial instruments

To complete the analyses required by IFRS 7 and IFRS 13, the following table sets out the various types of financial instrument that are to be found in the various balance sheet items, with an indication of the accounting policies used and, in the case of financial instruments measured at fair value, an indication of where changes are recognized (income statement or equity). The last column of the table shows the fair value of the instrument at December 31, 2018, where applicable.

thousands of euro	Criteria to measure the reported amount of financial instruments						
	Notes	Financial instruments measured at fair value with changes recognized in:			Financial instruments measured at amortized cost	Book value at 12 31 2018	Fair value at 12 31 2018 (*)
		Income statement	Balance sheet				
		(1)	(2)	(3)	(4)		
ASSETS							
Other non-current financial assets							
Financial assets measured at fair value of which:							
-unlisted		897				897	n.a.
-listed						-	-
Financial assets held to maturity					96	96	96
Other non-current financial assets					608,173	608,173	608,173
Total other non-current financial assets	3					609,166	
Other non-current assets	5		7,693		709	8,402	8,402
Trade receivables	7				717,192	717,192	717,192
Other current assets	8	145,105	17,938		97,339	260,382	260,382
Current financial assets	9				661,377	661,377	661,377
Cash and cash equivalents	11				509,947	509,947	509,947
Assets held for sale	12	108,960				108,960	108,960
LIABILITIES							
Financial liabilities							
Non-current bonds	17		110,851		2,039,519	2,150,370	2,150,370
Current bonds (**)	22				555,917	555,917	555,917
Other non-current and current financial liabilities	17 and 22				1,155,032	1,155,032	1,155,032
Other non-current liabilities	20		7,958		10,664	18,622	18,622
Trade payables	21				776,005	776,005	776,005
Other current liabilities	21	147,768	7,774		94,934	250,476	250,476

(*) 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.

(**) Including accrued interest.

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

(2) Cash flow hedges.

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

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

Fair value hierarchy

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

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

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

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

<i>thousands of euro</i>	NOTES	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets measured at fair value	3		897		897
Other non-current assets	5		7,693		7,693
Other current assets	8	162,847		196	163,043
TOTAL ASSETS		162,847	8,590	196	171,633
Non-current financial liabilities	17	110,851			110,851
Other non-current liabilities	20		7,958		7,958
Other current liabilities	21	152,558	2,460	524	155,542
TOTAL LIABILITIES		263,409	10,418	524	274,351

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7) Main regulatory provisions regarding concessions and agreements in the sectors of activity in which the company operates

Large hydroelectric derivation concessions (> 3 MW)

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

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

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

- the temporariness of the concessions, establishing a validity period (2029) for concessions without expiration because they are owned by Enel and assigning the term of December 31, 2010 for concessions that have already expired or are expiring by that date;
- contestability of concessions in the event of expiration, forfeiture or renunciation, providing, no later than 5 years before the expiration, the call for tenders by the competent administration (i.e. the Region) for the allocation of the same for consideration.

These regulations were subsequently amended by art. 37, paragraphs 4 and following, of Decree Law 83/2012 converted by Law 134/2012⁽⁵⁾ that partially amended Legislative Decree no. 79/1999. The requirements, parameters and deadlines for carrying out the competitive procedure should have been set out in a specific ministerial decree (Tender MD) that was never issued. The time limit for the invitation to tender for the reallocation of the concession was set at 5 years before the concession expired.

Pending the reallocation of concessions, Legislative Decree 79/1999 (article 12, paragraph 8bis) provides that the outgoing concession holder is to continue to operate the concession under the same conditions as those laid down in the regulations and specifications in force.

In this stalemate, some Regions have enacted laws aimed at regulating the “temporary continuation of operations” for expired concessions, also providing for the imposition of an additional fee.

The recent Conversion Law no. 12/2019 of Decree Law December 14, 2018, no. 135 (Simplification DL) with article 11-quater has led to a significant boost to regionalization for regulations on large-scale derivation hydroelectric concessions.

In fact, the Regions have the power to regulate the procedures and criteria for the allocation of concessions by means of their own laws, the process for which must be completed by 2023 with the 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

⁴ With the exception of derivations in the ownership of self-producers, municipal companies and local authorities.

⁵ On September 26, 2013, as part of infringement procedure no. 2011/2026, the European Commission sent Italy a letter of formal notice contesting the non-compatibility of part of article 37 of Law 134/2012 with EU legislation. The procedure is still in progress.

- to the average nominal power of the concession and a variable calculated as a percentage of normalized revenues;
- the possible obligation for the concessionaires to supply annually and free of charge 220 kWh per kW of concession power for at least 50% destined to public services of the provincial territories involved in the derivation.

For concessions expired or expiring on December 31, 2023, which are temporarily continued, an additional fee is also charged.

In terms of compensation to outgoing operators, the rule prescribes:

- for wet works, the transfer without compensation of ownership of the Regions, and in the case of investments - provided they are defined in the deed of concession or authorized by the granting body - an amount equal to the value of the part of the asset not depreciated;
- for dry works, the recognition of a residual value derived from accounting records or certified appraisal. In the event of non-use in the concession project, movable and immovable property will be treated differently.

The large-scale derivation hydroelectric concessions held by A2A S.p.A. located in Valtellina (with a nominal concession capacity of approximately 200 MW) have for the most part expired: with respect to these concessions, the Lombardy Region with Presidential Decree no. X/7693 of January 12, 2018 allowed the temporary continuation of the year until December 31, 2020, providing for the payment of an additional fee challenged by the company⁶, except for a shorter term due to the reallocation. Other A2A S.p.A. concessions (plants in Mese, Udine and Calabria with a total nominal concession capacity of 345 MW), originally owned by Enel, expire in 2029.

8) 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 company assessed the corresponding risk as possible without appropriating provisions in the financial statements.

Consult Latina/BAS S.p.A. (now A2A S.p.A.)

In the 90s, the purchase by BAS S.p.A. of the investment in HISA was made thanks to the services of a local consultant, Consult Latina.

Given the non-uniqueness of the contractual text and the non-acquisition of 100% of the investment in HISA, BAS S.p.A. did not pay to Consult Latina the fee requested because it considered the contractual provision as not applicable and therefore the formulated payment request as unjustified. In 1998, Consult Latina established a lawsuit to obtain payment of the fee.

A2A S.p.A. took over the litigation after the incorporation of BAS S.p.A. in 2005 and repeatedly conferred upon the lawyers the mandate to reach a settlement also expressing a willingness to increase previous offers to cover the litigation costs as well as to listen to and weigh even incremental requests.

The Court convened the parties in multiple council chambers from December 18, 2014 and until October 07, 2017 to verify the conditions of a settlement or transaction. On August 8, 2018 the Court of Buenos Aires approved the text of the settlement (homologation), which was notified by A2A S.p.A. to the address elected at Studio Legale Garrido on August 10, 2018. In accordance with the settlement agreement that does not contain any recognition of the debt, A2A S.p.A. made the agreed payment of USD 1,350,000 and required Consult Latina to release the Redengas shares from any lien or pledge. The court has certified that the transaction has been completed.

Over time, Redengas, a subsidiary of HISA whose shares have been foreclosed by Consult Latina in guarantee for the payment by A2A S.p.A., has rooted actions to demand the removal of such encumbrances, even foretelling due compensation against A2A S.p.A. and Consult Latina; to date, no damages have been claimed in any action yet. Any damages ascertained in favour of Redengas would result in additional encumbrance for A2A S.p.A..

The Group made the payment of the transaction with the risk provision previously set aside.

⁶ For further information, reference should be made to the section entitled "Update of the main legal and tax disputes still pending".

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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 01, 2015 and the hearing for clarification of conclusions has been scheduled for November 30, 2016. At this hearing, filing of the award issued by the Arbitration Court of Milan was admitted in March 2016, and the terms were set for the final statements and replication before arriving to the sentence. The hearing to clarify conclusions was then fixed again and postponed several times and was finally held October 31, 2018. The parties have lodged their pleadings within the time allowed and the judgment is therefore pending. The Group has not allocated any provisions as it does not deem as probable the risk related to this lawsuit.

Monfalcone Plant investigation

This investigation was initiated with a report filed in March 2011 by the management of the A2A Group against A2A employees and third party businessmen suspected of being responsible for fraud carried out to the harm of the company itself, who - for the payment of conspicuous sums of money - were responsible for illegal trafficking, the falsification of forms identifying the waste and certificates of analysis, in relation to the supply of biomasses and the certification of their calorific value. More specifically, biomass quantities were recorded on entry at figures higher than the real ones, with the relative calorific values also being increased.

This implies damage to the A2A Group and in particular to A2A Trading S.r.l. (now A2A S.p.A.). The current risk considered possible is for the higher costs incurred for undelivered biomass and higher costs incurred for counterfeiting (others) of the calorific capacity of the biomass delivered and not delivered. This is in addition to the increased use of coal instead of biomasses could have as a consequence an increase in the environmental costs relating to the second half of 2009 and the whole of 2010, as well the need to reimburse the additional income or Green Certificates recognized with respect to the real income. The company could have submitted, without fault and with reference to the years 2009 and 2010, generating statements of environmental rights greater than those actually produced.

To date, the GSE, as it blocked the issuing of licenses for subsequent years, did not address return requests for previous annuities of competence of the A2A Group (second half of 2009 – full-year 2010). If the GSE were to take action against the A2A Group, it will evaluate the appropriate actions, including damages, considering also the amount withheld from third-party suppliers. A2A Trading S.r.l. (now A2A S.p.A.) filed a request with the GSE, in accordance with the procedures and modalities required, to obtain Green Certificates relating to 2011 in which the calculation has been made on the basis of the real quantities of biomasses delivered to the power station and, in agreement with

the Public Prosecutor, by taking into account a possible false (not of A2A) increase of 20% in the calorific values of such. Despite the fact that the GSE has acknowledged to A2A Trading S.r.l. (now A2A S.p.A.) the correctness of the calculations made for 2011, as of today the above-mentioned 2011 Green Certificates have not yet been issued.

In criminal proceedings, some sentencing measures have been adopted in the context of alternative rites to some of the defendants, with recognition of minimum compensation and recasts of expenses in favour of A2A.

The proceeding passed, for local jurisdiction, before the Court of Gorizia.

The dispute is ongoing. At the hearing of February 22, 2018, some texts were heard and the trial was postponed to the hearing of March 22, 2018 for the hearing of further texts. The preliminary hearings of April 19, May 17 and June 21 followed and the case was postponed, again for incumbent instructors, to July 5, 2018. Subsequently, the trial was postponed to October 25, 2018 to hear three defendants' technical advisors. The investigation continues; on January 17, 2019, January 31, 2019 and February 21, 2019, as many trial hearings were held; the trial was postponed until March 7, 2019 for the prosecution of the Public Prosecutor and, if there is time, for the conclusions of the civil parties.

The Group has not allocated any provision as it considers being the aggrieved party in the proceedings and that the economic effects at the end of the proceedings will be neutral.

ASM Novara S.p.A. dispute

In March 2013, Pessina Costruzioni initiated arbitration proceedings against A2A to declare the failure to comply with the shareholder agreements of Asm Novara and to sue A2A for damages. On June 30, 2015, the Arbitration Board, with the dissenting opinion of the arbitrator appointed by A2A filed its award that deems A2A responsible for violation of the shareholders' agreement signed on August 4, 2007 and, consequently, the order to pay damages of 37,968,938.95 euro plus legal fees and arbitration expenses. The company challenged the Award pursuant to art. 829 CPC before the Milan Court of Appeal.

On November 23, 2016, the Court of Appeals of Milan filed the Sentence 4337/16 declaring the grounds for appeal of the award filed inadmissible and unfounded, with the consequent absorption of incidental claims.

In the terms, A2A appealed to the Cassation appealing against the chapter of the sentence that rejected the first plea for invalidity of the award and the chapter that individually rejected chapters 5, 6 and 7 relating to the liquidation of the damage equitably. Pessina Costruzioni appeared in court rejecting all the grounds and requesting confirmation of the sentence.

Effectiveness and execution of the award

On May 11, 2016, following invalidity of the effectiveness suspension of the award ordered by the Court of Appeal and the outcome of enforcement actions, A2A paid to Pessina Costruzioni 38,524,290.56 euro.

Dispute over public water derivation fees

Derivations of public water for the production of hydroelectricity in Lombardy

With Regional Law no. 22/2011, Lombardy essentially doubled the fee for hydroelectric use of public water, thereby infringing the principles of gradualism and reasonableness in the determination of fees, already recognized by the case law, and also violating the principle of equal competition between operators in the national territory.

Faced with the payment requests made by the Region for the years 2012 and 2013, Edipower S.p.A. (now A2A S.p.A.) therefore paid the fee considering solely the increase arising from the planned inflation rate as compared to the previous year. As a consequence, for 2012 and 2013 the Region issued injunctions for the payment of the amount not paid by the company; Edipower S.p.A. (now A2A S.p.A.) appealed against these injunctions before the Regional Court of Public Waters ("TRAP") of Milan, proposing the exception of unconstitutionality of the regional provision.

The same conduct was adopted by Edipower S.p.A. (now A2A S.p.A.) for the annuities of the 2014, 2015 and 2016 fees.

However, given the consolidation of unfavourable law and contrary to the thesis of Edipower S.p.A. (now A2A S.p.A.) (ref. sent. TSAP no. 138/2016 and sent. Const. Court no. 158/2016), there was the extinction of almost all the appeals established by Edipower S.p.A. (now A2A S.p.A.) and payment the

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amount originally ordered, in order to avoid the increase of legal interest and the risk of condemnation to significant legal fees, as happened to other operators, while keeping intact its right to recover any amounts overpaid. Against this background, the injunctions for payment of October 2016 relating to the years 2014-2015 have not been opposed by Edipower S.p.A. (now A2A S.p.A.), which undertook to pay, with reserve of repetition in the event of a favourable judicial outcome, the quantum state fee not yet paid. The only judgement (“pilot”) still pending before the TRAP Milan is related to the state property fee for 2013 related to the Liro Auction.

Despite the progress of disputes relating to the same issues rooted in other operators, the Company has considered the possibility of insisting in relation to the aforementioned “pilot” judgment.

The same issue also concerns the large-scale derivations in Lombardy of A2A, which, since the outset, in view of its specific circumstances, fully pays, but with reservation of repetition, the fee demanded by the Region and then sues for excess repetition. In December 2016, the only case pending for A2A before the TRAP Milan on the “doubling” of the state fee was also concluded, with partial loss of A2A in this respect.

In addition, the D.G.R. (Regional Council Resolution) of Lombardy no. 5130-2016 ordered, by implementing paragraph 5 of art. 53-bis of Regional Law 26/2003 introduced by Regional Law 19/2010, the subjection of the Lombardy hydroelectric concessions already expired to an “additional fee” established “provisionally” at 20 €/kW of nominal power of concession, subject to the request for settlement at the outcome of the assessments underway by the regional offices regarding the profitability of expired concessions. It is noted that said additional fee is imposed retroactively from the original expiry of each concession, and therefore for Grosotto, Lovero and Stazzona from January 1, 2011, for Premadio 1 from July 29, 2013 and for Grosio from November 15, 2016.

A2A, which has always challenged even in court the legitimacy - in the first place constitutional - of the aforementioned paragraph 5, challenged, like other operators, the D.G.R. 5130-2016 before the Superior Court of Public Waters as well as D.G.R. 7693-2018 and consequent provisions, which reiterated the forecast of the application of an additional fee up to 2020 and, where envisaged, the revocation of the exemption of part of the state fee.

For disputes relating to public water derivation fees, at today’s date, the Company set aside risk provisions for the total amount of 43 million euro equal to the entire claim of the counterparties.

Carlo Tassara: lawsuit for damages against EDF and A2A S.p.A. on the reorganization of Edison

On March 24, 2015, Carlo Tassara S.p.A. notified A2A, Electricité de France (EDF) and Edison a summons requesting the Court of Milan to condemn A2A and EDF to compensation for damages allegedly suffered by Carlo Tassara, in its capacity as minority shareholder of Edison, in relation to the mandatory tender offer launched by EDF on Edison shares consequently to the transaction by which, in 2012, A2A sold its indirect shareholding in Edison to EDF and simultaneously acquired 70% of the capital of Edipower from Edison and Alpiq.

Until 2012, in fact, A2A and EDF held joint control of Edison S.p.A. Edison, in turn, held 50% of Edipower S.p.A. (the remaining capital of Edipower was held 20% by Alpiq, 20% by A2A and the remaining 10% by Iren).

In the 2012 transaction, A2A sold its indirect shareholding in Edison to EDF and simultaneously acquired 70% of the capital of Edipower from Edison and Alpiq.

In the summons notified, Carlo Tassara complained that, in the transaction, EDF and A2A agreed on a mutual “discount” on the price paid by EDF for the purchase of Edison shares, on the one hand, and on the price paid by A2A for the purchase of 70% of Edipower, on the other. This discount was expected to be the result of abusive conduct by EDF and A2A as shareholders of Edison and the violation, among other things, of the regulations on transactions with related parties. This - according to Carlo Tassara - was expected to allow maintaining artificially low the price of the Edison shares paid to A2A and consequently the tender offer price paid to minorities of Edison (which by law was expected to be equal to that paid to A2A).

However, in 2012, A2A and EDF had voluntarily subjected the Transaction to the prior examination of Consob precisely in order to confirm the correctness of the tender offer price. Following extensive examinations, Consob had deemed that a compensatory mechanism could be detected in the transaction as a whole (i.e. between the sale of Edipower on the one hand and the sale of Edison

shares on the other) and that therefore the tender offer price was to be increased from 0.84 euro to 0.89 euro per share.

In light of said decision, the parties had increased the sale price of the shareholding in Edison based on the price of 0.89 euro per share, for a total increase of around 84 million euro. EDF launched the tender offer at 0.89 euro per share.

Carlo Tassara resorted to Consob in order to further increase the price of the tender offer, but Consob rejected the request.

In addition, pending the tender offer, Carlo Tassara challenged before the TAR the tender offer document and the related resolution of approval by Consob requesting suspensions thereof for reasons of urgency. However, the TAR postponed the decision on the suspension to a date following the closing of the tender offer and, as a result of this, Carlo Tassara adhered to the tender offer and waived the cautionary request.

The writ of summons did not quantify the damage allegedly suffered by Carlo Tassara as a result of such transactions. However, with brief on February 20, 2017, Carlo Tassara requested that the court have an expert witness to calculate them (specifying that it be quantified in the alleged difference between the tender offer price and the market value that the Edison shares had previously). Carlo Tassara also filed an appraisal in which such damages were quantified in a total amount between 197 and 232 million euro, amount to calculate the compensation due from each of the companies that will be considered responsible by the judge.

After several postponements justified also by modifications of the judge, on October 17, 2018, the judge rejected the requests for investigation of the plaintiffs, setting March 19, 2019 as the hearing for clarification of conclusions. The Group, having fulfilled the requirements of the regulations in force, does not consider likely the risk for which it has not allocated any provisions.

Investigation AGCM A512-A2A for alleged anti-competitive conduct in the electricity sales market - violation of art. 102 TFEU

In May 2017, the AGCM initiated a preliminary investigation against A2A S.p.A. and A2A Energia S.p.A. for the investigation of alleged conduct in violation of art. 102 TFEU, within the framework of which it ordered the conduct of inspections without notice. Similar proceedings were simultaneously initiated against two other major operators in the sector.

With regard to A2A, the complaint concerns alleged conduct aimed at acquiring free markets of customers served in protected market, which were implemented thanks to the availability of commercially sensitive information and data that the operator could have available as vertically integrated into a Group that operates in the sale under protected market and electrical distribution, as well as boasting specific characteristics (reliability/safety), also deriving from the nature of an integrated operator.

As indicated in the initiation measure, it was a question of conduct that cannot be replicated by non-integrated competitors and that would hinder the full development of the free market, also in view of the end of “price protection”. Furthermore, since the existence of an effect on trade between Member States is established, the proceedings deal with the case as an infringement of the EU competition law (article 102 TFEU).

The company defended itself on the merits, both at hearings and with briefs, highlighting that it did not use data deriving from the exercise of the service under protected market nor distribution, for promotional purposes for the development of its free market activities.

The deadline for the conclusion of all the proceedings initiated, including those against the other two operators, was extended several times until December 31, 2018, and on January 8, 2019, the measure of the AGCM was finally received, which - noting the defensive arguments set out - found that there were no elements for the application of a sanction against A2A. However, the situation will continue to be monitored, in the event that the positive measure for A2A may be challenged before the Administrative Judge by any of the reporting parties.

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The following information is provided in connection with the main litigation of a fiscal nature.

A2A S.p.A. - Registration tax for transfer of business unit and sale of the investment Chi.na.co. S.r.l.

On April 04, 2016, the Provincial Directorate I of Milan - Regional Office of Milan 1 - notified the invitation to appear to provide clarifications on a business transfer in the company Chi.na.co. S.r.l. and the subsequent sale of the investment held in it under control for registration tax purposes. The invitation was followed by a contradictory with the Office and subsequent notification by the latter of the notice of liquidation to the acquiring counterparty, which filed an appeal on September 28, 2016. The Provincial Tax Commission of Milan rejected the appeal with sentence filed on July 07, 2017. The company proposed an appeal on February 13, 2018. The Milan Regional Administrative Court rejected the appeal. The company is evaluating the decision of the Court of Cassation. The risks provision recognized for 1.4 million euro was fully used for the payment of the amounts requested with the liquidation notice.

A2A S.p.A. (merging company of AMSA Holding S.p.A.) - VAT Tax assessments for tax years from 2001 to 2005

In early 2006, the Italian Finance Police – Lombardy Regional Unit, Milan – carried out a tax audit of AMSA Holding S.p.A. (now A2A S.p.A.) for VAT purposes for tax years 2001 to 2005.

The audit ended with the issue of a final report contesting the legitimacy of the ordinary VAT rate, in place of the special rate applied by suppliers for waste disposal and plant maintenance, as well as the subsequent deduction made after the invoices issued for these services were duly paid.

The report was followed by formal notices of assessment from the Tax Revenue Office (Milan 3 Office) for each year audited; appeals were then filed with the Provincial Tax Commission within the term provided by law.

The appeals for 2001 and for 2004 and 2005 were discussed on January 25, 2010 and on February 17, 2010 respectively, with a favourable outcome for the company in all cases. The Tax Revenue Office appealed against the verdict of the first court. The Regional Tax Commission rejected this appeal for all three years, 2001, 2004 and 2005.

For 2011, the Tax Revenue Office filed an appeal with the Supreme Court against which AMSA Holding S.p.A. (now A2A S.p.A.), filed a cross-appeal on November 9, 2012. At the hearing on December 12, 2018, the Company requested that the case be suspended in order to assess the facilitated settlement of the dispute.

The outcomes of the 2002 and 2003 disputes were also favourable for the company but the Tax Revenue Office filed an appeal against both sentences. The appeal for 2002 was discussed on November 30, 2010, and by way of a sentence lodged on February 2, 2011 the Milan Regional Tax Commission overturned the sentence of the first court, upholding the Tax Revenue Office's appeal on almost all counts with the exception of the hazardous waste category. The Company filed an appeal with the Supreme Court for 2002. The hearing was held on December 12, 2018 and, to date, no decision has been filed. For 2003 the appeal made by the Tax Revenue Office was discussed on November 07, 2011 before the Regional Tax Commission which rejected it with a sentence filed on November 11, 2011. The Tax Revenue Office has not appealed to the Supreme Court for 2003, 2004 and 2005 and the sentence has become final, thereby closing the litigation.

9) Contingent assets arising from environmental certificates

At December 31, 2018, A2A S.p.A. had a surplus of environmental certificates.

10) Auditors' fees

In accordance with Article 2427, paragraph 16-bis, of the Italian civil code, it is hereby reported that the company paid EY S.p.A. total fees for the legally required auditing of the annual accounts and for other services provided during the year in the amount of 300 thousand euro.

11) Registered office

The registered office of the company is in Brescia in Via Lamarmora 230.

12) Investigation related to EPCG service contracts

A2A S.p.A. acquired the shareholding in EPCG by means of the international tender held in 2009, and under the so-called "EPCG Agreement" dated September 3, 2009, it acquired the right to manage the company, appointing - until June 30, 2017 - the Executive Director (CEO) and Executive Manager.

As part of the management of EPCG by A2A S.p.A., also in order to meet the specific indicators provided by the EPCG Agreement, with effect from 2010, A2A S.p.A. and, as of 2011, Unareti S.p.A. (formerly A2A Reti Elettriche S.p.A.), have provided in favour of EPCG services designed to improve the organization and performance of EPCG. Within the broader set of services provided, consulting services were also included provided for the benefit of EPCG by specialized companies outside the A2A Group, the costs of which were first invoiced to A2A S.p.A. as part of more complex and organic consulting services provided in favour of the entire A2A Group and subsequently by A2A S.p.A. charged to EPCG for the activities carried out in favour of the same.

In view of the synergistic importance of intra-group services requested by EPCG to A2A, EPCG applied for and obtained, by the State Commission for the Control of Public Procurement Procedures, a formal exemption - dated September 6, 2010 - by which the non-necessity is enshrined for EPCG to apply the procedures provided by law on Public Procurement in order to purchase services from A2A S.p.A., A2A Reti Elettriche and certain other (identified by name) companies controlled by A2A S.p.A..

From a different perspective, service contracts between EPCG and A2A S.p.A. - which, while benefiting from the aforementioned exemption, would have needed the approval of the EPCG Board of Directors - were not explicitly approved by the Board, which nonetheless approved the budget of each annuity that includes the aforementioned costs. Therefore, the service contracts related to the years 2010, 2011 and 2012 were signed by the CEO pro tempore of EPCG. Pursuant to said contracts, A2A S.p.A. invoiced with regard to the aforementioned annuities a total of 7.75 million euro to EPCG, which has only paid a portion of 4.34 million euro.

For the years 2013, 2014, 2015, 2016 and for the first half of 2017, in the absence of a specific agreement between the shareholders regarding the formalization of a specific service contract, A2A did not proceed with invoicing, although a broad set of services was indeed provided to EPCG also in said years, and A2A incurred the related charges.

Also, certain consulting services are disputed, related to the period 2011 and 2012 and amounting to about 2 million euro, acquired by EPCG directly from external consulting firms of the A2A Group.

At the beginning of 2014, the local “Party of People with Disabilities and Pensioners” proposed a parliamentary interpellation and filed a complaint to the Special Attorney in relation to service contracts entered into by EPCG with A2A and external consulting firms of the A2A Group. Subsequently, in November 2014, the Montenegrin police sent EPCG a request for documents and data that was fully acknowledged by the management of EPCG in the following month. Two further requests for additional information and documentation were then subjected to EPCG directly by the Special Attorney in August 2015 and February 2016, and in both cases the management of EPCG responded comprehensively to the requests of the investigators.

Until said moment, therefore, EPCG had registered only requests for documentation to which it promptly replied, and EPCG as well as A2A had therefore not - until April 15, 2016 - deemed that said requests could result in actions such to configure a risk if not remote - personal or capital - at the expense of its employees and/or the companies.

On April 15, 2016, the former Italian CFO appointed by A2A in EPCG, who resigned from said office only a few days before for reasons completely unrelated to the issue under consideration, was arrested by the Montenegrin police on order of the Special Attorney. Investigative measures are still covered by investigation confidentiality. On the basis of what is currently known, the accusation concerns a hypothesis of abuse of office in the management of service contracts stipulated by the same EPCG, and also concerns two other Italian managers seconded by A2A in EPCG in the period 2010-2012, as well as the former pro-tempore Co-General Manager of A2A, who signed the service contracts. On May 6, 2016, the former CFO was released on payment of a bail deposit and withdrawal of the passport. On December 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

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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 Montenegrin officials, originally investigated like the Italian managers. The proceedings against individuals to be investigated is pending to move to the trial phase.

Based on the assessments made, the foregoing and the information available to date, A2A believes that the risk of potential penalties applicable and/or claims for compensation or indemnity actions, can be assessed as remote. Considering the state of the proceedings and for the same reasons outlined herewith, it is also impossible to quantify in certain terms the amount of said indemnities or penalties, direct or indirect.

Only approximately, and as broad reference, it is in fact possible to indicate that the amount of the penalties contemplated by the Montenegrin law on the liability of legal persons could theoretically – in the extreme variability of the local law with an unclear discipline – be significantly greater (from 2 to 100 times the amount of the alleged damage, as stated in the precautionary measure), even though it is appropriate to consider that there is no sound case-law on the matter and that the proceeding against A2A can be filed.

In view of the above, the company - in accordance with IAS 37 - considered it correct to handle the case in question providing adequate information and not allocating specific risks provision.

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1 - Statement of changes in tangible assets

Tangible assets thousands of euro	BALANCE AT 12 31 2017				EFFECT NON-RECURRING TRANSACTIONS				
	GROSS VALUE	ACCUMULATED DEPRECIATION	PROVISION WRITE-DOWN	RESIDUAL VALUE	GROSS VALUE	ACCUMULATED DEPRECIATION	PROVISION WRITE-DOWN	RESIDUAL VALUE	
Land	42,784	(2,594)	(6,950)	33,240	(1,067)		315	(752)	
Buildings	475,678	(203,511)	(31,385)	240,782	(2,942)	984	626	(1,332)	
Plant and machinery	2,233,952	(1,093,849)	(327,638)	812,465	(51,243)	17,016	12,543	(21,684)	
Industrial and commercial equipment	18,574	(17,176)		1,398					
Other assets	47,056	(33,819)		13,237	(1,915)	1,209		(706)	
Construction in progress and advances	17,500			17,500	(19)			(19)	
Leasehold improvements	626	(613)		13					
Total tangible assets	2,836,170	(1,351,562)	(365,973)	1,118,635	(57,186)	19,209	13,484	(24,493)	

Tangible assets thousands of euro	BALANCE AT 12 31 2016				EFFECT NON-RECURRING TRANSACTIONS			
	GROSS VALUE	ACCUMULATED DEPRECIATION	PROVISION WRITE-DOWN	RESIDUAL VALUE	GROSS VALUE	ACCUMULATED DEPRECIATION	RESIDUAL VALUE	
Land	42,387	(2,745)	(6,950)	32,692				
Buildings	472,474	(192,525)	(31,385)	248,564				
Plant and machinery	2,224,778	(1,035,371)	(327,637)	861,770				
Industrial and commercial equipment	18,186	(16,849)	(1)	1,336				
Other assets	32,236	(30,433)		1,803	(11)	13	2	
Construction in progress and advances	18,440			18,440	(316)		(316)	
Leasehold improvements	33,579	(5,064)		28,515	(32,952)	4,453	(28,499)	
Total tangible assets	2,842,080	(1,282,987)	(365,973)	1,193,120	(33,279)	4,466	(28,813)	

CHANGES DURING THE YEAR											BALANCE AT 12 31 2018			
	ACQUISITIONS	CHANGES IN CATEGORY	RECLASSIFICATIONS		OTHER CHANGES	DISPOSALS		WRITE- DOWNS	DEPRECI- ATION	TOTAL CHANGES FOR THE YEAR	GROSS VALUE	ACCUMULATED DEPRECIATION	PROVISION WRITE- DOWN	RESIDUAL VALUE
			ASSET VALUE	ACCUMULATED DEPRECIATION		ASSET VALUE	ACCUMULATED DEPRECIATION							
	12	232				(58)				186	41,903	(2,594)	(6,635)	32,674
	1,145	1,515	310	(310)	(1)			(4,196)	(12,925)	(14,462)	471,509	(215,762)	(30,759)	224,988
	3,854	15,428				(376)	312		(55,567)	(36,349)	2,201,615	(1,132,088)	(315,095)	754,432
	409								(321)	88	18,983	(17,497)	-	1,486
	3,150	17				(1,318)	1,318		(4,053)	(886)	46,990	(35,345)	-	11,645
	13,452	(16,998)			(223)					(3,769)	13,712	-	-	13,712
			(310)	310					(3)	(3)	316	(306)	-	10
	22,022	194	-	-	(224)	(1,752)	1,630	(4,196)	(72,869)	(55,195)	2,795,028	(1,403,592)	(352,489)	1,038,947

CHANGES DURING THE YEAR											BALANCE AT 12 31 2017			
	ACQUISITIONS	CHANGES IN CATEGORY	RECLASSI- FICATIONS NET OF THE PROVISION	OTHER CHANGES NET OF THE PROVISION	DISPOSALS		DEPRECI- ATION	TOTAL CHANGES FOR THE YEAR			GROSS VALUE	ACCUMULATED DEPRECIATION	PROVISION WRITE- DOWN	RESIDUAL VALUE
					GROSS VALUE	ACCUMULATED DEPRECIATION								
	93			821	(517)	151		548			42,784	(2,594)	(6,950)	33,240
	1,168	1,816		102	(82)	23	(10,809)	(7,782)			475,678	(203,511)	(31,385)	240,782
	953	8,219		1	(569)	569	(58,478)	(49,305)			2,233,952	(1,093,849)	(327,638)	812,465
	390						(328)	62			18,574	(17,176)	-	1,398
	6,076	146	8,553				(3,343)	11,432			47,056	(33,819)	-	13,237
	16,073	(16,565)		(132)				(624)			17,500	-	-	17,500
							(3)	(3)			626	(613)	-	13
	24,753	(6,384)	8,553	792	(1,168)	743	(72,961)	(45,672)			2,836,170	(1,351,562)	(365,973)	1,118,635

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2 - Statement of changes in intangible assets

Intangible assets thousands of euro	BALANCE AT 12 31 2017			
	GROSS VALUE	ACCUMULATED DEPRECIATION	RESIDUAL VALUE	
Industrial patents and intellectual property rights	111,945	(105,065)	6,880	
Concessions, licences, trademarks and similar rights	40,866	(33,094)	7,772	
Goodwill	38,687		38,687	
Assets in progress	12,426		12,426	
Other intangible assets	30,649	(1,214)	29,435	
Total intangible assets	234,573	(139,373)	95,200	

Intangible assets thousands of euro	BALANCE AT 12 31 2016			EFFECT NON-RECURRING TRANSACTIONS			
	GROSS VALUE	ACCUMULATED DEPRECIATION	RESIDUAL VALUE	GROSS VALUE	ACCUMULATED DEPRECIATION	RESIDUAL VALUE	
Industrial patents and intellectual property rights	108,042	(101,088)	6,954				
Concessions, licences, trademarks and similar rights	39,337	(29,058)	10,279	(396)	219	(177)	
Goodwill	37,480		37,480	1,207		1,207	
Assets in progress	2,906		2,906				
Other intangible assets	59,371	(1,204)	58,167				
Total intangible assets	247,136	(131,350)	115,786	811	219	1,030	

	CHANGES DURING THE YEAR					BALANCE AT 12 31 2018		
	ACQUISITIONS	CHANGES IN CATEGORY	OTHER CHANGES	DEPRECIATION	TOTAL CHANGES FOR THE YEAR	GROSS VALUE	ACCUMULATED DEPRECIATION	RESIDUAL VALUE
	3,036	2,407	(287)	(4,462)	694	117,101	(109,527)	7,574
	4,741	10,474	(15)	(5,947)	9,253	56,066	(39,041)	17,025
					-	38,687	-	38,687
	14,775	(13,075)			1,700	14,126	-	14,126
			(26,586)	(11)	(26,597)	4,063	(1,225)	2,838
	22,552	(194)	(26,888)	(10,420)	(14,950)	230,043	(149,793)	80,250

	CHANGES DURING THE YEAR							BALANCE AT 12 31 2017		
	ACQUISITIONS	CHANGES IN CATEGORY	RECLASSIFICATIONS		OTHER CHANGES	DEPRECIATION	TOTAL CHANGES FOR THE YEAR	GROSS VALUE	ACCUMULATED DEPRECIATION	RESIDUAL VALUE
			GROSS VALUE	ACCUMULATED DEPRECIATION						
	2,729	1,174				(3,977)	(74)	111,945	(105,065)	6,880
	1,849	8,686	(8,610)	57		(4,312)	(2,330)	40,866	(33,094)	7,772
							-	38,687	-	38,687
	12,996	(3,476)					9,520	12,426	-	12,426
	43				(28,765)	(10)	(28,732)	30,649	(1,214)	29,435
	17,617	6,384	(8,610)	57	(28,765)	(8,299)	(21,616)	234,573	(139,373)	95,200

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3/a - Statement of changes in investments in subsidiaries

Shareholdings <i>thousands of euro</i>	BALANCE AT FINANCIAL STATEMENTS 12 31 2017	CHANGES IN 2018				
		INCREASES	DECREASES	EFFECT NON-RECURRING TRANSACTIONS	REVALUATIONS WRITE-DOWNS	
FINANCIAL ASSETS						
Subsidiaries:						
Unareti S.p.A.	1,381,881					
A2A Ambiente S.p.A.	634,894					
A2A Calore & Servizi S.r.l.	334,617			(3,990)		
A2A Ciclo Idrico S.p.A.	167,000					
A2A gencogas S.p.A.	510,317					
A2A Energiefuture S.p.A.	262,730				(73,000)	
A2A Energia S.p.A.	98,743					
Retragas S.r.l.	30,105					
Aspem S.p.A.	26,508					
A2A Smart City S.p.A.	9,222					
Proaris S.r.l.	3,557					
Camuna Energia S.r.l.	740					
Ecofert S.r.l. in liquidation	271		(271)			
Plurigas S.p.A. in liquidation	560					
SEASM S.r.l.	469					
Linea Group Holding S.p.A.	109,379					
A2A Illuminazione Pubblica S.r.l.	28,600					
A2A Montenegro d.o.o.	102					
Azienda Servizi Valtrompia S.p.A.	10,758					
A2A Security S.c.p.a.	23					
A2A Energy Solution S.r.l.	10			4,565		
A2A IDRO4 S.r.l.	10			21,169		
A2A Rinnovabili S.p.A.	50					
A2A Alfa S.r.l.	-					
A2Abroad S.p.A.	-	300				
ACSM-AGAM S.p.A.	-	19,788				
Total subsidiaries	3,610,546	20,088	(271)	21,744	(73,000)	
Equity investments held for sale						
Elektroprivreda Cnre Gore AD (EPCG)	224,186		(118,358)		3,132	

CHANGES IN 2018				BALANCE AT FINANCIAL STATEMENTS 12 31 2018	SHARE OF EQUITY		
	VALUATIONS FROM EXCHANGE/ LOSSES	OTHERS CHANGES	RECLASSIFICATIONS		% HELD	EQUITY AT 12 31 2018	PRO RATA AMOUNT
				1,381,881	100.00%	1,478,693	1,478,693
				634,894	100.00%	494,876	494,876
				330,627	100.00%	356,782	356,782
				167,000	100.00%	197,330	197,330
				510,317	100.00%	547,396	547,396
				189,730	100.00%	193,722	193,722
			(1,704)	97,039	100.00%	197,645	197,645
				30,105	87.27%	40,749	35,562
			(26,508)	-			
				9,222	87.00%	18,515	16,108
				3,557	60.00%	6,006	3,604
				740	74.50%	883	658
				-			
				560	70.00%	2,213	1,549
				469	67.00%	853	572
				109,379	51.00%	209,350	106,769
				28,600	100.00%	47,556	47,556
				102	100.00%	163	163
				10,758	74.55%	20,764	15,480
				23	47.60%	150	71
				4,575	100.00%	27,758	27,758
		82	(21,261)	-			
				50	100.00%	428	428
				-	70.00%	100	70
				300	100.00%	295	295
	85,263		85,528	190,579	41.34%	440,823	182,236
	85,263	82	36,055	3,700,507		4,283,050	3,905,323
				108,960	18.70%		

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3/b - Statement of changes in investments in affiliates

Shareholdings <i>thousands of euro</i>	BALANCE AT FINANCIAL STATEMENTS 12 31 2017	CHANGES IN 2018			
		INCREASES	DECREASES	EFFECT NON-RECURRING TRANSACTIONS	
FINANCIAL ASSETS					
Affiliates:					
ACSM-AGAM S.p.A.	34,051				
Rudnik Uglja Ad Pljevlja	7,067		(7,067)		
Sviluppo Turistico Lago d'Iseo S.p.A. (*)	735				
SET S.p.A. (*)	466				
Serio Energia S.r.l. (*)	400				
Ge.S.I. S.r.l. (*)	466				
Visano Società Trattamento Reflui S.c.a.r.l. (*)	10				
Ergon Energia S.r.l. in liquidation	-				
Centrale Termoelettrica del Mincio S.r.l. in liquidation	1		(1)		
Total affiliates	43,196	-	(7,068)	-	

(*) Figures in the financial statements at 31 December 2017

CHANGES IN 2018				BALANCE AT FINANCIAL STATEMENTS 12 31 2018	SHARE OF EQUITY		
	REVALUATIONS WRITE-DOWNS	FTA IFRS9	OTHERS CHANGES		% HELD	EQUITY AT 12 31 2018	PRO RATA AMOUNT
			(34,051)	-			
				-			
				735	24.29%	3,054	742
				466	49.00%	1,608	788
				400	40.00%	1,845	738
				466	47.00%	4,822	2,266
				10	40.00%	26	10
				-	50.00%	(161)	(81)
				-			
	-	-	(34,051)	2,077		11,194	4,463

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3/c - Statement of changes in investments in other companies

Company name <i>thousands of euro</i>	SHAREHOLDING %	SHAREHOLDER	CARRYING AMOUNT AT 12 31 2018
Available-for-sale financial assets			
Immobiliare-Fiera di Brescia S.p.A.	1.21%	A2A S.p.A.	280
Others:			
AQM S.r.l.	7.52%	A2A S.p.A.	
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.	
L.E.A.P. S.c.a.r.l.	8.57%	A2A S.p.A.	
Consorzio Milano Sistema in liquidation	10.00%	A2A S.p.A.	
E.M.I.T. S.r.l. in liquidation	10.00%	A2A S.p.A.	
Isfor 2000 S.c.p.a.	4.94%	A2A S.p.A.	
Stradivaria S.p.A.	n.s.	A2A S.p.A.	
DI.T.N.E. S.c.a.r.l.	1.82%	A2A S.p.A.	
Total other financial assets			617
Total available-for-sale financial assets			897

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.



4/a - List of investments in subsidiaries

Company name <i>thousands of euro</i>	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL AT 12 31 2018	
Subsidiaries:				
Unareti S.p.A.	Brescia	Euro	965,250	
A2A Ambiente S.p.A.	Brescia	Euro	220,000	
A2A Calore & Servizi S.r.l.	Brescia	Euro	150,000	
A2A Ciclo Idrico S.p.A.	Brescia	Euro	70,000	
A2A gencogas S.p.A.	Gissi (Ch)	Euro	450,000	
A2A Energia S.p.A.	Milan	Euro	2,000	
Retragas S.r.l.	Brescia	Euro	34,495	
A2A Smart City S.p.A.	Brescia	Euro	3,448	
Proaris S.r.l.	Milan	Euro	1,875	
Camuna Energia S.r.l.	Cedegolo (Bs)	Euro	900	
SEASM S.r.l.	Brescia	Euro	700	
Plurigas S.p.A. in liquidation	Milan	Euro	800	
A2A Montenegro d.o.o.	Podgorica (Montenegro)	Euro	100	
A2A Energiefuture S.p.A.	Milan	Euro	50,000	
Linea Group Holding S.p.A.	Brescia	Euro	189,494	
A2A Illuminazione Pubblica S.r.l.	Brescia	Euro	28,600	
Azienda Servizi Valtrompia S.p.A.	Gardone Val Trompia (Bs)	Euro	8,939	
A2A Security S.c.p.a.	Milan	Euro	50	
A2A Energy Solution S.r.l.	Milan	Euro	4,000	
A2A Rinnovabili S.p.A.	Trento	Euro	50	
ACSM-AGAM S.p.A.	Monza	Euro	197,344	
A2A Alfa S.r.l.	Milan	Euro	100	
A2Abroad S.p.A.	Milan	Euro	300	

	EQUITY AT 12 31 2018	RESULT AT 12 31 2018	% HELD	PRO RATA AMOUNT (A)	BALANCE AT FINANCIAL STATEMENTS (B)	DELTA (A-B)
	1,478,693	103,137	100.00%	1,478,693	1,381,881	96,812
	494,876	82,628	100.00%	494,876	634,894	(140,018)
	356,782	24,944	100.00%	356,782	330,627	26,155
	197,330	18,299	100.00%	197,330	167,000	30,330
	547,396	4,789	100.00%	547,396	510,317	37,079
	197,645	85,348	100.00%	197,645	97,039	100,606
	40,749	1,804	87.27%	35,562	30,105	5,457
	18,515	3,835	87.00%	16,108	9,222	6,886
	6,006	102	60.00%	3,604	3,557	47
	883	(181)	74.50%	658	740	(82)
	853	67	67.00%	572	469	103
	2,213	9	70.00%	1,549	560	989
	163	4	100.00%	163	102	61
	193,722	(79,878)	100.00%	193,722	189,730	3,992
	209,350	13,120	51.00%	106,769	109,379	(2,610)
	47,556	9,967	100.00%	47,556	28,600	18,956
	20,764	980	74.55%	15,480	10,758	4,722
	150	83	47.60%	71	23	48
	27,758	23,206	100.00%	27,758	4,575	23,183
	428	172	100.00%	428	50	378
	440,823	5,527	41.34%	182,236	190,579	(8,343)
	100	(35)	70.00%	70	-	70
	295	(5)	100.00%	295	300	(5)

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4/b - List of investments in affiliates

Company name <i>thousands of euro</i>	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL AT 12 31 2018	
Sviluppo Turistico Lago d'Iseo S.p.A. (*)	Iseo (Bs)	Euro	1,616	
SET S.p.A. (*)	Toscolano Maderno (Bs)	Euro	104	
Serio Energia S.r.l. (*)	Concordia sulla Secchia (Mo)	Euro	1,000	
Ge.S.I. S.r.l. (*)	Brescia	Euro	1,000	
Visano Società Trattamento Reflui S.c.a.r.l. (*)	Brescia	Euro	25	
Ergon Energia S.r.l. in liquidation	Milan	Euro	600	

(*) Figures in the financial statements at December 31, 2017

	EQUITY AT 12 31 2018	RESULT AT 12 31 2018	% HELD	PRO RATA AMOUNT (A)	BALANCE AT FINANCIAL STATEMENTS (B)	DELTA (A-B)
	3,054	20	24.29%	742	735	7
	1,608	99	49.00%	788	466	322
	1,845	269	40.00%	738	400	338
	4,822	586	47.00%	2,266	466	1,800
	26	(11)	40.00%	10	10	-
	(161)	23	50.00%	(81)	-	(81)

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SUBSIDIARIES	A2A gencogas S.p.A.		A2A Energiefuture S.p.A.		A2A Ambiente S.p.A.		A2A Smart City S.p.A.		Retragas S.r.l.		SEASM S.r.l.		
Share capital:	Euro	450,000,000	Euro	50,000,000	Euro	220,000,000	Euro	3,448,276	Euro	34,494,650	Euro	700,000	
% held:	A2A S.p.A.	100.00%	A2A S.p.A.	100.00%	A2A S.p.A.	100.00%	A2A S.p.A. Linea Group Holding S.p.A.	87.00% 13.00%	A2A S.p.A. Unareti S.p.A.	87.27% 4.33%	A2A S.p.A.	67.00%	
Description thousands of euro	12 31 18	12 31 17	12 31 18	12 31 17	12 31 18	12 31 17	12 31 18	12 31 17	12 31 18	12 31 17	12 31 18	12 31 17	
Revenues	152,048	170,585	196,150	227,465	429,353	373,826	53,241	30,351	8,300	7,196	357	357	
Gross operating income	70,175	89,305	40,464	37,538	174,026	147,664	10,639	7,354	4,943	4,323	295	293	
Net operating income	19,895	37,381	(109,072)	3,504	123,082	101,477	5,908	5,005	2,594	2,136	129	127	
Result before taxes	13,162	33,540	(109,606)	2,945	122,953	131,927	5,650	4,939	2,594	2,135	95	79	
Result of the year	4,789	20,723	(79,878)	711	82,628	102,185	3,835	3,594	1,804	1,475	67	56	
Assets	970,895	1,006,987	337,759	428,520	892,836	899,074	73,439	42,672	44,140	42,949	1,589	1,736	
Liabilities	423,499	464,391	144,037	154,448	397,960	389,365	54,924	29,038	3,391	2,605	736	950	
Equity	547,396	542,596	193,722	274,072	494,876	509,709	18,515	13,634	40,749	40,344	853	786	
Net financial position	(260,997)	(299,465)	80,056	55,759	308,745	255,596	(24,045)	(11,858)	14,002	12,442	(706)	(921)	

AFFILIATES	Ge.S.I. S.r.l.		Ergon Energia S.r.l. in liquidation	
Share capital:	Euro	1,000,000	Euro	600,000
% held:	A2A S.p.A.	47.00%	A2A S.p.A.	50.00%
Description thousands of euro	12 31 17	12 31 16	12 31 18	12 31 17
Revenues	6,798	6,573	87	1
Gross operating income	995	699	35	(93)
Net operating income	768	390	30	(43)
Result before taxes	782	1,122	24	(42)
Result of the year	586	1,004	23	(42)
Assets	7,617	8,077	6,963	6,872
Liabilities	2,795	3,136	7,124	7,056
Equity	4,822	4,941	(161)	(184)
Net financial position	863	1,851	(810)	(756)

Linea Group Holding S.p.A.		A2A Illuminazione Pubblica S.r.l.		Azienda Servizi Valtrompia S.p.A.		A2A Security S.c.p.a.		A2A Rinnovabili S.p.A.		A2A Energy Solution S.r.l.		ACSM-AGAM S.p.A.	
Euro 189,494,116		Euro 28,600,000		Euro 8,938,941		Euro 50,000		Euro 50,000		Euro 4,000,000		Euro 197,343,794	
A2A S.p.A. 51.00%		A2A S.p.A. 100.00%		A2A S.p.A. 74.55%		A2A S.p.A. 47.60% Unareti S.p.A. 19.10% A2A Ciclo Idrico S.p.A. 10.90% Amsa S.p.A. 9.50% A2A gencogas S.p.A. 4.10% A2A Ambiente S.p.A. 4.10% A2A Calore & Servizi S.r.l. 2.70% A2A Energiefuture S.p.A. 2.00%		A2A S.p.A. 100.00%		A2A S.p.A. 100.00%		A2A S.p.A. 41.34%	
12 31 18	12 31 17	12 31 18	12 31 17	12 31 18	12 31 17	12 31 18	12 31 17	12 31 18	12 31 17	12 31 18	12 31 17	12 31 18	12 31 17
24,263	25,560	40,328	35,302	12,519	12,727	1,590	318	55	-	94,198	-	33,592	39,953
(3,653)	2,549	13,090	13,415	2,790	2,443	161	25	(174)	(30)	27,933	(10)	(3,228)	6,005
(4,832)	(5,537)	10,525	10,827	1,449	1,329	123	25	(174)	(30)	27,615	(10)	(16,767)	(4,447)
10,082	7,303	13,626	14,312	1,410	1,270	115	23	226	274	30,748	(10)	1,784	9,097
13,120	10,511	9,967	10,364	980	987	83	17	172	207	23,206	(8)	5,527	10,023
602,386	694,345	58,999	63,590	31,531	30,071	1,317	843	91,050	39,577	59,750	13	607,210	265,165
393,036	488,237	11,443	16,214	10,767	10,299	1,167	780	90,622	39,321	31,992	11	166,387	121,745
209,350	206,108	47,556	47,376	20,764	19,772	150	63	428	256	27,758	2	440,823	143,420
(175,747)	(183,963)	15,600	18,555	(4,913)	(3,744)	51	(59)	3,993	6,055	(18,044)	(10)	(66,072)	(76,841)

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SUBSIDIARIES	Unareti S.p.A.		A2A Calore & Servizi S.r.l.		
Share capital:	Euro	965,250,000	Euro	150,000,000	
% held:	A2A S.p.A.	100.00%	A2A S.p.A.	100.00%	
Description thousands of euro	12 31 18	12 31 17	12 31 18	12 31 17	
Revenues	566,409	535,746	240,239	312,415	
Gross operating Income	234,689	246,237	73,806	89,357	
Net operating income	144,327	157,942	36,435	52,328	
Result before taxes	144,710	156,319	34,955	49,697	
Result of the year	103,137	111,701	24,944	35,881	
Assets	2,114,341	2,070,448	696,065	799,374	
Liabilities	635,648	588,892	339,283	429,546	
Equity	1,478,693	1,481,556	356,782	369,828	
Net financial position	(108,981)	(76,198)	(218,583)	(296,114)	

	A2A Energia S.p.A.		A2A Ciclo Idrico S.p.A.		Proaris S.r.l.		Plurigas S.p.A. in liquidation	
	Euro	2,000,000	Euro	70,000,000	Euro	1,875,000	Euro	800,000
	A2A S.p.A.	100.00%	A2A S.p.A.	100.00%	A2A S.p.A.	60.00%	A2A S.p.A.	70.00%
	12 31 18	12 31 17	12 31 18	12 31 17	12 31 18	12 31 17	12 31 18	12 31 17
	1,618,253	1,315,719	91,295	88,982	2,898	2,963	-	5
	136,678	142,988	41,748	38,406	322	349	(9)	-
	118,088	123,963	26,511	25,155	147	314	(9)	(6)
	119,243	125,068	25,966	24,709	149	317	(10)	(4)
	85,348	89,645	18,299	16,978	102	221	9	20
	608,474	574,252	383,083	377,640	6,880	7,253	4,160	4,257
	410,829	370,650	185,753	182,489	874	1,139	1,947	2,027
	197,645	203,602	197,330	195,151	6,006	6,114	2,213	2,230
	(31,816)	(19,818)	(122,340)	(118,332)	2,933	3,098	2,359	2,456

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Certification of the 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
 - effective applicationof administrative and accounting procedures for the preparation of financial statements in the year 2018.
2. It is also certified that:
 - 2.1 the financial statements:
 - a) are prepared in accordance with International Financial Reporting Standards as endorsed by the European Community pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
 - b) correspond to the information contained in the accounting ledgers and records;
 - c) provide a true and fair representation of the equity, economic and financial situation of the issuer;
 - 2.2 the report on operations includes reliable analysis on the performance, result of operations and the business of the issuer, as well as description of principal risks and uncertainties to which is exposed.

Milan, April 3, 2019

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



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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014 (Translation from the original Italian text)

To the Shareholders of
A2A S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of A2A S.p.A. (the Company), which comprise the balance sheet as at 31 December 2018, and the income statement, the statement of comprehensive income, statement of changes in equity and the cash flows statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
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We identified the following key audit matters:

Key Audit Matter	Audit response
Valuation of Shareholdings in subsidiaries At December 31, 2018, the Shareholdings in subsidiaries balance amount to 3.701 million euro. The management assesses at least annually the existence of impairment indicators of each investment, in compliance with its strategy of managing legal entities within the group and, in case of occurrence, these assets are subject to impairment test. The processes and methodologies for assessing and determining the recoverable amount of each shareholdings in subsidiaries are based on complex assumptions, that by their nature imply the use of the management's judgment, in particular with reference to the identification of impairment indicators, to forecast of future cash flows relating to the period covered by the Group's strategic plan, 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. In consideration of the judgment required and of the complexity of the assumptions used in the estimate of the recoverable amount of investments, we have considered that this area represents a key audit matter. The disclosures related to the recoverability of the investment in subsidiaries are included in the paragraph "Use of estimates" and in note n.3 "Shareholdings and other non-current financial assets" of the notes to the 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 identification of any loss and to the valuation of Shareholdings in subsidiaries; • 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 the forecasted future cash flows; • assessment of the consistency between the future cash flows assumed in the Group A2A's strategic plan for the period 2019-2023; • 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 used of EY valuation specialists who performed an independent calculation and sensitivity analysis on key assumptions, in order to determine any changes that could significantly impact the valuation of recoverable amount. Lastly, we reviewed the adequacy of the disclosures included in the notes to the financial statements.

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Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the 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 Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company 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 Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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



- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to 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 Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We 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 11 June 2015, engaged us to perform the audits of the financial statements for each of the years ending 31 December 2016 to 31 December 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 Company in conducting the audit.

We confirm that the opinion on the 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.

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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 S.p.A. as at 31 December 2018, including their consistency with the related 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 financial statements of A2A S.p.A. as at 31 December 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of A2A S.p.A. as at 31 December 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Milan, April 16, 2019

EY S.p.A.

Signed by: Paolo Zocchi, Partner

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



6

Report of the Board of Auditors

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**REPORT OF THE BOARD OF STATUTORY AUDITORS PURSUANT TO ARTICLE 153 OF
LEGISLATIVE DECREE 58/1998 AND ARTICLE 2429 PARAGRAPH 3, CIVIL CODE. TO THE
SHAREHOLDERS' MEETING OF A2A S.P.A. OF MAY 13, 2019 (SECOND CALL, IF
APPLICABLE, MAY 14, 2019)**

Shareholders,

The Board of Statutory Auditors in office was appointed by the Shareholders' Meeting of A2A S.p.A. (hereinafter referred to as the **Company**) of May 15, 2017 and will end its term of office with the Shareholders' Meeting convened to approve the financial statements at December 31, 2019.

Pursuant to article 153, paragraph 1, of Legislative Decree no. 58 of February 24, 1998 (hereinafter **Consolidated Law on Finance**), the Board of Statutory Auditors informs that, during the year ended December 31, 2018, it carried out the supervisory and control activities required by current legislation, with particular regard to the provisions of the Italian Civil Code, articles 148 et seq. of the Consolidated Law on Finance, Legislative Decree no. 39 of January 27, 2010 as amended by Legislative Decree no. 135 of 2016 and Legislative Decree no. 254 of 2016, also taking into account the indications contained in CONSOB communications concerning corporate controls and the activities of the Board of Statutory Auditors, the indications contained in the Corporate Governance Code for listed companies as well as the principles of conduct recommended by the National Council of Chartered Accountants and Accounting Experts.

This Report is given to the Shareholders of the Company in view of the Shareholders' Meeting called, on first call, on May 13, 2019 and, if necessary, on second call, on May 14, 2019 for the approval of the Financial Statements at December 31, 2018.

That said, the activities carried out by the Board of Statutory Auditors during 2018 and up to the

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date of today's report are set out below, also with reference to the requirements of CONSOB Communication no. DEM/1025564 of April 6, 2001 and subsequent amendments.

1. Most significant transactions with regard to the company's financial position, results of operations and cash flows.

The most significant economic, financial and equity transactions and events that took place in 2018 were as follows:

- MNL merger project: merger by incorporation into Acsm-Agam S.p.A. of Aspem S.p.A., AEVV S.p.A., Acel Service S.r.l., AEVV Energie S.r.l., Lario Reti Gas S.r.l. and A2A Idro4 S.r.l., partial demerger of A2A Energia S.p.A. into Acsm-Agam S.p.A. and further operations envisaged in said project;
- authorization to the issuance of one or more non-subordinated bonds, unsecured and non-convertible, for the EMTN program up to a maximum total of 1 billion euro, by May 31, 2020.

The Board of Statutory Auditors received from the Directors, with due periodicity, information on the activities carried out and transactions of major economic, financial and equity importance carried out by the Company and its subsidiaries. The Directors have reported on these transactions in their Report on Operations, to which reference is made, also with regard to the characteristics of the transactions and their economic effects.

The Board of Statutory Auditors has acquired adequate information on these transactions, which have allowed it to reasonably believe that the above transactions complied with the law, By-laws and the principles of correct administration and were not imprudent, risky or in conflict with the resolutions passed by the shareholders' meeting or in any case such as to compromise the integrity of the company's assets.

Transactions with interests of the Directors or with other related parties have been subject to the transparency procedures provided for by current legislation.

2. Atypical and/or unusual transactions, carried out with third parties, intragroup or related parties.

The Board of Statutory Auditors has not found or received any indications from the Board of Directors, the Independent Auditors or the Head of Internal Audit regarding the existence of atypical and/or unusual transactions, as defined by Consob communication DEM/6064293 of July 28, 2006, carried out with third parties, related parties or intragroup.

In the notes to the financial statements, the Directors reported on ordinary transactions carried out during the year with Group companies and related parties, to which reference should be made, also with regard to the characteristics of the transactions and their economic effects.

Their examination did not reveal any critical issues with regard to their suitability, congruity or correspondence to the interests of the Company.

The Board of Statutory Auditors verified the actual implementation and functioning of the Procedure for Transactions with Related Parties adopted by the Company, including periodic information from the Board of Directors in the event of such transactions being carried out.

3. Observations and proposals on the remarks and requests for information contained in the independent auditors' report.

On April 16, 2019, the independent auditors EY S.p.A. issued their report pursuant to article 14 of Legislative Decree January 27, 2010, no. 39 and article 10 of Regulation (EU) no. 537 of April 16, 2014, in which the independent auditors certify that in their opinion:

- the annual and consolidated financial statements of A2A S.p.A. provide a true and fair view of the financial position and results of operations of the Company and the A2A Group at December 31, 2018, of the economic results and cash flows for the year ended on said date,

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in accordance with the International Financial Reporting Standards adopted by the European Union, as well as the measures issued in implementation of article 9 of Legislative Decree no. 38 of February 28, 2005;

- the report on operations and some specific information contained in the report on corporate governance and ownership structure indicated in article 123-bis, paragraph 4, of Legislative Decree no. 58 of February 24, 1998 are consistent with the annual and consolidated financial statements of the Company and the A2A Group at December 31, 2018 and have been prepared in accordance with the law;
- there is nothing to report with reference to the statement referred to in article 14, paragraph 2, letter e) of Legislative Decree no. 39 of January 27, 2010, issued on the basis of the knowledge and understanding of the company and the relative context acquired during the audit.

On April 16, 2019, the independent auditors EY S.p.A. also issued their additional report pursuant to article 11 of Regulation (EU) 537/2014, which, among other things, confirms that, during the audit of the Company's annual financial statements and the Group's consolidated financial statements for the year ended December 31, 2018, no significant deficiencies were identified in the internal control system for financial information and/or in the accounting system.

The auditor's reports highlight the key aspects of the audit, to which reference should be made.

4. Complaints pursuant to article 2408 of the Civil Code and filing of complaints. Initiatives undertaken by the Board of Statutory Auditors and related outcomes.

In 2018, no complaints were received pursuant to article 2408 of the Civil Code nor reports of any kind by third parties.

In this regard, it should be noted that the Company has adopted a whistleblowing procedure that provides for the establishment of suitable information channels to ensure the reception, analysis

and processing of reports, related internal control issues, corporate information, administrative liability of the Company, fraud or other matters, sent by employees, members of corporate bodies or third parties, including in confidential or anonymous form.

5. Appointment of the independent auditors and related costs.

The annual financial statements of A2A S.p.A. and its subsidiaries have been subject to a full audit by EY S.p.A. on the basis of the appointment conferred by the shareholders’ meeting for financial years 2016 to 2024.

The following table provides a summary of the fees paid for audit work performed within the Group during 2018, analyzed between the leading auditor EY S.p.A. and other auditors.

Description <i>thousands of euro</i>	Leading Auditor	Other auditors
A2A S.p.A.		
Audit of annual financial statements	145.0	
Audit of consolidated financial statements	42.0	
Periodic tests of accounting	21.0	
Review of half-year report	67.0	
Audit of the separate annual accounts for ARERA	15.0	
Total	290.0	-
Subsidiaries		
Audit of annual financial statements	752.0	
Periodic tests of accounting	194.0	
Review of half-yearly report	187.0	
Audit of the separate annual accounts for ARERA	47.0	
LGH Group	263.0	
ACSM-AGAM Group		400.0
Total	1,443.0	400.0
Associates and joint ventures		
Audit of the information sent to shareholders for the consolidation	34.0	
Total	34.0	-
TOTAL A2A GROUP	1,767.0	400.0

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The Board of Statutory Auditors has been informed by the Company that the following additional fees paid to companies or professional firms connected to the international network of EY S.p.A. in relation to the offices specified below have been recorded (amounts in euro):

Company	Purpose	Amount
Retragas S.r.l.	Certification of revenues and investments and disposals relating to 2017. Resolution 514/2013/R/GAS (RTTG 2014 - 2017)	1,000.00 euro
Aspem S.p.A.	Acts consequent to the determination of the liquidation value of the shares in the event of the right of withdrawal - assignment to be conferred to the person in charge of the audit	25,000.00 euro
A2A S.p.A.	Full Audit "Idro" unit	18,000.00 euro
A2A Energia S.p.A.	Financial Statements "Clienti Varese" unit	23,000.00 euro
A2A Energiefuture S.p.A.	Request for reinstatement of 2017 costs San Filippo del Mela - Essential plants resolution ARERA 111/06	1,000.00 euro
A2A S.p.A.	Attestation activities related to the updating of the EMTN program	45,000.00 euro
Acsm-Agam S.p.A.	Risk assessment aimed at supporting the updating of the Organization, Management and Control Models pursuant to Legislative Decree 231/01 of the ACSM AGAM Group	75,000.00 euro
Total		188,000.00 euro

The conferral of the above appointments was approved in advance by the Board of Statutory Auditors.

Pursuant to the provisions of article 6, paragraph 2, letter a) of Regulation (EU) no. 537/2014, the Board of Statutory Auditors has received from EY S.p.A. a statement that it has maintained its position of independence and objectivity with respect to the Company and its Group throughout the 2018 financial year, taking into account the activities carried out.

6. Main opinions issued by the Board of Statutory Auditors in accordance with current legislation.

In 2018, the Board of Statutory Auditors, in particular:

- examined and positively assessed the approval of the 2018 Audit Plan prepared by the Head of the Internal Audit function and approved by the Board of Directors;
- examined and positively assessed the Remuneration Policy for 2018 as well as the text of the Remuneration Report approved by the Board of Directors at its meeting of March 20, 2018, verifying that it contained the information required by article 123 ter of the Consolidated Law on Finance and article 84 quater of Consob Regulation 11971/1999;
- examined and positively assessed the text of the Report on Corporate Governance and Ownership Structure approved by the Board of Directors at its meeting of March 20, 2018, verifying that it contains the information required by article 123 bis of the Consolidated Law on Finance and complies with the provisions of the scheme prepared by Borsa Italiana S.p.A.;
- issued a favourable opinion, pursuant to article 19, first paragraph, letter e) of Legislative Decree no. 39 of January 27, 2010 and article 5 of European Community Regulation no. 537 of April 16, 2014, in relation to the assignment of “non audit services” to the independent auditors.

After the end of the financial year and up to the date of this report, the Board of Statutory Auditors has also:

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- examined and positively assessed the approval of the 2019 Audit Plan prepared by the Head of the Internal Audit function and approved by the Board of Directors;
- examined and positively assessed the Remuneration Policy for 2019 as well as the text of the Remuneration Report approved by the Board of Directors at its meeting of April 3, 2019, ascertaining that it contains the information required by article 123 ter of the Consolidated Law on Finance and article 84 quater of Consob Regulation 11971/1999;
- examined and positively assessed the text of the Report on Corporate Governance and Ownership Structure approved by the Board of Directors at its meeting of April 3, 2019, verifying that it contains the information required by article 123 bis of the Consolidated Law on Finance and complies with the provisions of the scheme prepared by Borsa Italiana S.p.A.

7. Attendance at meetings of corporate bodies.

In 2018, the Board attended all the meetings of the Board of Directors, for a total of 18 sessions, during which it was informed about the activities carried out and the most significant transactions made by the Company and its subsidiaries. In this context, the Board received from the Chairman and CEO the information regarding the exercise of the respective proxies.

Moreover, the Board held 24 meetings in 2018, during which information was also exchanged with the independent auditors in order to ensure that no transactions were carried that were imprudent, risky, in potential conflict of interest, in contrast with the law, By-laws or the resolutions of the shareholders' meeting or such to affect the integrity of the Company's assets.

The Board of Statutory Auditors also attended 18 meetings of the Control and Risk Committee, 17 meetings of the Remuneration and Appointments Committee, and 3 meetings of the Committee for Transactions with Related Parties, gaining knowledge of the work they performed during the year.

The Control Body also participated in the Shareholders' Meeting of April 27, 2018.

In 2019, to date, the Board of Statutory Auditors has attended 5 meetings of the Board of Directors, 5 meetings of the Control and Risk Committee, 4 meetings of the Remuneration and Appointments Committee, 1 meeting of the Committee for Transactions with Related Parties and has held 9 meetings of the Board of Statutory Auditors.

8. Observations on compliance with the principles of correct administration.

The Board of Statutory Auditors, following its supervisory activity, has no observations to make regarding compliance with the principles of correct administration and has verified that the Directors are aware of the riskiness and effects of the operations carried out.

In particular, the Board of Statutory Auditors verified that the management decisions were taken in the interest of the Company, compatible with the Company's resources and assets and adequately supported by information, analysis and verification processes, also with recourse, when deemed necessary, to the advisory activities of the Committees and external professionals.

9. Observations on the adequacy of the organizational structure.

The Board of Statutory Auditors constantly collected information on the organizational structure of the Company and changes thereto, also meeting with the related managers of the Company. In light of what has been verified, the Board of Statutory Auditors believes that the organizational structure of the Company, the procedures, expertise and responsibilities are adequate in relation to the size of the Company and the type of activity performed.

The Board of Statutory Auditors also verified the adequacy of the organizational structure of subsidiaries with strategic importance of A2A S.p.A., with particular reference to the internal control and risk management system.

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10. Adequacy of the Internal Control and Risk Management System.

The Board of Statutory Auditors monitored the adequacy of the Internal Control and Risk Management System of A2A S.p.A. and its strategically important subsidiaries, by means of:

- a) the regular collection of information, including at meetings of the Control and Risk Committee and by means of meetings with the Head of the Internal Audit function, the Head of the Compliance function, the Group Risk Officer and the Heads of other functions concerned from time to time, on the activities carried out, the mapping of risks relating to ongoing activities, the verification programmes and the projects for implementing the internal control system, with the acquisition of the related documentation;
- b) regular participation in the work of the Control and Risk Committee set up pursuant to the Corporate Governance Code for listed companies;
- c) examination of the periodic reports of the Control and Risk Committee;
- d) examination of the reports of the Head of the Internal Audit function, concerning the checks in the various company areas, both at peripheral and corporate level, on the functioning of the Group's Internal Control and Risk Management System and the monitoring of the implementation of the corrective actions identified as a result of the audit activity;
- e) the examination of the periodic reports prepared every six months by the Head of Internal Audit function, which contain information on the activities carried out by the latter during the reference period, the risk management procedures within the Company, respect for plans defined for their reduction, strategic goals for reduction and efficiency, as well as the positive assessment of the same Head of the Internal Audit function on the suitability of the internal control and risk management system of the Company with respect to the characteristics of the Company and the profile of risk undertaken. In particular, the Board of Statutory Auditors expressed a favourable opinion on the organizational, administrative and accounting structure

and the internal control and risk management system of A2A S.p.A. and its strategically important subsidiaries.

The Board of Statutory Auditors has also:

- verified that the Company has an Organizational, Management and Control Model consistent with the principles contained in Legislative Decree 231/01 and the guidelines drawn up by the Trade Associations, last updated by the Board of Directors on May 31, 2018, to take account of the entry into force of Law no. 179 of November 30, 2017, containing the *“provisions for the protection of offenders of crimes or irregularities of which they have become aware in the context of a public or private employment relationship”*, as well as the introduction by the legislator of new types of crime (provisions against illegal immigration and crimes of racism and xenophobia);
- verified that the Company has an Anti-Corruption Policy;
- examined the periodic reports (at June 30, 2018 and December 31, 2018) of the Supervisory Board provided for by Legislative Decree 231/2001 summarizing the activities carried out during the year and met its members;
- met with representatives of the Board of Statutory Auditors of the wholly-owned subsidiaries A2A Energiefuture S.p.A., A2A Calore & Servizi S.r.l., Amsa S.p.A., Unareti S.p.A. and Aprica S.p.A. for the purposes of exchanging information on, among other things, the functioning of corporate activities and compliance with the directives issued by the parent company, the characteristics of the internal control system, the corporate organization of subsidiaries, the composition and activities of the Supervisory Bodies, Committees and the Internal Audit function.

Therefore, in the course of carrying out the above activities, the Board of Statutory Auditors:

- a) did not identify any critical situations or facts that might suggest, in relation to 2018, that A2A S.p.A.’s Internal Control and Risk Management System is inadequate;

- b) considering the information provided by the Chairman of the Supervisory Board and the reports mentioned above, which show that, in 2018, no censurable facts or violations of the Model emerged, the Board of Statutory Auditors, to the extent of its competence, considers that said Model is suitable for preventing offences under the regulations in question and is correctly adopted;
- c) noted the positive assessment expressed by the Board of Directors in relation to the adequacy and effective functioning of the Internal Control and Risk Management System for 2018.

11. Adequacy of the administrative-accounting system and its reliability.

The Board of Statutory Auditors, to the extent of its competence, monitored the adequacy of the administrative-accounting system and its reliability in correctly representing operating events as well as the activities carried out, under the coordination of the Head of Financial Reporting, for the purposes of compliance with Law 262/05 *“Provisions for the protection of savings and the regulation of financial markets”* and subsequent amendments and additions, by means of:

- a) the acquisition of information from the Head of Financial Reporting as well as from the Heads of other company departments, also in the context of participation in the work of the Control and Risk Committee;
- b) the acquisition of information on the procedures adopted and instructions issued by A2A S.p.A. for the preparation of the Annual Report of the Group at December 31, 2018 and the Half-Year Report of the Group at June 30, 2018;
- c) examination of the periodic reports of the Head of Financial Reporting, as well as the reports of the Internal Audit function on the actual application of the administrative and accounting procedures pursuant to Law 262/05 and on the outcome of the related tests carried out, drawn up in execution of the mandate entrusted by the Head of Financial Reporting;

- d) meetings with the Independent Auditors and analysis of the results of their work;
- e) examination of company documents.

The Board of Statutory Auditors also noted that, following the favourable opinion issued by the Control and Risks Committee, in accordance with the recommendations made by the European Securities and Markets Authority ("ESMA") on January 21, 2013, the joint document Bank of Italy/Consob/ISVAP no. 4 of March 3, 2010 and Consob Communication no. 3907 of January 19, 2015, on March 1, 2018, the Board of Directors autonomously and prior to the approval of the annual financial statements, approved the impairment test procedures applied by the Company in preparing the financial statements at December 31, 2018 and the impairment test procedures to be applied to the annual financial statements of the companies of the A2A Group.

In the course of carrying out the activity described above, the Board of Statutory Auditors did not identify any critical situations or facts that might lead to the conclusion, in relation to 2018, that the administrative-accounting system of A2A S.p.A. is inadequate and/or unreliable.

12. Adequacy of the instructions given to subsidiaries.

It should be noted that the Company regulates, by means of specific procedures, the flow of information to it from its subsidiaries, particularly with regard to major transactions.

The Board of Statutory Auditors considers the instructions given by the Company to its subsidiaries pursuant to article 114, paragraph 2 of the Consolidated Law on Finance to be adequate, in order to comply with the communication obligations provided for by law.

13. Any relevant aspects relating to meetings with auditors.

The Board of Statutory Auditors met with the independent auditors in relation to the Annual Report at December 31, 2018:

- a) to exchange information on the verifications carried out by the latter pursuant to Legislative Decree 39/2010 and article 150, paragraph 3 of the Consolidated Law on Finance, on the

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regular accounting and correct reporting of events in the accounting records. During these meetings, there were no reports of problems or abnormalities;

- b) for the examination and evaluation of the preparation process, including the evaluation of the correct application of accounting standards and homogeneity of the same, the Half-Year Report of the Group at June 30, 2018 and the Annual Report of the Group at December 31, 2018, as well as the outcomes of the audit and evaluation of these documents.

In particular, the Board of Statutory Auditors: - analyzed the activity carried out by the independent auditors, and in particular, the methodological structure, the audit approach used for the various significant areas of the financial statements and the planning of the audit work; - shared with the independent auditors the problems relating to corporate risks, thus being able to appreciate the adequacy of the response planned by the independent auditors with the structural and risk profiles of the Company and the Group.

The Board of Statutory Auditors, in addition to as already stated in paragraph 3, also:

- a) received, pursuant to article 11 of Regulation (EU) no. 537/2014, the supplementary report of the independent auditors, also illustrating the key issues arising from the statutory audit and any significant deficiencies in the internal control system for financial reporting and/or in the accounting system, from which no significant deficiencies were identified;
- b) took note of the statement on the independence of EY S.p.A. pursuant to article 6 of Regulation (EU) no. 537/2014, annexed to the supplementary report, from which no situations emerge that could compromise its independence;
- c) discussed, pursuant to article 6, paragraph 2, letter b) of Regulation (EU) no. 537/2014, with the independent auditors the risks relating to the independence of the same and the measures adopted by the independent auditors to mitigate said risks.

14. Adhesion to the Corporate Governance Code of the Governance Committee of listed companies.

The Board of Statutory Auditors verified that the Company complies with the Corporate Governance Code for listed companies approved in March 2006 and last amended in July 2018 (hereinafter **Code**).

It therefore supervised, pursuant to article 149, paragraph 1, letter c-bis) of the Consolidated Law on Finance, the procedures for the concrete implementation of the rules of corporate governance provided for by the Code, with particular regard to:

- the correct application of the ascertainment criteria and procedures adopted by the Board of Directors to assess the independence of its members;
- the manner in which the self-assessment activities of the Board of Directors and its Internal Committees were carried out, including that relating to the requirements for independent directors;
- the Company's corporate governance structure.

The Board of Statutory Auditors also acknowledges that the Board of Directors, at its meeting of January 31, 2019, examined the recommendations of the Corporate Governance Committee contained in the letter of December 21, 2018 addressed by the Chair of the Committee, Patrizia Grieco, to the Chairpersons of the Boards of Directors of Italian listed companies and, for information, to the relative Chief Executive Officers and Chairpersons of the control bodies, in order to make the necessary decisions in this regard.

The Board of Statutory Auditors monitored the activities carried out by the Control and Risk Committee, the Remuneration and Appointments Committee and the Related Parties Committee, also through participation in their meetings.

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In addition to the above, the Board of Statutory Auditors:

- assessed the compliance of its composition with the provisions of the law on portions, as well as its adequacy in terms of policies on diversity of age and diversity of educational and professional experience;
- confirmed the correctness and effectiveness of its functioning, also taking into account the requirements of professionalism, competence and experience of its members, compliance with the regulatory provisions on the accumulation of offices of the Statutory Auditors, the availability of time in the performance of their duties, as well as the functionality and quality of information flows with the Board of Directors, the Control and Risk Committee, the independent auditors and other control functions;
- successfully carried out the periodic verification regarding compliance with the criteria of independence with regard to each of its members, as required by the Code. The outcome of said audits is outlined in the Annual Report on Corporate Governance and Ownership Structures prepared for the year 2018;
- drafted the summary sheets of the control activities carried out by the Board of Statutory Auditors in 2018 according to as provided in CONSOB Communication no. 1025564 of April 6, 2001.

Final evaluations of the supervisory activity carried out and proposal to the Shareholders'

Meeting.

Having regard to the foregoing, and having, in the year under consideration:

- monitored compliance with the law and By-laws, principles of proper administration, and in particular the adequacy of the administrative and accounting organization structure adopted by the Company and proper functioning thereof;

- monitored observance of information obligations regarding privileged information;
- monitored the functioning and effectiveness of the internal control system and the administrative-accounting system, in order to assess their suitability to company requirements, as well as their reliability for the representation of management events;
- monitored compliance with the provisions of law relating to the process of preparing, controlling, approving and publishing the Company's statutory financial statements and the process of preparing, controlling and publishing the Group's consolidated financial statements and reports on operations for the year 2018, including through direct checks and information obtained from the independent auditors, and also ascertained the adequacy, from the point of view of the method, of the impairment process;
- verified that, in accordance with Regulation (EC) no. 1606/2002 and Legislative Decree no. 38/2005, the financial statements of A2A S.p.A. and the consolidated financial statements of the Group at December 31, 2018 are prepared in accordance with IAS/IFRS international accounting standards approved by the European Commission, supplemented by the related interpretations issued by the International Accounting Standards Board (IASB);
- monitored compliance with the procedure for the preparation and presentation of the annual financial statements to the Shareholders' Meeting;
- monitored, pursuant to article 19, paragraph 1 of Legislative Decree 39/2010, the financial reporting process and the effectiveness of internal control, internal audit and risk management systems and informed the Board of Directors on the outcome of the statutory audit;
- monitored compliance with the provisions established by Legislative Decree 254/2016 and Consob Regulation no. 20267/2018, examining, among other things, the consolidated non-financial statement and also verifying compliance with the provisions governing its preparation pursuant to the aforementioned decree and therefore its preparation in

compliance with these rules. The Board of Statutory Auditors verified the approval by the Board of Directors on April 3, 2019 of the aforementioned Statement and the issue on April 16, 2019, by the independent auditors, of the attestation of conformity of the information provided in said document with the requirements of articles 3 and 4 of Legislative Decree 254/2016 and the “Global Reporting Initiative Sustainability Reporting Standards”, identified as the reporting standard by the Directors of A2A S.p.A.

Providing the foregoing, the Board of Statutory Auditors states that, during the supervision activities described above, no reprehensible facts, omissions, or irregularities arose that require reporting to the competent bodies.

In view of the above, the Board of Statutory Auditors kindly requests that you approve the financial statements at December 31, 2018 presented by the Board of Directors along with the report on operations and the proposed distribution of a dividend.

Milan, April 16, 2019

THE BOARD OF STATUTORY AUDITORS

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|-------------------------------------|---|-------------------|
| (Signed Giacinto Sarubbi) | - | Chairman |
| (Signed Maurizio Leonardo Lombardi) | - | Statutory Auditor |
| (Signed Chiara Segala) | - | Statutory Auditor |

Overview of performance, financial conditions and net debt

1 Financial statements

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

3 Notes

4 Attachments

5 Independent Auditors' Report

6 Report of the Board of Auditors