2017 Financial Statements

consolidated financial statements
as at 31 December 2017

VERITAS

Veritas spa

veneziana energia risorse idriche territorio ambiente servizi

registered office

Santa Croce 489, Venice

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directors

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Board of Statutory Auditors

chairman

Giovanna Ciriotto

standing auditors

Giovanni Battista Armellin

Roberto Giordani

alternate auditors

Daniele Barabin

Maria Giovanna Ronconi

independent auditing firm

EY spa

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2 CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Financial Statements

2.1 Report on operations

2.1.1 Activities and operations during 2017

Dear Shareholders,

The Shareholders' Meeting of Veritas spa held on 27 June 2008 recommended that, as provided for by Italian laws, the Veritas Group apply Legislative Decree no. 38 of 28 February 2005 on a voluntary basis, opting for the publication of the consolidated financial statements in compliance with IAS/IFRS.

The financial statements must be approved within one hundred and eighty days from the close of the period, as per the Articles of Association and Art. 2364 of the Italian Civil Code, since the Company is required to draw up the consolidated financial statements pursuant to Art. 25 of Legislative Decree no. 127/91.

The financial statements of the Veritas Group, as at 31 December 2017, reveal a net profit of EUR 13,813 thousand compared with EUR 5,855 thousand of the consolidated financial statements as at 31 December 2016.

If we consider the consolidated result including the share of minority interests, the profit comes to EUR 14,870 thousand, compared to a consolidated profit of EUR 7,256 thousand in 2016.

The consolidated financial statements include the financial statements of the parent company Veritas spa and the financial statements of the companies over which Veritas spa exercises controlling rights, either directly or indirectly (through its subsidiaries), determines their financial and operating choices, and obtains the relative benefits thereof.

The parent company also adopts, as of 2017, the IAS/IFRS for the purposes of drafting the separate financial statements, pursuant to Italian Legislative Decree 38/2005 governing EIP (public interest entities).

Listed below are the companies, which, in compliance with the IAS 27 provisions, are included in the scope of consolidation as at 31 December 2017:

consolidated companies	head office	share capital	31.12.2017 Group's shareholding	31.12.2016
Veritas spa (parent company)	Venice	142,235,350		
Ecoprogetto Venezia srl	Venice	42,120,000	44.86%	44.86%
Vier srl	Venice	100,000	100.00%	100.00%
Mive srl *in liquidation*	Mirano (Ve)	110,000	100.00%	100.00%
Eco-ricicli Veritas srl	Venice	7,000,000	78.06%	78.06%
Sifagest scarl	Venice	500,000	64.40%	64.40%
Alisea spa	Jesolo (Ve)	415,000	100.00%	74.84%
Asvo spa	Portogruaro (Ve)	18,969,650	55.75%	55.75%
Consorzio bonifica riconv. produttiva Fusina	Venice	100,000	78.32%	78.32%
Metalrecycling Venice srl	Venice	100,000	78.06%	78.06%
consolidated companies pursuant to IFRS 5				
Steriladria srl	Adria (Ro)	100,000	40.37%	35.89%

With reference to changes in the scope of consolidation, we hereby notify the following:

- on 19 May 2017, the parent company acquired an additional 25.16% of Alisea spa, which is therefore wholly-owned;

- in the first half of 2017, it completed the acquisition of 100% of Asi spa, manager of the integrated water service in 11 municipalities in the northern part of the metropolitan area of Venice, through a first cash purchase of 8.68%, followed by the transfer of an additional 91.32% through the share capital increase of Veritas, reserved to the partner municipalities that own Asi spa. The company was then merged by incorporation into Veritas spa with effect from 1 January 2017 for accounting and tax purposes. The process of operational integration with said entity was still in progress from 2016;
- on 28 December 2017, Ecoprogetto acquired an additional 10% of Steriladria srl, therefore bringing its stake to 90%; in February 2018, Ecoprogetto then sold 60% of the shares held to an entity outside the Group (Saste servizi ecologici srl). The company was therefore already consolidated from 2017 pursuant to IFRS 5;
- as a result of the framework agreement signed in January 2017 with the Sibelco Group, in March 2017, Eco-ricicli Veritas completed the sale of 100% of the shares held in Ecopiave srl to Ecopatè srl and the sale of 30% of its shares in Ecopatè srl to Sibelco Italia spa. As a result of these transactions, Ecopiave srl, already consolidated in compliance with IFRS 5, left the Group, while Eco-ricicli Veritas' stake in Ecopatè srl fell to 10%.

In addition, the following associates and jointly controlled companies are valued using the equity method:

companies valued with the equity method	head office	share capital	31.12.2017	31.12.2016
			Group's shareholding	
associates				
Insula spa	Venice	3,706,000	24.73%	24.73%
Sifa scpa	Mestre (Ve)	30,000,000	32.14%	32.14%
Depuracque servizi srl	Salzano (Ve)	223,080	20.00%	20.00%
Lecher ricerche e analisi srl	Salzano (Ve)	46,800	60.00%	60.00%
Ecoplastiche Venezia srl	Venice	100,000	31.22%	31.22%
Veritas Conegliano srl	Venice	100,000	48.80%	48.80%

With respect to the previous year, it should be noted that Amest srl was struck off the Register of Companies in August 2017, in completion of the liquidation process.

As outlined in the previous point, Ecopatè srl is no longer an associate as the shareholding fell to 10%.

The share capital of the parent company Veritas, subscribed and paid up as at 31 December 2017, amounted to EUR 142,235 thousand, as a result of the share capital increase resolved on 1 June 2017 in favour of the partner municipalities of Asi spa and the Municipality of Venice, marking a change of EUR 31,261 thousand compared to 2016. As a result of the transactions completed in the first half of 2017, the 16,643 own shares held by said entity, for a value of EUR 1,331 thousand, were reduced to 8 shares for a value of EUR 640; this amount was booked to a special reserve as a reduction of shareholders' equity.

The Group provides services (local public, environmental and integrated water services) to almost 51 municipalities belonging to the 'optimal subdivisions' of the Venice and Treviso provinces. The inhabitants receiving the services total more than 920,000, making up almost the entire Venice metropolitan area and 18% of the inhabitants in the Veneto region, in addition to a further 40 million tourists visiting Venice each year, the surrounding areas and coastal towns of Jesolo, Eraclea and Chioggia, for a total of more than 1 million equivalent inhabitants. Thanks to the merger of Asi, Veritas guarantees the integrated water service to 36 Municipalities.

The main financial items of the Veritas Group are reported below (in thousands of Euro):

consolidated income statement	2017	%	2016	%
total net income	**382,532**	**100.00%**	**358,042**	**100.00%**
personnel costs	-152,636	-39.90%	-140,280	-39.18%
other operating and accruals	-155,812	-40.73%	-156,930	-43.83%
EBITDA	**74,084**	**19.37%**	**60,832**	**16.99%**
amortisation, depreciation and write-downs	-35,150	-9.19%	-32,395	-9.05%
provisions for risks and charges	-6,694	-1.75%	-6,026	-1.68%
operating income	**32,240**	**8.43%**	**22,411**	**6.26%**
portion pertaining to shareholdings valued with the equity method	617	0.16%	168	0.05%
financial (income) charges	-10,289	-2.69%	-11,659	-3.26%
income before taxes	**22,568**	**5.90%**	**10,920**	**3.05%**
income taxes for the year	-7,190	-1.88%	-3,990	-1.11%
profit (loss) for the year from continuing operations	**15,378**	**4.02%**	**6,930**	**1.94%**
net profit (loss) from assets held for sale	-509	-0.13%	325	0.09%
consolidated profit (loss) for the year	**14,870**	**3.89%**	**7,256**	**2.03%**
profit (loss) pertaining to minority interest	1,057	0.28%	1,401	0.39%
profit (loss) pertaining to the Group	**13,813**	**3.61%**	**5,855**	**1.64%**

* EBITDA represents the difference between operating revenues and costs before amortisation/depreciation (already net of the amounts for grants for plants), other write-downs of fixed assets, provisions for risks and other allocations.
EBITDA defined in this way is a measurement used by the company's management to monitor and evaluate the company's operating performance, and given it is not identified as an accounting measurement under both Italian and international accounting standards, it must not be considered an alternative way of measuring the trend in the company's result. Given that the composition of EBITDA is not regulated by the reference accounting standards, the calculation method applied by the company may not be consistent with the one adopted by other entities and, therefore, may not be comparable.

Total net revenues increased by EUR 24.5 million compared to 2016, marking an increase of 6.84%, mainly due to the incorporation of Asi spa; also including the recognition of water tariff equalisations to the parent company and a general increase in the municipal waste management services provided. Alisea also recorded non-recurring revenues related to the release of the bad debt provision on Tia1.

Personnel costs (EUR 152.6 million) rose by 8.81% compared to 2016 (EUR 140.3 million); the average workforce of 3,012 employees increased by around 205 compared to 2016. As in the previous year, no costs were recorded relating to redundancy incentives pursuant to Italian law 92/2012 (so-called "isopensione").

The increase in the number of employees is attributable almost entirely to the parent company, and derives from the full consolidation of Asi spa for the entire year, with an average workforce of 143 employees, as well as further increases related to the launch of new services, to insourcing and the management of Group synergies.

employees	2017	2016	change
senior managers	21.27	20.00	1.27
middle managers	74.07	73.00	1.07
white-collar employees	842.51	786.35	56.16
blue-collar employees	2,074.19	1,927.99	146.20
total employees	**3,012.04**	**2,807.34**	**204.70**

The ratio of labour costs to total net revenues is 39.9%, a slight increase compared to 2016 (39.18%). The change is related to the salary increases of the recent contractual renewals, plus the expansion in the organisational structure as a result of the aforementioned aggregation transaction. On average, this figure remains above the corresponding figure of Groups operating in the local public services sector of comparable size. However, it should be noted that the characteristics of the services provided by the Veritas Group – owing to their complexity and multidisciplinary nature, as well as the peculiarities of the delicate territory in which it operates (in particular the historic centre of Venice) – are scarcely comparable to any other organisation operating in similar sectors or markets.

The **gross operating margin (EBITDA)** was equal to EUR 74.1 million, marking an increase of 21.78% compared to EUR 60.8 million in 2016, linked mainly to the Asi aggregation.

The same positive trend was recorded by **operating income (EBIT)**, amounting to EUR 32.2 million, up by 43.86% compared to EUR 22.4 million in 2016.

Net financial charges, amounting to EUR 10.3 million, fell when compared to 2016, a trend already recognised in the last year compared to 2015. The bond stipulated in 2014 almost fully replaced the previous forms of funding used (especially bank loans, leasing and factoring), which were used to a lesser extent also in the current year.

Income before taxes therefore amounted to EUR 22.6 million, up compared to the EUR 10.9 million of 2016. As already outlined in the previous paragraphs, the positive effect is attributable primarily to the Asi aggregation.

Income taxes for the financial year amounted to EUR 7.2 million, compared to EUR 4 million in 2016.

Profit (loss) pertaining to minority interest amounted to EUR 1,057 thousand (EUR 1,401 thousand in 2016), relating mainly to the subsidiaries Ecoprogetto, Eco-ricicli Veritas, Asvo and Metalrecycling.

Listed below are the main equity figures of the Veritas Group (in thousands of Euro):

(thousands of Euro)	31.12.2017	31.12.2016
assets		
total non-current assets	602,051	545,299
current assets	159,437	181,120
net assets (liabilities) held for sale (non-financial)	4,146	9,077
total assets	**765,634**	**735,496**
liabilities and shareholders' equity		
total Group shareholders' equity	229,978	161,340
shareholders' equity pertaining to minority interest	34,408	35,379
non-current liabilities	137,776	131,630
current liabilities	183,058	225,986
net financial position	180,414	181,161
total liabilities and shareholders' equity	**765,634**	**735,496**

* The net financial position, calculated according to the criteria set out in the main financial covenants in place as at 31 December 2017, is the difference between all short-term financial liabilities and financial assets (in the case of the Veritas Group, the latter only include cash and cash equivalents). The net financial position does not include the Veritas payable due to the Municipality of Venice, rescheduled as long-term, amounting to EUR 39,248 thousand.

Under **non-current assets**, following the adoption of IFRIC 12, starting from 1 January 2010, the activities of the integrated water cycle which, net of the government grants disbursed, amounted to EUR 210.4 million (EUR 169.7 million in 2016) were reclassified under the item 'Concession services'.

The total increase in non-current assets, amounting to EUR 56.8 million, is also primarily attributable to the aggregation of Asi.

Current assets fell to EUR 159.4 million, compared to EUR 181.1 million at the end of 2016, the decrease is connected primarily to the collection of receivables deriving from the transfer of Ecoprogetto shares, completed in 2016, as well as the drop in VAT receivables due from the tax authorities. Art. 17 ter of the Consolidated Law on VAT, amended in 2017, expanded the group of VAT entities involved in the split payment; from 2017, Group companies are inserted in the ministerial lists of entities to which the new legislation applies. Following the various changes to the methods of registration and payment, as well as to the direct reimbursements received from the tax authorities, the VAT credit booked as at 31 December 2016 amounting to EUR 16.4 million, fell to EUR 1.7 million at the end of 2017.

Current liabilities (EUR 183.1 million compared to EUR 226 million as at 31 December 2016) fell by EUR 42.9 million; trade payables fell by EUR 20.3 million compared to the previous year and payables due to partner entities dropped by EUR 21.2 million.

Net working capital, namely the difference between current assets and current liabilities, is negative by EUR 23.6 million compared to the EUR 44.9 million of 2016. A negative trend persists, which allows for a release in financial resources, also thanks to careful coordination activities by the parent company.

Non-current liabilities amounted to EUR 137.8 million (EUR 131.6 million as at 31 December 2016), marking an increase of EUR 6.1 million, in particular due to the combined effect of the increase due to the Asi aggregation and the fall in long-term payables due to the Municipality of Venice (down EUR 5.8 million).

Shareholders' equity totalled EUR 67.7 million compared to the previous year; in June 2017, the shareholders of the parent company resolved a share capital increase intended for the partner municipalities of Asi and the Municipality of Venice, subscribed for EUR 31.3 million, with premium of EUR 21.9 million. For further details, please refer to the Report on Operations in the separate financial statements of Veritas. The 2017 result for the year came to EUR 14.9 million, relating to the Group (EUR 13.8 million) and minority interests (EUR 1.1 million). The Group shareholders' equity, as at 31 December 2017, was EUR 230 million compared to EUR 161.3 million at the close of 2016. The shareholders' equity pertaining to minority interests recorded a decrease, connected primarily to Veritas' purchase of the residual stake in Alisea (25.16%).

The **net financial position** of the Group at the end of the year, which also includes the aggregation with Asi, was negative in the amount of EUR 180.4 million, compared to EUR 181.2 million in the previous year. Therefore, sustainable levels were maintained from an economic-financial point of view.

In fact, the Group has a high level of debt, though characterised by a sustainable ratio between the net financial position and EBITDA, equal to 2.44, down compared to both the 2.98 of the previous financial year, and years before the previous one.

The net financial position is composed as follows:

(thousands of Euro)	31.12.2017	31.12.2016
cash on hand	**-103,887**	**-81,219**
payables due to banks and current portion of loans	23,761	37,686
current portion of loans from other funders	10,677	7,794
derivative financial instruments - liabilities	71	44
short-term financial payables due to partner entities	45	548
financial liabilities from assets held for sale	103	3,498
current financial debt	**34,657**	**49,570**
net current financial debt	**-69,230**	**-31,649**
medium/long-term loans	134,343	110,380
medium/long-term loans from other funders	113,591	101,471
medium/long-term financial payables due to associates	900	515
medium/long-term financial payables due to partner entities	810	444
non-current financial debt	**249,644**	**212,810**
net financial debt	**180,414**	**181,161**

Reconciliation between the separate financial statements of the parent company and the consolidated financial statements

The table, up until 2016, highlighted two comparisons: the first summarises, the profit (loss) for the year and shareholders' equity of the statutory financial statements (Italian GAAP) of the parent company, and the financial statements drafted for the purpose of consolidation according to IFRS standards, and the second, in detail, shows the changes in net profit and shareholders' equity following the consolidation transactions.

As of this year, the parent company drafts the separate financial statements according to IFRS. Based on paragraph D17 of IFRS 1 revised, the company valued the assets and liabilities of the separate financial statements at the same values stated in the consolidated financial statements, except for the adjustments due to consolidation. Therefore, it recorded the assets and liabilities in the opening balance sheet (1 January 2016) and in the subsequent separate financial statements, at the same values reported in the accounting position prepared for the consolidated financial statements of the Veritas Group, already drafted according to IFRS. Please see the notes to the separate financial statements of the parent company for the table of reconciliation of the shareholders' equity of Veritas following the application of IAS/IFRS.

	profit (loss) for the year 2017	shareholders' equity 2017	profit (loss) for the year 2016	shareholders' equity 2016
profit (loss) for the year and shareholders' equity of the parent company	**8,100**	**219,772**	**6,221**	**157,584**
portion of profit (loss) for the year and of shareholders' equity of subsidiaries, net of the book value of equity investments	6,698	43,668	1,613	39,317
measurement of shareholdings in associates with the equity method	537	364	335	-173
consolidation adjustments, net of the tax effect due to:				
allocation of consolidation differences, and associated amortisation	-349	14,117	-332	14,466
elimination of intercompany profits	-497	-13,043	-207	-13,545
other adjustments	381	-492	-375	-930
total consolidated profit (loss) for the year and shareholders' equity	**14,870**	**264,386**	**7,256**	**196,719**
share capital and reserves pertaining to minority interests	-1,057	-34,408	-1,401	-35,379
total profit (loss) for the year and shareholders' equity of the Group	**13,813**	**229,978**	**5,855**	**161,340**

Financial management policies and objectives

The Group manages the financial policy tools based on a service approach for investments in public infrastructures and in service of the industrial activities that it carries out on behalf of the local community it belongs to. The objective pursued is finding a balance between sources and loans as regards the necessary financial requirements, always based on a medium/long-term perspective, to allow investments to be made, and maintaining the necessary short-term liquidity to guarantee compliance with the treasury commitments.

In order to achieve these objectives, all the available financial instruments are used, on both the liability and asset side of invested liquidity.

The Group's policy makes no provision for the subscription of speculative derivative instruments, solely fixed contracts purely for hedging purposes in order to avoid (swaps) or limit (caps) the risk of changes in interest rates.

The average net financial position of the Group in 2017 was a negative figure of approximately EUR 180.7 million (EUR 187.3 million in 2016), generating net financial charges of EUR 10.3 million (lower than the previous year).

The Group's credit risk profile is normal and consistent with industry trends. Billing receivables are, by nature, fragmented over a very high number of users, with limited individual amounts on average.

The insolvency percentage relating to the receivables from municipal waste management services is close to 5%, a percentage deemed to fall within the average percentage for the sector, given the undoubted difficulty in stopping the service in case of insolvency.

In the water sector, since it is possible to interrupt the supply, the percentage of insolvency is lower and hovers around 1.9% of the turnover.

The external economic and financial scenario, in which the Group operated during 2017, was similar to the previous year's one, still characterised by a stabilisation of funding opportunities.

Risk related to financial indebtedness

The Veritas Group showed a level of indebtedness amounting to approximately 2.44 times the EBITDA, therefore a decrease compared with the previous year (which stood at 2.98 times).

The Group's indebtedness is influenced, in particular, by the significant impact of the water assets of the parent company, which increased further as a result of the merger of Asi, which were reported under intangible fixed assets, in the item 'Concession services'. The carrying amount corresponds to more than EUR 210 million, well above the Group's total indebtedness.

The tariff recovery, which remunerates this type of investment according to amortisation and financial charges, is implemented over a very long period of time, actually generating a continuous need for capital to be refinanced, given the limited duration of bank credit facilities.

The average life of the existing bank loans at the close of the financial year is approximately 8 years, and the repayment plans are structured as follows:

medium-term loans	2018	2019	2020	2021	2022	after
155,268	20,926	17,808	18,853	19,693	19,443	58,545

The parent company and the merged company Asi issued two bonds in 2014 with the following characteristics:

	original amount	repayment	expiry
Veritas loan issued on regulated markets	100,000	bullet	2021
former Asi loan issued on regulated markets	15,000	amortising	2034

The objective of the Group is to strike a balance between preserving the funding and flexibility through the use of credit lines, loans and financial leasing. The policy of the Group is that no more than 20% of the loans must be due within 12 months.

As at 31 December 2017, less than 20% of the medium/long-term financial debts of the Group, including the bonds listed above, will accrue within one year, based on the budget balances and excluding the assets held for sale.

Some medium/long-term loans finalised over the years, as well as the bonds, envisage contractual terms that imply compliance with certain economic-financial parameters (covenants) based on the results of the consolidated and/or separate financial statements as at 31 December of each year.

In 2017, the Group respected the parameters set out in the respective contracts.

Risk related to insufficient liquidity and procurement of financial resources

The general economic situation presents aspects that confirm the recovery and the international scenario still remains positive. These situations accompany high liquidity at both Italian and European level, due to the continued expansionary initiatives implemented by the European Central Bank, which helps keep interest rates low. This scenario is, however, starting to show signs of inconsistency with respect to a recovery in inflation and the rising trend in interest rates on the US market, related also to the presumed start of a new phase of economic contraction.

In this general economic situation, the main risks generated by the Group's financial instruments continue to be interest rate risk, liquidity risk and credit risk. Price risk cannot be determined owing to the fact that the Group operates in sectors which are mostly regulated, the tariffs of which are governed and subject to the approval of the competent authorities. The Board of Directors of the parent company assesses and agrees on the policies for managing such risks, as summarised hereunder.

The Group does not believe it has any particular issues with regard to credit risk, although the general economic situation in the last few years has led to increased financial difficulties for people and companies. In fact, billing receivables are, by nature, fragmented over a very high number of users, with limited individual amounts on average.

In the event of the insolvency of the counterparty, the maximum credit risk for the Group's other financial assets, which consist of cash and cash equivalents, financial assets available for sale, loan notes and some derivative instruments, is equal to the carrying amount of these assets.

The Group controls the liquidity risk by using a planning instrument for the use of cash. This instrument takes into account the maturity term of both financial instruments and financial assets (trade receivables and other financial assets), as well as cash flows expected from transactions.

As at 31 December 2017, the Group reported unused credit facilities amounting to around EUR 112 million, compared to roughly EUR 93 million as at 31 December 2016.

Liquidity risk consists of the risk that the available financial resources may not be sufficient to fulfil all the obligations with a short-term maturity date, amounting to roughly EUR 31.6 million, and to tackle possible negative variations in working capital.

The company is still of the opinion that the operating investment plans, which are being implemented above all in the water sector, are being offset, even though still partially, by tariff adjustments defined by the water sector authorities.

Although regulated, the integrated water service sector on the one hand considers the parent company as a concession operator, i.e. with no competitors, but on the other hand, it exposes expected future cash flows to uncertainty stemming from the variability of the regulatory framework, which appears to be increasingly more restrictive in recognising actual operating costs.

As regards municipal waste management services, the Group is committed to searching for a municipal waste management tariff/tax on a fee-quantity basis that ensures greater fairness for users, allows greater control for Municipalities and a direct financial return to the Group, while eliminating stress on working capital and increases in financial charges.

Relations with related parties

The relations with related parties are extensively outlined in Note no. 45 to the consolidated financial statements, to which reference should be made.

Duration of assignments

There have been several provisions and rulings issued by the competent authorities regarding local public services over the last few years, which have complicated the reconstruction and interpretation of the regulatory framework.

It is useful to point out some observations on the fundamental measures that govern the matter, by reading the appropriate paragraph in the report on operations of the parent company.

After the referendum repeal of Art. 23 bis of Italian Decree Law no. 112/2008, converted into Italian Law 133/2008 and subsequent amendments, with the consequent repeal of the related regulations approved with Italian Presidential Decree no. 168 of 7 September 2011, new provisions were issued with:

- Art. 4 of Italian Decree Law no. 138 of 13 August 2011 converted into Italian Law no. 148 of 14 September 2011;
- subsequently amended by Italian Law no. 183 of 12 November 2011;
- as well as by Italian Decree Law no. 1 of 24 January 2012 converted into Italian Law no. 27 on 24 March 2012.

The regulation contained in Art. 4, has been declared unconstitutional with ruling no. 199 issued by the Constitutional Court on 20 July 2012, since it was substantially duplicating the regulations contained in the above-mentioned Art. 23 bis which was repealed by a referendum.

The Constitutional Court also stated that the regulations of Art. 4 drastically limited the option of direct assignment of local public services to in-house companies, which the referendum had instead intended to preserve.

Following the ruling issued by the Constitutional Court, the competent authorities intervened again in order to regulate the subject matter with Art. no. 34 of Italian Decree Law no. 179/2012, converted into Italian Law no. 221/2012, Paragraphs 20 to 27, by substantially permitting, in compliance with the above-mentioned ruling issued by the Constitutional Court, the in-house management of local public services.

The provisions contained in Art. 3 bis of Italian Decree Law no. 138/2011, converted into Italian Law no. 148/2011, state that 'For safeguarding competition and environmental protection, the regions and independent provinces of Trento and Bolzano shall organise the activities related to relevant networked local public services:

- by defining the scope of optimal and homogeneous territorial sub-divisions or basins so as to allow for economies of scale and differentiation capable of maximising the efficiency of the service;
- by establishing or designating the pertinent government bodies by 30 June 2012'.

The Veneto Region, in compliance with the provisions of Art. 2, Paragraph 186 bis, of Italian Law 191/2009 which implied the suppression of the optimal territorial sub-division authorities, has approved:

- Italian Law no. 17 of 27 April 2012, which established the basin council for integrated water service management, for the optimal territorial sub-division of the Venetian lagoon;
- Italian Law no. 52 of 31 December 2012, containing the new optimal territorial sub-divisions for the organisation of the integrated management service of municipal waste, coinciding with the regional territory, while granting to the regional council, upon proposal by the involved local authorities, the right to recognise territorial inter-province basins of different size; it is also established that the local authorities competent for these basins shall jointly carry out organisation functions and direct control over the management integrated service for municipal waste through the basin councils;

- The new aggregation of territorial basins for the aggregated fulfilment of organisation and control functions of the integrated management service of municipal waste was approved with resolution no. 13 of the Regional Council dated 21 January 2014.

Environment Code

Note should be taken of the regulations contained in Italian Legislative Decree 152/2006 also known as the *Environment Code*, regarding management of the integrated water service and the *integrated management of urban waste*.

In particular, with regard to the integrated water service, note should be taken of Art. 147 of Italian Legislative Decree 152/2006, as supplemented and amended by the subsequent relevant legal provisions.

The regulation indicated above establishes that "the Water services are organised on the basis of the optimal territorial subdivisions defined by the regions in implementation of Italian Law *no. 36 of 5 January 1994*. The regions that did not identify the sub-division government bodies will do so, by means of a resolution, within the final term of 31 December 2014. If this term passes without a resolution, Art. 8 of Italian Law no. 131 of 5 June 2003 applies. The local authorities falling under the same optimal sub-division participate, as per mandatory requirements, in the sub-division government body, identified by the competent region for each optimal territorial sub-division, to which fulfilment of the responsibilities due to them regarding water resource management is transferred, including therein the planning of water infrastructures pursuant to Art. 143, paragraph 1".

Art. 149 bis of the *Environment Code* inserted by *Art. 7, paragraph 1, letter d) of Italian Decree Law no. 133 of 12 September 2014*, converted, with amendments, from *Law no. 164 of 11 November 2014*, and amended by Art. 1, paragraph 615, Law no. 190 of 23 December 2014, then expressly recognises the possibility of the direct assignment of the integrated water service to in-house companies.

With reference to the *integrated urban waste management service*, Art. 200 of the *Environment Code* establishes that "Urban waste management is organised on the basis of optimal territorial subdivisions, hereinafter also known as ATOs, outlined in the regional plan pursuant to *Art. 199*, in compliance with the guidelines set forth in *Art. 195*, paragraph 1, letters m), n) and o), and according to the following criteria:

a) removal of the fragmentation of operations through an integrated waste management service;

b) achievement of adequate operational dimensions, defined on the basis of physical, demographic and technical parameters and based on political-administrative divisions;

c) adequate evaluation of the road and rail communication system in order to optimise transport within the ATO;

d) valuation of common requirements and similarities in the production and management of waste;

e) appraisal of waste management plants already constructed and in operation;

f) consideration of previous limits so that the new ATOs only deviate from the previous ones based on the justified needs of effectiveness, efficiency and inexpensiveness.

Art. 202 of the repeatedly mentioned *Environment Code* confirms that the service must be organised in observance of the "EU principles and provisions, according to the applicable regulation governing the assignment of local public services".

The European legislation

The legitimacy of the assignments of public services to in-house companies was recently confirmed by European Directive no. 23 of 26 February 2014 (award of concession contracts) and European Directive no. 24 of 26 February 2014 (public tenders).

The public contracts code

The European directives cited above were acknowledged in Italian Legislative Decree no. 50 of 18 April 2016 (*Public Contracts Code*) and subsequent amendments and additions. In particular, Art. 5 of the *Public Contracts Code*, as amended by Art. 6, paragraph 1, of Italian Legislative Decree no. 56 of 19 April 2017, describes the requirements of the in-house assignment.

The consolidated law on state-owned companies

Italian Legislative Decree no. 175 of 19 August 2016 (*consolidated law on state-owned companies*) entered into force on 23 September 2016, issued in implementation of Art. 18 of Italian Law no. 124 of 7 August 2015, containing Government powers regarding the reorganisation of public administrations (otherwise known as the 'Madia' law), subsequently amended by Legislative Decree no. 100 of 16 June 2017 and Law no. 205 of 27 December 2017, which governs *the incorporation of companies by public administrations, as well as the purchase, maintenance and management of shareholdings by said administrations, in fully or partially state-owned companies, either directly or indirectly.*

In particular, note should be taken, as regards the field of subjective application of Italian Legislative Decree 175/2016 and subsequent amendments and additions, of the provisions of Art. 1, paragraph 5, which states textually: "*5. The provisions of this decree apply, only if expressly provided, to listed companies, as defined by Art. 2, paragraph 1, letter p, as well as to their investees, except where the latter are, not through the listed companies, controlled or invested in by public administrations*", as well as the provisions set forth in Art. 2, paragraph 1, letter p) reproduced herein which define listed companies: *"p) "listed companies": publicly-owned companies that issue shares listed on regulated markets: companies that have issued, as at 31 December 2015, financial instruments, other than shares, listed on regulated markets".*

Within the integrated water sector, the service is assigned to the parent company until 31 December 2018, based on resolution no. 806 of 30 July 2008 of the Venetian lagoon sub-division authority, with the option of renewal and/or adjustment of its duration in relation to the subdivisions plan and/or its revision.

It should be noted that, on 30 October 2013, the basin council for the Venetian lagoon adopted guidelines – also confirmed by the sub-division assembly on 13 October 2014 – on the procedures for managing and assigning integrated water services, whereby:

- the council confirmed the in-house management of the integrated water service, also for the years after the expiry of the current agreement with the operator Veritas spa;
- it began implementing the activities required for the selection of the aforesaid Organisational Model for managing the service, in order to draw up an agreement proposal with an expiry able to ensure an appropriate management period – indicatively twenty years – which would allow for the scheduling of investments and access to secured loans and/or in any case loans favoured by a multi-annual management of the service.

On 31 October 2013, the Coordination and Control Committee of Veritas spa's shareholders, – in acknowledging the resolution of the basin council, pursuant to Art. 34 of Italian Decree Law 179/2012, resolved 'on inviting the partner Municipalities to vest their representatives, in the Shareholders' Meeting of the relevant authority for the Venetian lagoon sub-division, with the special proxy to express, on that occasion, their intention to assign in-house the water service management to Veritas spa, at least until 2033, in order to allow an adequate scheduling of investments and facilitate access to long-term loans'.

An agreement was signed on 11 July 2016 for the regulation of the performance of the integrated water service in the optimal territorial sub-division of the Venetian lagoon, registration no. 1276 of 12 July 2016, modifying the previous agreement signed on 19 October 2004, registration no. 976/2004, whose duration is envisaged until **31 December 2018**.

Following the merger by incorporation of Asi spa in Veritas spa, by means of merger deed signed on 24 October 2017, pursuant to the deed drawn up by the notary Massimo Luigi Sandi index no. 107294, file no. 19898 registered on 26 October 2017 at no. 2557, the latter became the sole manager of the integrated water service in the optimal territorial sub-division of the Venetian lagoon, consistent with the principle of single integrated water service management sanctioned by Art. 172 of Italian Legislative Decree 152/2006, as amended by Italian Decree Law 133/2014, converted with amendments from law 164/2014, and referenced in the resolution of the assembly of the Basin Council no. 4 of 16 February 2017.

Due to the aforementioned merger, Veritas spa automatically took over, effective from 1 November 2017, the service contracts and pending legal relations with authorities and/or public administrations and, in particular, with the sub-division authority Venetian lagoon, including therein the Agreement governing the water service signed between the basin council for the Venetian lagoon and Asi spa, registration no. 1333 of 28 July 2016, whose duration is envisaged until 31 December 2018.

By means of resolution of the basin council of Venezia Ambiente no. 3 of 25 May 2016, the final alignment of the deadlines of the assignments of the integrated waste cycle management service in the basin municipalities with the unitary deadline of **June 2038** was approved, already resolved by the majority of the municipalities themselves (36 out of 45) and to be resolved also for another eight basin municipalities for which the assignment expired in 2016 or will expire before 2038, as well as for the Municipality of Mira, specifying that the latter, by means of resolution no. 115 of 23 December 2013, pursuant to Art. 34 of Italian Decree Law 179/2012 and subsequent amendments and additions, established the duration of the assignment of the integrated urban waste management service, with term of expiry of said service of 31 December 2038, by means of the stipulation of a new service contract, except in the case of different determinations of the authority of the optimal territorial sub-division and without prejudice to any other expiry determined by the above-mentioned legislation.

The Basin Council of Venezia Ambiente, by means of resolutions of the Assembly numbers 18, 19 and 20 of 27 October 2017, arranged for the direct assignment to Veritas spa of the urban waste service respectively in the Municipalities of San Donà di Piave, Meolo and Quarto d'Altino, for fifteen years effective from 1 January 2018 until 31 December 2032, according to the in-house providing model, while by means of resolution no. 24, again on 27 October 2017, it decided to postpone until 30 June 2018, the deadline for the Basin Committee for presenting to the basin Assembly the proposed resolution for the in-house assignment of the urban waste service in the Municipality of Cona to Veritas spa, with a duration of 15 years, at the same time extending, for a further 6 months until 30 June 2018, the effectiveness of the order of the Mayor 8/2017, registration number 3210 of 31 May 2017, in which Veritas spa was ordered to carry out, until 31 December 2017, in the aforementioned Municipality, the urban waste collection and transport service, sweeping of roads in the city centre and complementary services.

The parent company also manages cemetery services in the Municipality of Venice; the assignment was renewed for 20 years in 2015, until 30 September 2035.

It is the contractor of cemetery services management in the Municipalities of Spinea (until 2030), Martellago (until 2022) and Mirano (until 2021).

Until 2017, it managed the public green areas service for the Municipality of Venice, an activity that today falls under the responsibilities of the Municipality.

With regard to the installation of high tide footbridges and public toilets, also concerning the Municipality of Venice alone, the duration of concessions has been extended annually and, as of today, actually to 31 December 2018.

The management of fish markets – also concerning the Municipality of Venice alone – was considered by the parent company as a service to be discontinued and transferred to the granting entity to be reassigned, also due to updates in the sector's legal requirements and the territorial conditions of this activity. This is nonetheless a marginal activity from an economic-financial perspective.

It should be noted that, from 2015, the parent company manages the public lighting and heating management services for the Municipality of Chioggia, with duration up to 2020.

The management of public lighting was also assigned to Veritas by the Municipality of Fossalta di Portogruaro and, from 2018, also by the Municipality of Fiesso d'Artico.

2.1.2 Significant events subsequent to year-end

Group streamlining transactions are continuing through disposals, mergers and liquidations, in compliance with the streamlining plan approved by the counterpart control committee of Veritas, in keeping with legal obligations, and updated on 17 March 2016, also based on prior approval of the coordination and control committee on the same date. This plan makes provision for the implementation of projects involving the aggregation in Veritas spa of the companies Asi spa (completed in 2017) and Alisea spa (manager of the integrated waste cycle in the Municipalities of Ceggia, Eraclea, Fossalta di Piave, Jesolo, Musile di Piave, Noventa di Piave, Torre di Mosto).

Veritas and Alisea, in line with the applicable regulatory provisions and the guidelines of the competent Basin Council, in order to resolve the fragmentation of the integrated management of urban waste and ensure single management of the reference optimal territorial sub-divisions, will complete the integration project in the current year, through the merger by incorporation of the subsidiary in the parent company.

At the end of January 2018, the parent company acquired Demont srl's 4.29% stake in Eco-ricicli Veritas; Veritas therefore holds 79% of the subsidiary.

On 15 February 2018, Ecoprogetto sold 60% of its shareholding in Steriladria srl to Saste servizi tecnologici srl. The shareholding in Steriladria therefore fell to 30%.

On 27 April 2018, the Municipality of Venice subscribed and paid an additional share capital increase of the parent company amounting to EUR 5,375 thousand; Veritas' share capital therefore, as of said date, stood at EUR 145,397,150, divided into 2,907,943 shares with a nominal value of EUR 50 each.

2.1.3 Business outlook

The performance in the first few months of the year does not deviate, from an operational perspective, from the one already recorded in 2017.

As regards municipal waste management services, Group synergies are continuing, with plans for the development of the model for collection based on containers with customised cap and the actual implementation of the new quantity-based measurement system suitable for fee-based billing, as well as developments regarding information systems in support of the new operating profile.

In this regard, the Municipalities of Meolo and Quarto di Altino expect to move to the quantity-based measurement system.

The tension on the markets for materials connected with separated waste collection should be highlighted. In fact, difficulties have been recorded relating to the placement of materials deriving from collection from end markets, typically the Asian market, with the creation of situations of price growth, which could negatively impact tariffs.

The disposal of bulky waste has also been impacted by the problems related to insufficient storage space at specialised plants, while for sludge from purification, the recent regulatory amendments, which inhibits their dumping in agriculture, have created situations of specialised plant saturation, with a subsequent rise in prices.

The subsidiary Ecoprogetto defined a major programme of investments in the new business plan, which should radically alter, as early as the second half of 2018, the current compliance of the Fusina hub and of the production processes already in place (type of secondary solid fuel production).

The strategic objective of the Marghera Ecodistrict project is the self-sufficiency of the treatment systems for the recovery of the waste collected, with particular reference to the enhancement of the secondary solid fuel produced, of the biomass collected and of the sludge produced by the wastewater purification cycle. The procedures for the selection of private partners for the development of the various chains are currently continuing.

As regards the effects of the 2016 ruling of the Court of Cassation, joint sitting of all divisions, which confirmed the tax nature of Tia1, the parent company is continuing with the legal actions to obtain the regulations/rulings that establish the methods for the repayment of VAT applied on the Tia1 to users, without penalising the manager that repaid the tax to the tax authorities.

The Authority is continuing the process of regulating the integrated water service which is now increasingly more aligned to the rules typical of sectors with more mature regulations such as the energy and gas sectors; by means of resolution 917/2017/R/IDR, it approved the consolidated law on the technical quality of the service (Rqti), which entered into force on 1 January 2018, for the monitoring of technical indicators.

The legislation makes provision for the monitoring of specific standards tied to suspensions of the service and the macro-indicators (which are associated to some other general standards), targeted at classifying the managers according to clusters of technical quality which are linked to differentiated improvement (or maintenance) objectives to be achieved annually.

The parent company is expected to acquire, by July 2018, the business unit operating in the management of the industrial waste purification plants of Sifa spa, managed up until now by the subsidiary Sifagest scrl.

Again as regards tariffs, with reference to the fees applied to service users, resolution 665/2017/R/IDR approved the *Consolidated Law on water service fees* (Ticsi) in which the mandate was conferred to sub-division government bodies (Egato) to resolve the new tariff structure by 30 June 2018, making provision, inter alia, for the application to domestic users of a per capita tariff based on the actual number of residents, and also the elimination, for non-domestic uses, of any type of charge for the "minimum obligated" quantity.

The new tariff structure will be impacted by the social water bonus established under resolution 897/17/R/IDR (Tibsi), provided for resident domestic users.

In the first phase of start-up of the system, users will be able to request it from 1 July 2018, with the validity of the bonus coming into effect on 1 January 2018.

It should also be noted that:

- from 2018, Regulation EU/2016/679 is directly applicable in all member States, known as the **GDPR** (*General Data Protection Regulation*), relating to the protection of natural persons with regards to the processing and free circulation of personal data. The GDPR stems from specific requirements, as indicated by the European Commission itself, of legal certainty, harmonisation and greater simplicity of the rules regarding the transfer of personal data from the European Union to other parts of the world;
- the **split payment**, the new mechanism for the splitting of the payments of the public administration, introduced by stability law 2015 (law 190/2014) and then expanded by Italian Decree Law 50/2017 and supplemented with the new 2018 budget law, involved an extension of the application rules also to the supplier's purchasing cycle and concerns all Group companies;
- the 2018 budget law established the obligation of **e-billing** for all entities subject to VAT, excluding those that apply the minimum requirements or flat rate system. From 1 July 2018, the obligation will come into force for sub-contractors of the Public Administrations and fuel chain operators, while from 1 January 2019, the obligation will be extended to all economic transactions between companies through the Sdi exchange system, the same one used for electronic invoices to the public administration from 2014.

With regard to the general financial management, the Group is operating in continuity with the approach adopted in 2017 and to ensure compliance with the covenants.

2.2 Consolidated statement of financial position

assets (in thousands of Euro)	notes	31.12.2017	31.12.2016
non-current assets			
intangible assets	6	17,674	19,173
concession services	6	210,387	169,749
goodwill	7	21,223	21,223
tangible fixed assets	8	272,292	250,129
investment property	9	12,660	12,663
shareholdings in associates and jointly controlled companies	10	12,499	12,935
financial assets available for sale	11	1,686	1,482
long-term receivables due from partner entities	16	5,186	6,852
long-term receivables due from associates and jointly controlled companies	17	16,752	19,784
other financial assets	12	10,198	8,413
receivables due from subsidiaries held for sale	5	19	0
receivables due for income taxes	19	5,779	5,831
prepaid tax assets	43	15,696	17,065
total non-current assets		**602,051**	**545,299**
current assets			
inventories	13	7,871	4,725
contract work in progress	14	1,676	1,643
trade receivables	15	88,663	91,680
receivables due from partner entities	16	27,635	26,562
receivables due from subsidiaries held for sale	5	136	192
receivables due from associates and jointly controlled companies	17	5,434	6,923
other receivables	18	27,374	48,069
receivables due for current income taxes	19	599	1,326
cash and cash equivalents	20	103,887	81,219
derivative financial instruments - assets	30	49	0
total current assets		**263,324**	**262,339**
assets held for sale	**5**	**4,646**	**9,873**
total assets		**870,021**	**817,511**

liabilities and shareholders' equity (in thousands of Euro)	notes	31.12.2017	31.12.2016
shareholders' equity			
share capital	21	142,235	110,974
own shares	21	-1	-1,331
reserves	21	87,744	51,697
shareholders' equity pertaining to the Group		**229,978**	**161,340**
share capital and reserves pertaining to minority interests	21	34,408	35,379
total shareholders' equity pertaining to minority interests		**34,408**	**35,379**
total shareholders' equity		**264,386**	**196,719**
non-current liabilities			
medium/long-term loans	22	134,343	110,380
loans from other funders	23	113,591	101,471
provisions for risks and charges	24	53,971	49,999
employee severance indemnity	25	26,562	25,238
long-term payables due to subsidiaries held for sale	5	332	3
long-term payables due to partner entities	26	33,973	39,820
long-term payables due to associates and jointly controlled companies	27	900	515
other non-current liabilities	28	13,905	8,856
deferred tax liabilities	43	9,033	7,714
total non-current liabilities		**386,610**	**343,996**
current liabilities			
trade payables	29	93,049	113,314
payables due to partner entities	26	44,510	65,678
payables due to subsidiaries held for sale	5		0
payables due to associates and jointly controlled companies	27	3,639	5,700
payables due to banks and current portion of medium/long-term loans	22	23,761	37,686
loans from other funders	23	10,677	7,794
derivative financial instruments	30	71	44
other current liabilities	31	40,837	42,107
current tax payables	32	1,878	179
total current liabilities		**218,422**	**272,502**
liabilities held for sale	**5**	**603**	**4,294**
total liabilities		**605,636**	**620,793**
total liabilities and shareholders' equity		**870,021**	**817,511**

2.3 Consolidated statement of comprehensive income

comprehensive income statement (in thousands of Euro)	**notes**	**31.12.2017**	**31.12.2016**
continuing operations			
revenues from sales and services	33	361,602	338,505
other income	34	20,930	19,537
total revenues		**382,532**	**358,042**
costs for raw and ancillary materials and consumables	35	-23,690	-26,493
costs for services	36	-112,077	-112,507
costs for use of third-party assets	37	-10,415	-9,330
personnel costs	38	-152,636	-140,280
other operating costs	39	-16,324	-14,626
amortisation, depreciation and write-downs	40	-35,150	-32,395
operating income		**32,240**	**22,411**
portion pertaining to investments valued with the equity method	41	617	168
financial charges	42	-12,160	-12,756
financial income	42	1,871	1,098
income before taxes		**22,568**	**10,921**
income taxes for the year	43	-7,190	-3,990
profit (loss) for the year from continuing operations		**15,378**	**6,931**
assets held for sale			
net profit (loss) from assets held for sale		**-508**	**325**
consolidated profit (loss) for the year		**14,870**	**7,256**
profit (loss) pertaining to minority interests		**1,057**	**1,401**
profit (loss) pertaining to the Group		**13,813**	**5,855**

other components of the comprehensive income statement		
other components of the comprehensive income statement that will be reclassified subsequently under the profit/(loss) for the year		
conversion differences		
other components of the comprehensive income statement that will not be reclassified subsequently under the profit/(loss) for the year		
actuarial gains (losses) on defined benefit pension plans	-674	-1,126
income taxes pertaining to other components of the comprehensive income statement	162	169
comprehensive profit (loss) for the year net of taxes	**14,357**	**6,298**
attributable to:		
parent company shareholders	13,313	4,927
minority shareholders	1,044	1,371
comprehensive profit (loss) for the year net of taxes	**14,357**	**6,298**

2.4 Changes in shareholders' equity

(thousands of Euro)	share capital	legal reserve	own shares	other reserves	valuation of associates using the equity method	profit (loss) for the period pertaining to the Group	total shareholders' equity of the Group	share capital and reserves pertaining to minority interests	profit (loss) for the period pertaining to minority interests	total shareholders' equity pertaining to minority interests	total shareholders' equity
balance as at 1 January 2016	**110,974**	**2,026**	**-1,331**	**33,196**	**154**	**6,482**	**151,500**	**16,621**	**424**	**17,045**	**168,545**
share capital increase											
allocation of previous year's profit/(loss)		282		6,200		-6,482	0	424	-424	0	0
own shares in portfolio											
business combinations				13			13	138		138	151
other transactions				35			35	15		15	50
dividends											
transfer of minority interests				5,068			5,068	16,932		16,932	22,000
increase in minority interests				-205			-205	-122		-122	-327
other comprehensive income components				-927			-927	-30		-30	-957
profit (loss) as at 31 December 2016						5,855	5,855		1,401	1,401	7,256
balance as at 31 December 2016	**110,974**	**2,308**	**-1,331**	**43,380**	**154**	**5,855**	**161,340**	**33,978**	**1,401**	**35,379**	**196,719**
balance as at 1 January 2017	**110,974**	**2,308**	**-1,331**	**43,380**	**154**	**5,855**	**161,340**	**33,978**	**1,401**	**35,379**	**196,719**
share capital increase and business combination	31,261		1,330	21,967			54,559				54,559
allocation of previous year's profit/(loss)		275		5,580		-5,855	0	1,401	-1,401	0	0
own shares in portfolio											
business combinations											
other transactions				261			261	-101		-101	160
dividends											
acquisitions Minority interests				504			504	-1,914		-1,914	-1,410
increase in minority interests											
other comprehensive income components				-499			-499	-13		-13	-512
profit (loss) as at 31 December 2017						13,813	13,813		1,057	1,057	14,870
balance as at 31 December 2017	**142,235**	**2,583**	**-1**	**71,193**	**154**	**13,813**	**229,978**	**33,351**	**1,057**	**34,408**	**264,386**

2.5 Cash flow statement

cash flow statement (in thousands of Euro)	**2017**	**2016**
cash flow generated by operating activities		
profit (loss) for the period pertaining to the Group	13,813	5,854
profit (loss) for the period pertaining to minority interests	1,057	1,401
cash flows generated by operating activities		
(interest receivable)/interest payable for the year	9,505	9,859
income taxes for the year	7,077	3,991
adjustments to reconcile net profit with cash and cash equivalents		
generated (used) by operating activities		
amortisation, depreciation and write-downs	35,150	32,395
financial income (charges) from discounting	784	1,800
write-down of receivables	2,860	4,839
change in fair value of interest rate derivatives	-23	-94
portion pertaining to investments valued		
with the equity method	-617	-168
capital gains/losses		
from disposal of property, plant and equipment and investment property	-14	270
from disposal of shareholdings	0	0
provision (use)		
employee severance indemnity	-647	182
provisions for risks and charges	1,967	3,897
(provision)/use of prepaid tax assets – provision/(use) of deferred tax liabilities	956	-1,732
cash flows before changes in NWC	**71,868**	**62,494**
changes in net working capital		
inventories	-2,665	-42
contract work in progress	-33	494
trade receivables	12,906	-10,104
other receivables	27,175	-6,143
trade payables	-24,957	15,377
payables due to subsidiaries held for sale	0	0
other current and non-current payables	-29,314	6,241
total changes in current assets and liabilities	**-16,888**	**5,824**
other adjustments		
(interest paid)	-10,570	-10,827
interest income	1,912	2,678
(income taxes paid)	-3,955	-6,724
dividends received	0	0
cash flow generated (used) by operating activities	**42,367**	**53,445**

cash flow statement (in thousands of Euro)	**2017**	**2016**
cash flows generated from investment activities		
disposal of intangible assets	0	6
disposal of property, plant and equipment and concession services	14	809
net assets/liabilities held for sale	2,153	184
transfer (acquisition) of minority interests	0	11,000
dividends from associates and joint ventures	0	0
investments in business combinations net of liquidity acquired	12,366	166
purchases of intangible assets	-3,199	-5,385
investments in concession services	-20,414	-13,384
purchase of tangible assets	-14,821	-23,196
purchase of shareholdings in associates and joint ventures	0	0
government grants	698	1,429
sale/(purchase) of shareholdings in associates and joint ventures	681	-49
disinvestments (investments) in financial assets available for sale	-4	-139
disinvestments/(investments) in other financial assets and receivables due from associates	3,742	1,162
cash flow generated (used) by investment activities	**-18,784**	**-27,397**
cash flows generated from financing activities		
shareholders' equity		
transfer (acquisition) of own shares	0	0
other changes in shareholders' equity	169	-1,083
dividends paid out	-8	-1,686
third-party financing		
loans taken out		
medium/long term	40,000	25,000
medium/long term from other financiers and factoring	195	429
bond issue	0	0
increase/(decrease) in payables due to associates and jointly controlled companies	0	0
increase/(decrease) in short-term payables due to banks	-6,418	2,196
(repayment) of		
medium/long-term loans	-30,826	-29,595
medium/long term from other financiers	-3,439	-3,389
increase/(decrease) in payables due to partner entities	-588	-529
cash flow generated (used) by financing activities	**-915**	**-8,657**
net increase/(decrease) in cash and cash equivalents	**22,668**	**17,391**
cash and cash equivalents at the start of the year	**81,219**	**63,828**
cash and cash equivalents at the close of the year	**103,887**	**81,219**

2.6 Notes to the financial statements

ACCOUNTING PRINCIPLES AND NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

Veritas spa is a joint-stock company (società per azioni) with registered office in Italy.

The main activities of the Veritas Group involve:

- the integrated municipal waste management service provided to almost all the partner municipalities of Veritas. The services include street sweeping, collection and disposal of waste through waste treatment plants, including wet and dry fractions, and material deriving from separated collection. The inhabitants receiving the services total more than 920,000, in addition to more than 40 million tourists who visit Venice each year, the surrounding areas and coastal towns of Jesolo, Eraclea and Chioggia, for a total of over 1 million equivalent inhabitants;
- integrated water service management provided to all the partner municipalities of Veritas. From November 2017, following the completion of the aggregation of Asi spa, the entire Venetian lagoon basin has a single manager. The Group provides the integrated water service and purifies wastewater in the territories of the partner municipalities, with a population of 800,000 inhabitants, augmented by a 'floating' population of around 380,000.

  During 2017, the Group dispensed roughly 117.1 million cubic metres of water. Veritas also manages 15 kilometres of the industrial water supply of Porto Marghera where about 3.9 million cubic metres of water are dispensed; this amount has progressively declined over the years.

  The aqueduct network of the Venetian lagoon basin is 5,700 km long and the sewerage network for the purification cycle is around 2,800 km long, channelling over 87 million cubic metres of waste water to 11 large purification plants and 26 medium-size plants; the purified wastewater is partly intended for industrial re-use. In addition, the Group is involved with its Engineering division in developing investments in aqueduct and sewerage networks as well as purification plants, both for the necessary upgrades to existing plants and the construction of new conduits;
- the management of certain local public services for the Municipality of Venice, in particular the management of public green areas and schools' green areas (concluded in 2017), cemetery services, management of the fish market and waste management services; the service of construction of footbridges is also provided, which enables people to walk in the Venetian historical area in the event of high tides;
- the management of the heating and public lighting service for the Municipality of Chioggia and the other minor municipalities, cemetery services in the Municipalities of Spinea, Martellago and Mirano;
- environmental reclamations (characterisation plans, safety, monitoring plans) assigned by both the partner municipalities and other public authorities;
- the management of two crematoria in Marghera and in Spinea;
- the construction and management of photovoltaic plants through the subsidiary Vier srl.

The current consolidated financial statements of the Veritas Group have been approved with a resolution issued by the Board of Directors on 24 May 2018.

2.1 Drafting criteria

The consolidated financial statements of Veritas spa were drawn up in conformity to the International Financial Reporting Standards (IFRS), adopted by the European Commission according to the procedure set forth in Art. 6 of Regulation no. 1606/2002 of the European Parliament and of the Council dated 19 July 2002, relative to the application of international accounting standards, in force at the time this document was drawn up. The IFRS also refer to all the revised international accounting standards (IAS) and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously termed the Standing Interpretations Committee (SIC).

The general principle adopted in preparing these consolidated financial statements is the cost principle, with the exception of financial assets and financial liabilities (including derivatives) measured at fair value. The financial statements were drafted in the assumption of the Group as a going concern.

The accounting standards adopted are consistent with those used as at 31 December 2016.

Accounting standards, amendments and interpretations applied as at 1 January 2017

The following amendments to the standards that are in force for years starting on or after 1 January 2017 became effective in 2017. The Group did not arrange for the early adoption of any other standard, interpretation or amendment issued but still not in force.

The nature and impact of each amendment is described below:

- *Amendment to IAS 7 – Disclosures:* the amendments require entities to provide additional information on the changes in liabilities connected to financing activities, including both changes tied to cash flows and non-cash changes (e.g. exchange gains and losses).
- *Amendment to IAS 12 - Recognition of deferred tax assets for unrealised losses:* the amendments clarify that entities must consider whether the tax law limits the sources of taxable income in respect of which they could make deductions linked to the reversal of deductible temporary differences. In addition, the amendment provides guidelines on how an entity should determine future taxable income and explains the circumstances in which the taxable income may include the recovery of some assets for a higher value than their book value.

On 8 December 2016, IASB published the document *'Improvements to International Financial Reporting Standards: 2014-2016 Cycle'* (Regulation 182/2018). These improvements include amendments to the three existing international accounting standards: IFRS 12 *Disclosure of interests in other entities* (applicable from 1 January 2017), IFRS: 1 *First-time adoption* (applicable from 1 January 2018) and IAS 28 *Shareholdings in associates and joint ventures* (applicable from 1 January 2018). The amendments clarify, correct or remove redundant wording or formulations in the text of the relevant standards.

The adoption of these amendments did not impact the Group's financial statements.

International accounting standards and/or interpretations endorsed by the competent bodies of the European Union but still applicable and not adopted early by the Group

Starting from 1 January 2018, or in some cases from 1 January 2019, the following accounting standards or amendments to accounting standards, shall be compulsory as they have already concluded the EU endorsement process:

- *IFRS 15 – Revenues from contracts with customers*: on 22 September 2016, by means of Regulation 2016/1905, the European Commission acknowledged IFRS 15 *Revenues from contracts with customers*; subsequently, on 31 October 2017, by means of Regulation 2017/1987, it adopted *Clarifications to IFRS 15*, in order to clarify some requirements and provide additional transitional relief for the application of the standard. All contracts with customers fall under the field of application of IFRS 15, with the exception of leases, insurance contracts, financial instruments and non-monetary exchanges. The new standard defines the following five-step guide:

  – identification of the contract with the customer;

  – identification of the performance obligations (i.e. promises in a contract to transfer goods or services to a customer);

  – determination of the transfer price;

  – allocation of the transaction price to the performance obligations identified on the basis of the stand-alone sale price of each good or service;

  – recognition of the revenue when the associated performance obligation is satisfied.

  IFRS 15 sets forth the recognition of revenue for an amount that reflects the consideration to which the entity believes to be entitled in exchange for the transfer of goods or services to the customer.

  The new standard will replace the current requirements set forth in IFRS regarding revenue recognition. The new standard is effective for years beginning on or after 1 January 2018.

  Directors do not expect the application of IFRS 15 to have a significant impact on the amounts booked to revenues and on the relevant balance sheet disclosures. The Group analysed any possible impacts in terms of disclosure and, therefore, on the systems, policies and procedures needed for the collection and presentation of all information. However, considering that the type of business requires the recognition of revenues at a given moment, no significant impacts were verified from an accounting perspective nor significant implementation issues from the modification of the disclosure.

- *IFRS 9 – Financial Instruments:* in July 2014, IASB issued the final version of IFRS 9 *Financial Instruments* which replaces IAS 39 *Financial Instruments: recognition and measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects relating to the project on the accounting of financial instruments: classification and measurement, impairment and hedge accounting. In particular, the new provisions of IFRS 9:

  – modify the model of the classification and measurement of financial assets;

  – introduce a new method for the write-down of financial assets, which takes account of the expected credit losses;

  – modify the hedge accounting provisions.

  IFRS 9 is in effect for the years starting on or after 1 January 2018. With the exception of hedge accounting, retrospective application of the standard is required but a comparative disclosure is not mandatory. As regards hedge accounting, the standard generally applies prospectively, with some limited exceptions.

  Directors do not expect the application of IFRS 9 to have a significant impact on the financial statements of the Group and on the relevant disclosures.

- *IFRS 16 – Leases:* IFRS 16 was published in January 2016 and replaces IAS 17 *Leasing*, IFRIC 4 *Determining whether an arrangement contains a lease*, Sic 15 *Operating Leases - Incentives* and Sic 27 - *Evaluating the substance of transactions involving the legal form of a lease*.

  IFRS 16 defines the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases in the financial statements based on a single model similar to the one used to account for finance leases in accordance with IAS 17. Contracts that confer the right to control the use of a specific asset, for a defined period of time, in exchange for consideration, fall under the definition of a lease. The new standard eliminates, for the lessee, the distinction between an operating and finance lease set forth, by contrast, in IAS 17 and incorporates all the different cases in the field under a single model.

At the effective date, the lessee must recognise the asset consisting of the right of use and the leasing liability. The asset consisting of the right of use must be measured at cost, while the liability must be equal to the present value of the payments due and still unpaid at said date, discounted at the implicit interest rate of the contract.

Lease contracts of less than twelve months which do not provide redemption options and contracts relating to assets with an insignificant value can be expensed over the duration of the contract or based on another systematic criterion.

The new standard will be applicable for financial years starting on or after 1 January 2019. The Group, despite not having adopted the new standard early, commenced an analysis with the objective of studying the accounting impacts and the implementation methodology. At the date of these financial statements, the effects have still not been quantified.

- *Amendments to IFRS 2 – Share-based payments:* on 20 June 2016, IASB published the amendments to the standard that aim to clarify the accounting of some types of share-based payment transactions. The amendments concern: i) the effects of vesting conditions and non-vesting conditions with regards to the valuation of cash-settled share-based payments; ii) share-based payment transactions with a net settlement feature for withholding tax obligations; iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

  The amendments will be applicable from 1 January 2018, but early application is permitted. The adoption of the amendments is not expected to impact the Group's financial statements or supplementary information.

- *Amendments to IAS 40 - Investment property:* the amendments clarify when an entity should transfer a property, including properties at the construction or development phase, to/from the item 'Investment property'. The amendments are applicable for the financial years starting on or after 1 January 2018. The directors are evaluating the possible effects of the introduction of these amendments on the Group's financial statements.

- *Amendments to IFRS 9 - Financial Instruments:* document issued by IASB on 12 October 2017, applicable from 1 January 2019, with early application permitted. The amendments allow the Group to value particular prepaid financial assets with the so-called negative compensation at amortised cost or at fair value with changes in comprehensive income, if a specific condition is satisfied, rather than at fair value through profit and loss. The directors are evaluating the possible effects of the introduction of these amendments on the Group's financial statements.

- *Amendments to IFRS 4 - Application of IFRS 9 - Financial Instruments and IFRS 4 - Insurance Contracts:* the document published by IASB on 12 September 2016, contains a series of amendments that aim to address the issues relating to the temporary volatility of the results reported in the financial statements deriving from the application of new accounting standard IFRS 9, before the IASB's replacement of current IFRS 4, which is still at the preparation phase. The amendments are applicable from 1 January 2018, but early application is permitted. The introduction of the amendments is not expected to have any effects on the Group's financial statements.

International accounting standards and/or interpretations still not endorsed by the competent bodies of the European Union

The following standards, updates and amendments to IFRS (already approved by IASB), as well as the following interpretations, are in the process of being acknowledged by the competent European Union bodies:

- *Interpretation IFRIC 22 – Foreign currency transactions and advance consideration:* the interpretation, published by IASB on 8 December 2016 and applicable from 1 January 2018, establishes which exchange rate to use in foreign currency transactions that involve considerations paid or collected early.
- *Interpretation IFRIC 23 – Uncertainty over income tax treatment:* the interpretation, published by IASB on 7 June 2017 and applicable from 1 January 2019, aims to clarify the requirements regarding recognition and measurement set forth in IAS 12 in the assumption of regulatory uncertainty regarding the treatment of income taxes.

On 12 December 2017, IASB published the document *'Improvements to International Financial Reporting Standards*: *2015-2017 Cycle'*. These improvements include amendments to the four existing international accounting standards:

- *IFRS 3 – Business combinations*. The amendment specifies that a new valuation of the investment previously held in a joint operation must be performed when control of the same is obtained;
- *IFRS 11 – Joint arrangements:* it is clarified that the value of the investment previously held in a joint operation does not need to be revised when joint control of the asset is obtained;
- *IAS 12 – Income taxes:* the improvement clarifies that an entity is required to account for taxes related to the payment of dividends using the same methods as the latter;
- *IAS 23 – Borrowing costs:* entities are required to consider as general borrowings any loan originally stipulated to realise a specific asset when the latter is available for planned use or sale.

The amendments, applicable from 1 January 2019, with early application permitted, clarify, correct or remove redundant or conflicting wording or formulations in the text of the relevant standards.

- *Amendments to IAS 28 - Investments in Associates and Joint Ventures:* document issued by IASB on 12 October 2017, applicable from 1 January 2019 with early application permitted. The amendments clarify that entities must account for long-term investments in an associate or joint venture to which the equity method is not applied by using the provisions of IFRS 9.
- *Amendments to IAS 19 - Plan Amendment, curtailment or settlement:* document issued by IASB on 7 February 2018 and applicable from 1 January 2019. The amendments specify how the expenses must be determined when changes to a defined benefit pension plan are verified.
- *IFRS 17 – Insurance contracts*: in May 2017, IASB issued IFRS 17 *Insurance contracts*, a new complete standard relating to insurance contracts that covers the recognition and measurement, presentation and disclosure, which will replace IFRS 4 *Insurance Contracts*. It will apply to all insurance contracts through a reference accounting model based on the discounting of expected cash flows, the clarification of a risk adjustment and of a contractual service margin (Csm). Once endorsed by the European Commission, the new standard will be applicable for financial years starting on or after 1 January 2021.

With reference to the new amendments or new interpretations outlined previously, the Group is analysing their content and intends to adopt these standards and improvements, once they come into force, even though it does not expect them to have a tangible impact on the economic result and on shareholders' equity.

By contrast, for the following amendments to the standards and interpretations, the EU endorsement process has been suspended:

- *Amendments to IFRS 10 and IAS 28 – Sales or contribution of assets between an investor and its associates or joint venture:* document published by IASB on 11 September 2014 in order to resolve a conflict between the two aforementioned standards in relation to the transfer of an asset or a subsidiary to an associate or a joint venture, applicable from 1 January 2016. The amendments introduced require, in the event of the transfer or contribution of an asset or subsidiary to an associate or a joint venture, the value of the gain or the loss to be booked to the financial statements of the transferor/contributor in relation to the classification of the assets or of the subsidiary transferred/contributed as a business, as defined by IFRS 3. In the event in which the transfer/contribution constitutes a business, the entity must recognise gains or losses on the entire share held previously: while, in the opposite case, the entity must recognise the share of the gain or loss relating to the share still held in the entity which must be eliminated.

Presentation in compliance with IFRS

The consolidated financial statements of Veritas spa have been drawn up in compliance with the International Financial Reporting Standards (IFRS).

Consolidation principles

The consolidated financial statements include the financial statements of Veritas spa and of its subsidiaries, drawn up on 31 December each year.

The parent company has drafted the separate financial statements for 2017 in compliance with the *International financial reporting standards* (IAS/IFRS), pursuant to Italian Legislative Decree 38/2005 regarding Public Interest Entities (art. 16, paragraph 1, letter a of Italian Legislative Decree 39/2010). The date of transition to the IAS/IFRS was identified as 1 January 2016. Since the Group availed itself of the right to draft the consolidated financial statements in compliance with IAS/IFRS from 31 December 2007, Veritas recorded the assets and liabilities in the opening balance sheet of the separate financial statements (IFRS) and in the subsequent separate financial statements, at the same values reported in the accounting position prepared for the consolidated financial statements of the Group (paragraph D17 of IFRS 1 revised).

The subsidiaries are fully consolidated, starting from the date of their acquisition, that is, from the date when the Group acquires control, and cease to be consolidated at the date when control is transferred outside of the Group.

The financial statements of the subsidiaries, drafted in accordance with Italian accounting standards (OIC), for each reporting period, are re-stated in compliance with IAS/IFRS.

All the balances and the inter-company transactions, including any unrealised profits and losses deriving from operations carried out among the companies of the Group, are completely written-off.

Minority interests represents the part of profits or losses and of the net assets not held by the Group and is recorded under a separate item of the income statement, and in the balance sheet under shareholders' equity components, separate from the Group's shareholders' equity.

The losses are attributed to minority interests even if this implies that the minority interest has a negative balance.

The changes in the profit-sharing of the parent company in a subsidiary, which do not involve loss of control, are recorded as share capital transactions. In particular, regarding acquisition of a minority interest, the difference between the price paid and the carrying amount of the portion that is part of the acquired net assets is recorded directly under shareholders' equity.

If the parent company loses control of a subsidiary, it:

- writes off the assets (including any goodwill) as well as the liabilities of the subsidiary;
- writes off the carrying amounts of any percentage of minority interest held in the former subsidiary;
- writes off the accumulated exchange rate differences recorded under shareholders' equity;
- records the fair value of the corresponding amount received;
- records the fair value of any shareholding held in the former subsidiary;
- records any profit or loss in the income statement;
- reclassifies the relevant portion of components held by the parent company that were previously recognised in the comprehensive income statements, in the income statement or under retained profits, as appropriate.

2.2 Discretionary assessments and significant accounting estimates

In the drawing up of the financial statements of the Group, the Directors are required to carry out discretionary measurements, estimates and assumptions that may affect the figures referring to revenues, costs, assets and liabilities, as well as the indication of potential liabilities as at the date of the financial statements. However, the uncertainties about these assumptions and estimates may determine outcomes which may require, in the future, significant adjustments to the carrying value of such assets and liabilities.

Discretionary assessments

In applying the accounting principles adopted by the Group, the Directors have taken decisions based on the following discretionary assessments (except for those involving estimates) with a significant effect on the items recorded in the financial statements.

Duration of assignments

For further details, please refer to the Report on Operations.

Within the integrated water sector, the service is assigned to the parent company until 31 December 2018, based on resolution no. 806 of 30 July 2008 of the Venetian lagoon sub-division authority, with the option of renewal and/or adjustment of its duration in relation to the sub-division plan and/or its revision.

It should be noted that, on 30 October 2013, the basin council for the Venetian lagoon adopted guidelines, also confirmed by the sub-division assembly on 13 October 2014, on the procedures for managing and assigning integrated water services, whereby, on 31 October 2013, the Coordination and Control Committee of Veritas spa's shareholders resolved 'on inviting the partner Municipalities to vest the respective representative in the assembly of the Venetian lagoon sub-division, with the special proxy to express, on that occasion, their intention to assign in-house the water service management to Veritas spa, at least until 2033, in order to allow adequate planning of investments and facilitate access to long-term loans'.

An agreement was signed on 11 July 2016 for the regulation of the performance of the integrated water service in the optimal territorial sub-division of the Venetian lagoon, registration no. 1276 of 12 July 2016, modifying the previous agreement signed on 19 October 2004, registration no. 976/2004, whose duration is envisaged until **31 December 2018**.

Following the merger by incorporation of Asi spa in Veritas spa, the latter became the sole manager of the integrated water service in the optimal territorial sub-division of the Venetian lagoon, consistent with the principle of single integrated water service management sanctioned by art. 172 of Italian Legislative Decree 152/2006, as amended by Italian Decree Law 133/2014, converted with amendments from law 164/2014, and referenced in the resolution of the assembly of the Basin Council no. 4 of 16 February 2017.

Due to the aforementioned merger, Veritas spa automatically took over, effective from 1 November 2017, the service contracts and pending legal relations with the authorities and/or public administrations and, in particular, with the Venetian lagoon sub-division authority, including therein the Agreement governing the water service signed between the basin council for the Venetian lagoon and Asi spa, registration no. 1333 of 28 July 2016, whose duration is envisaged until 31 December 2018.

By means of resolution of the Venezia Ambiente basin assembly no. 3 of 25 May 2016, the final alignment of the deadlines of the assignments of the integrated waste cycle management service in the basin municipalities with the unitary deadline of **June 2038** was approved, already resolved by the majority of the municipalities themselves (36 out of 45) and to be resolved also for another eight basin municipalities for which the assignment expires in 2016 or will expire before 2038, as well as for the Municipality of Mira, specifying that the latter, by means of resolution no. 115 of 23 December 2013, pursuant to art. 34 of Italian Decree Law 179/2012 and subsequent amendments and additions, established the duration of the assignment of the integrated urban waste management service, with term of expiry of said service of 31 December 2038, by means of the stipulation of a new service contract, except in the case of different determinations of the authority of the optimal territorial sub-division and without prejudice to any other expiry determined by the above-mentioned legislation.

The Basin Council of Venezia Ambiente, by means of resolutions of the Assembly numbers 18, 19 and 20 of 27 October 2017, arranged for the direct assignment to Veritas spa of the urban waste service respectively in the Municipalities of San Donà di Piave, Meolo and Quarto d'Altino, for fifteen years effective from 1 January 2018 until 31 December 2032, according to the in-house providing model, while by means of resolution no. 24, again on 27 October 2017, it decided to postpone until 30 June 2018, the deadline for the Basin Committee for presenting to the basin Assembly the proposed resolution for the in-house assignment of the urban waste service in the Municipality of Cona to Veritas spa, with a duration of 15 years, at the same time extending, for a further 6 months until 30 June 2018, the effectiveness of the order of the Mayor 8/2017, registration number 3210 of 31 May 2017, in which Veritas spa was ordered to carry out, until 31 December 2017, in the aforementioned Municipality, the urban waste collection and transport service, sweeping of roads in the city centre and complementary services.

The parent company also manages cemetery services in the Municipality of Venice; the assignment was renewed for 20 years in 2015, until 30 September 2035.

It is the contractor of cemetery services management in the Municipalities of Spinea (until 2030), Martellago (until 2022) and Mirano (until 2021).

Until 2017, it managed the public green areas service for the Municipality of Venice, an activity that today falls under the responsibilities of the Municipality.

With regard to the installation of high tide footbridges and public toilets, also concerning the Municipality of Venice alone, the duration of concessions has been extended annually and, as of today, actually to 31 December 2018.

The management of fish markets – also concerning the Municipality of Venice alone – was considered by the parent company as a service to be discontinued and transferred to the granting entity to be reassigned, also due to updates in the sector's legal requirements and the territorial conditions of this activity. This is nonetheless a marginal activity from an economic-financial perspective.

It should be noted that, from 2015, the parent company manages the public lighting and heating management services for the Municipality of Chioggia, with duration up to 2020.

The management of public lighting was also assigned to Veritas by the Municipality of Fossalta di Portogruaro and, from 2018, also by the Municipality of Fiesso d'Artico.

Estimates and assumptions

Indicated below are key assumptions concerning the future and other important sources of uncertainty in the estimates, as at the date of the financial statements, which could produce significant adjustments in the balance sheet assets and liabilities within the forthcoming financial year.

Non-financial impaired assets

The Group assesses, at each financial statement date, if there are any indicators of impairment affecting all non-financial assets. Goodwill is measured annually for impairment losses. Other non-financial assets are measured annually for any impairment losses when there are indications that the carrying amount may not be recovered.

Once the calculations of the value in use have been determined, the Directors must estimate the cash flows expected from the assets or from the cash-generating units and choose a discount rate that allows for calculating the current value of these cash flows. Additional details and a sensitivity analysis of the key assumptions are included in Note 7.

Provision for doubtful debt

The Group has recognised some accruals due to the risk that trade receivables may have an estimated realisable value significantly below their nominal value. To this end, some assumptions are formulated regarding losses that occurred in the past, while considering the recovery activities being carried out. Further details are provided in Note 15.

Deferred tax assets

Deferred tax assets are recognised against all temporary differences and tax losses carried forward, to the extent of the likely existence of adequate future tax credits against which these temporary differences may be reabsorbed and these losses may be used. The Directors are required to carry out a significant discretionary assessment to determine the amount of deferred tax assets that can be recorded. They must estimate the likely time frame of their occurrence and the amount of future taxable income as well as a strategy for planning future taxes. Further details are provided in Note 43.

Employee benefits – Employee severance indemnity

The cost of defined benefit pension schemes, in particular the employee severance indemnity (TFR) accrued as at 31 December 2017, is determined by using actuarial valuations. The actuarial valuation requires the formulation of assumptions about discount, turnover and mortality rates. Owing to the long-term nature of these schemes, these estimates are subject to significant degrees of uncertainty. Further details are provided in Note 25.

Provisions for the recovery after closure of landfill areas

The Group has recorded provisions for charges related to the recovery of areas used as landfill sites which will be sustained at the end of use of the landfill area for after-closure management. In determining the amount of these provisions, some estimates and assumptions have been deemed necessary, with regard to discount rates and estimated charges for the recovery and clean-up of the sites, as well as the volumes to be conferred. Further details are provided in Note 24.

2.3 Scope of consolidation

The consolidated financial statements include the financial statements of the parent company Veritas spa and the financial statements of the companies over which Veritas spa exercises controlling rights, either directly or indirectly (through its subsidiaries), determines their financial and operating choices, and obtains the relative benefits thereof.

Listed below are the companies, which, in compliance with the provisions of IAS 27, are included on a line-by-line basis in the consolidation scope as at 31 December 2017:

consolidated companies	head office	share capital	31.12.2017	31.12.2016
			Group's shareholding	
Veritas spa (parent company)	Venice	142,235,350		
companies consolidated on a line-by-line basis				
Ecoprogetto Venezia srl	Venice	42,120,000	44.86%	44.86%
Vier srl	Venice	100,000	100.00%	100.00%
Mive srl *in liquidation*	Mirano (Ve)	110,000	100.00%	100.00%
Eco-ricicli Veritas srl	Venice	7,000,000	78.06%	78.06%
Sifagest scarl	Venice	500,000	64.40%	64.40%
Alisea spa	Jesolo (Ve)	415,000	100.00%	74.84%
Asvo spa	Portogruaro (Ve)	18,969,650	55.75%	55.75%
Consorzio bonifica riconv. produttiva Fusina	Venice	100,000	78.32%	78.32%
Metalrecycling Venice srl	Venice	100,000	78.06%	78.06%
consolidated companies pursuant to IFRS 5				
Steriladria srl	Adria (Ro)	100,000	40.37%	35.89%

It should be noted that:

- in May 2017, the parent company acquired an additional 25.16% of Alisea spa, which is therefore wholly-owned;
- on 28 December 2017, Ecoprogetto acquired an additional 10% of Steriladria srl, therefore bringing its stake to 90%; in February 2018, Ecoprogetto then sold 60% of the shares held to an entity outside the Group (Saste servizi ecologici srl). The company was therefore already consolidated from 2017 pursuant to IFRS 5;
- as a result of the framework agreement signed in January 2017 with the Sibelco Group, in March 2017, Eco-ricicli Veritas completed the sale of 100% of the shares held in Ecopiave srl to Ecopatè srl and the sale of 30% of its shares in Ecopatè srl to Sibelco Italia spa. As a result of these transactions, Ecopiave srl, already consolidated in compliance with IFRS 5, left the Group, while Eco-ricicli Veritas' stake in Ecopatè srl fell to 10%.

In the first half of 2017, the parent company completed the acquisition of 100% of Asi spa, manager of the integrated water service in 11 municipalities in the northern part of the metropolitan area of Venice, through a first cash purchase of 8.68%, followed by the transfer of an additional 91.32% through the share capital increase of Veritas, reserved to the partner municipalities that own Asi spa. The aggregation process, already started in 2016, concluded with the merger by incorporation in Veritas spa, which took place on 1 November 2017.

In addition, the following associates and jointly controlled companies are valued using the equity method:

companies valued with the equity method	head office	share capital	31.12.2017 Group's shareholding	31.12.2016
associates				
Insula spa	Venice	3,706,000	24.73%	24.73%
Sifa scpa	Mestre (Ve)	30,000,000	32.14%	32.14%
Depuracque servizi srl	Salzano (Ve)	223,080	20.00%	20.00%
Lecher ricerche e analisi srl	Salzano (Ve)	46,800	60.00%	60.00%
Ecoplastiche Venezia srl	Venice	100,000	31.22%	31.22%
Veritas Conegliano srl	Venice	100,000	48.80%	48.80%

With respect to the previous year, it should be noted that Amest srl was struck off the Register of Companies in August 2017, completing the liquidation process.

As outlined in the previous point, Ecopatè srl is no longer an associate as Eco-ricicli's shareholding fell to 10%.

2.4 Accounting criteria

Intangible assets

Intangible assets that are acquired separately are initially capitalised at cost, whereas those acquired through business combination transactions are capitalised at fair value as at the acquisition date. After the initial recognition, intangible assets are recorded at cost, net of amortisation provisions and any accumulated impairment losses. Internally produced intangible assets, except for development costs, are not capitalised and are recorded in the income statement of the period in which they occurred.

The useful life of each intangible asset is valued as definite or indefinite.

Intangible assets with finite life are amortised over their useful life and subject to an appropriateness test whenever there are signs of a possible impairment loss. The period and amortisation method applied are reassessed at the end of each financial year or more frequently, if necessary. Changes in the useful life or methods with which future financial benefits, related to the intangible asset, are accrued by the Group, are recorded by appropriately changing the period or the amortisation method and are treated as changes to the accounting estimates.

Amortisation of the intangible assets with finite life is recorded in the income statement under the cost category corresponding to the function of the intangible asset.

Intangible assets with indefinite useful life are subject to an annual assessment of impairment loss, at an individual or cash generating unit level. For these assets, no amortisation is recognised. The useful life of an intangible asset with indefinite life is reassessed on an annual basis in order to ensure the persistence of the conditions on which this classification was based. Otherwise, the change in the useful life from indefinite to definite is done on a prospective basis.

Profits or losses deriving from the sale of an intangible fixed asset are measured as the difference between the net gain from the sale and the carrying amount of the intangible fixed asset, and are recorded in the income statement when the intangible fixed asset is sold.

Below is a summary of the principles applied by the Group to intangible assets:

intangible fixed assets	public service concessions	software licences
useful life	definite	definite
amortisation method used	amortised on a straight-line basis for the entire duration of the concession: Both until 2018; and until 2019	amortised on a straight-line basis over a period of three or five years
internally produced or acquired product	acquired	acquired

Concession services

IFRIC 12 applies to public or private concession service agreements if the following conditions are satisfied:

- the granting entity controls, or regulates which services the concessionaire must provide with the infrastructure, to whom it must provide them and at what price;
- the granting entity controls, through ownership, or other methods, any residual significant interest in the infrastructure on expiry of the agreement.

If all the above conditions are met, the concessionaire must not recognise infrastructures as owned property, plant and equipment; this is due to the fact that the service concession contract grants it use of the infrastructures, but not their availability on expiry of the concession. Therefore, these infrastructures must be recorded as financial assets or intangible assets depending on whether the concessionaire has an unconditional right to receive the contractually guaranteed cash flows, regardless of the actual use of the infrastructure or not. Essentially, the so-called "financial asset model" must be applied only in cases in which the concessionaire is not exposed to demand risk and, therefore, all occasions in which the cash flows envisaged in the concession agreement are as such to allow it to recover its credit/investment regardless of the actual use of the infrastructure by customers.

The Group identified all activities of the integrated water cycle managed as concession services.

The value of the concession services is adjusted by the value of the government grants received.

Tangible fixed assets

Tangible fixed assets are recorded at historical cost – including all ancillary costs directly attributable and necessary to commission the asset for the use for which it was acquired – to be increased, when relevant and pursuant to current obligations, by the current amount of the estimated cost for the dismantling and removal of the asset. In particular, in relation to the plant and machinery item, this cost includes the costs for parts replacement, when incurred, if compliant with the valuation criteria. If significant parts of these tangible assets have different useful lives, these components are recorded separately.

Similarly, when important revisions are carried out, the cost is included in the carrying amount of the plant or the equipment as a replacement, if the valuation criterion is fulfilled. Other costs for repairs and maintenance, when incurred, are recorded in the income statement.

Financial charges, incurred for investments in assets which normally require a certain period of time to be ready for use or sale (qualifying asset pursuant to IAS 23 - *Borrowing Costs*), are capitalised and amortised over the useful life of the class of assets to which they refer. All the other financial charges are recorded in the income statement at the time they are incurred.

Land, free of construction or annexed to buildings, is not depreciated since it has an unlimited useful life.

Tangible assets are recorded net of accumulated depreciation and any impairment losses, determined according to the methods described hereinafter.

Depreciation is calculated on a straight-line basis according to the estimated useful life of the asset for the company, which is reassessed on an annual basis, while any necessary changes are made and applied prospectively.

Depreciation rates have been reviewed, at Group level, starting from the 2007 financial year, based on a specific appraisal estimate carried out by an independent appraiser and which has redefined these rates according to the estimated residual useful life of the assets.

The main economic-technical rates used by the Group during 2017, include the following:

tangible fixed assets	category	depreciation rates 2017 %
land	land and buildings	indefinite life
industrial and civil buildings	land and buildings	2.5%-3%
lightweight constructions	land and buildings	4% - 6.5% - 10%
fixed water systems	land and buildings	2.5%
tanks	land and buildings	3% - 4%
production-filtration systems	plant and machinery	3% - 5%
water conduits	plant and machinery	2.5%
sewerage pipes	plant and machinery	2.5%
water lifting systems	plant and machinery	3% - 5% - 6%
water purification systems	plant and machinery	3% - 4%
connections	plant and machinery	2.5%-4%
purification plants	plant and machinery	3% - 5% - 7%
Photovoltaic plants	plant and machinery	7%
sewage lift stations	plant and machinery	5% - 6%
machinery	plant and machinery	6.5% - 9% - 10% - 15%
waste disposal systems	plant and machinery	3% - 5% - 6% - 7.5% - 8.5% - 15%
waste disposal systems - landfill sites	plant and machinery	depending on the waste (in cubic metres) conveyed to landfill sites
electrical, electronic and thermo-technical systems	plant and machinery	7% - 10%
wells	plant and machinery	10%
remote-control systems	plant and machinery	7%
equipment	industrial and commercial equipment	7.5% - 15%
containers	industrial and commercial equipment	6.25% - 9% - 12.5% - 15%
meters	industrial and commercial equipment	7%
metal boats	other assets	3% - 5.5% - 10%
boat equipment	other assets	7% - 9%
vehicles	other assets	15% - 16.5% - 20% - 25%
industrial vehicles	other assets	8% - 10% - 20%
handling machines and internal transport means	other assets	6.5% - 8% - 9% - 20%
motor vehicles	other assets	10% - 25%
furniture and furnishings	other assets	7% - 8.5% - 12%
computer and office equipment	other assets	16.5% - 20%
communication equipment	other assets	9%
mobile phones	other assets	20%
leasehold improvements	leasehold improvements	based on the duration of the underlying agreement
assets subject to free-of-charge reversion	assets subject to free-of-charge re-version	based on the duration of the concession

For the fixed assets acquired in the course of the period, the depreciation starts when the asset is ready for use. For capitalised improvement initiatives, carried out on existing equipment, the full rate was applied.

A tangible asset is written-off from the financial statements at the time of its sale or when no financial benefits are expected from its use or disposal. Any losses or gains (calculated as the difference between net revenues from the sale and carrying value) are included in the income statement of the period when such write-off occurred.

Assets under financial lease

Financial lease agreements, which substantially transfer to the Group all the risks and benefits deriving from the property of the leased asset, are capitalised under tangible fixed assets from the start date of the lease, at the fair value of the leased asset, or if lower, at the current amount of the leasing instalments.

A debt of equal amount is recorded under liabilities and is progressively reduced on the basis of the redemption of the principal units as per the leasing instalments agreed upon. The leasing instalments are divided between principal and interest so as to obtain the application of a constant interest rate on the residual balance of the debt (principal). The financial charges are recorded in the income statements. The capitalised leased assets are depreciated based on the estimated useful life of the asset.

The leasing agreements in which the lessor substantially retains all the risks and benefits of the property are classified as operating leases. Operating leases are recorded in the income statement on a straight-line basis and divided according to the duration of the agreement.

Investment property

Investment property is initially recorded at the purchase cost, inclusive of trading costs. The carrying amount includes the costs for parts replacement of an investment property at the time when this cost is incurred, provided that the recognition criteria are met and excluding routine maintenance costs. Subsequently to the initial recognition at cost, investment property, except for land, is systematically depreciated during each period on a straight-line basis, and according to rates deemed representative of the residual possibility of using such property.

Investment property is written off in the financial statements when sold or when the investment is unusable over time and no other future financial benefits are expected from its sale. Any gains or losses deriving from the collection or disposal of investment property are recorded in the income statements of the period in which such collection or disposal is carried out.

The reclassifications from or to investment property occur when, and only when, its use changes. If property intended for direct use becomes an investment property, the Group recognises these assets in compliance with the criteria set forth in the Property, plant and equipment paragraph until the date when the use in question changes.

No property owned on the basis of operating leasing agreements has been classified as investment property.

Business combinations and goodwill

Business combinations are recorded based on the acquisition method.

The cost of an acquisition is calculated as the sum of the amount paid, valued at fair value as at the acquisition date, and the amount of any minority interest held in the acquired asset. For each business combination, the purchaser must assess any minority interest held in the acquired property at fair value, or proportionate to the minority interests held in the net identifiable assets of the acquired property. Acquisition costs are expensed and classified under administrative expenses.

When the Group acquires a business, it must classify or designate the acquired financial assets or liabilities in compliance with the contractual terms, financial conditions and any other existing conditions in force at the date of acquisition. This includes an assessment aimed at establishing whether the embedded derivative should be separated from the primary agreement.

If the business combination is carried out in multiple phases, the purchaser must recalculate the fair value of the shareholding previously held and valued according to the equity method, and record in the income statement any resulting profit or loss.

Any potential consideration must be recorded by the purchaser at fair value at the date of acquisition. Any change in the fair value of the potential consideration classified as asset or liability must be recorded according to the provisions of IAS 39, in the income statement or under other components of the comprehensive income statement. If the potential consideration is classified under shareholders' equity, its value should not be recalculated until its extinguishment is recognised against the shareholders' equity.

Goodwill is initially valued at the cost measured as a surplus between the sum of the paid consideration and the recognised amount of minority interests versus the acquired identifiable assets and liabilities taken over by the Group. If the consideration is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognised in the income statement.

After the initial recognition, goodwill is valued at cost, net of any accumulated impairment losses. In order to assess the impairment loss, goodwill acquired in a business combination must be allocated, from the date of its acquisition, to each cash flow-generating unit of the Group which is expected to benefit from the combination, regardless of the fact that other assets or liabilities of the acquired entity are assigned to such units.

If goodwill has been allocated to a cash-generating unit and the entity disposes of the assets of this unit, the goodwill associated with the disposed asset must be included in the carrying amount of the asset when the gain or loss resulting from the disposal is determined. The goodwill associated with the disposed asset must be determined on the basis of the relative values of the disposed asset and of the portion of the cash-generating unit that is retained.

Discontinuing or discontinued operations

A discontinuing or discontinued operation is a component of the Group which is about to be discontinued or has already been discontinued and which represents an important independent business unit or a geographical area of operations. An activity is classified as discontinued at the time of its discontinuation: when an activity is classified as discontinued, the income statement is re-determined as if the operation was discontinued from the beginning of the comparative period.

Shareholdings in associates

The shareholdings of the Group in associates are valued using the equity method. An associate is a company over which the Group exercises a significant influence and which is not classifiable as a subsidiary or joint venture company.

Pursuant to the equity method, the shareholding in an associate is recognised in the balance sheet at cost, increased by any change subsequent to the acquisition, under the portion of the net assets of the associate pertaining to the Group. Goodwill referring to the associate is included in the carrying amount of the shareholding and is not subject to amortisation. The income statement reflects the portion of the profit (loss) of the associate which pertains to the Group. Account is taken of the equity method also for the measurement of associates and jointly controlled companies which the parent company recognises in the separate financial statements at purchase or subscription cost, adjusted in the presence of impairment, to bring it into line with the recoverable value, pursuant to IAS 36 (*Impairment of assets*).

If an associate recognises adjustments directly in the shareholders' equity, the Group recognises its portion and records it – where applicable – in the statement of changes to shareholders' equity. Profits and losses, resulting from transactions between the Group and the associate are written off in proportion to the shareholding in the associate.

The accounts closing date of the associates is aligned to that of the Group; if the accounting standards used by the associates are not aligned with those used by the Group, they must be adjusted and aligned accordingly in the case of transactions and events of the same nature and under similar circumstances.

Shareholdings in joint ventures

A joint venture is a contractual agreement pursuant to which two or more parties carry out an economic activity subject to joint control; a jointly controlled company is a joint venture which involves the establishment of a separate company in which each participant holds a stake.

The Group consolidates its shareholdings in joint ventures according to the equity method. Pursuant to the equity method, the investment in a joint venture is recognised in the balance sheet at cost, increased by any change subsequent to the acquisition, under the portion of the net assets of the investee pertaining to the Group.

After applying the equity method, the Group determines whether it is necessary to recognise any additional impairment losses, with reference to the net shareholding of the Group in the joint venture. The income statement reflects the portion of the profit (loss) of the investee company pertaining to the Group.

If an investee company recognises adjustments directly in the shareholders' equity, the Group recognises its own portion and records it, where applicable, in the statement of changes to shareholders' equity. The joint venture draws up a statement for the consolidation as at the close of the financial year of the parent company and applies consistent accounting principles. Any inconsistency in the applied accounting principles is corrected through appropriate adjustments.

When the Group contributes or sells goods to the joint venture, the recognition of any profit or loss resulting from this transaction reflects the content of the transaction itself. When the Group acquires goods or services from the joint venture, it does not recognise its share of profit deriving from the transaction until it sells the relevant good or service to an independent third party.

Non-financial impaired assets

At each year-end, the Group assesses the existence of indicators of impaired assets. In this case, or in the cases where an annual review of impairment is required, the Group makes an estimate of the amount in question. The recoverable value is the greater between the fair value of the asset or of the cash-generating unit, net of sale costs, and its usage value. The recoverable value is determined for each individual asset, except when this asset generates cash flows which are not entirely independent from those generated by other assets or groups of assets.

If the accounting value of an asset is greater than its recoverable value, it means that this asset has undergone an impairment loss and is consequently written-down until it reaches its recoverable value. In determining the usage value, the Group discounts the estimated future cash flows to the current amount using a pre-tax discounting rate which reflects the market assessment of the current value of money and the specific risks to which the asset is exposed. In determining the fair value net of sale costs, an adequate valuation model is used. These calculations are carried out by measuring the value in use through the DCF model.

Impairment losses on continuing operations are recognised in the income statement under the cost categories, consistently with the function of the asset that highlighted the impairment loss. Exceptions include the previously revalued fixed assets where the revaluation was recognised through equity. In these cases, the impairment loss is also booked to equity up to the amount of the previous revaluation.

At each financial statement closing date, the Group assesses – with reference to assets other than goodwill – any indication of the absence (or reduction) of impairment losses previously recognised and, in the presence of these indications, estimates the recoverable value. The value of a previously written down asset can be reinstated only if there have been changes in the estimates on which the calculation of the recoverable amount was based and determined subsequently to the recognition of the latest impairment loss.

The write-back cannot exceed the book value which would have been determined, net of any amortisation/depreciation, if no impairment loss had been recognised in previous financial periods. This write-back is recognised in the income statement unless the fixed asset is recorded at a revalued amount, in which case the write-back is treated as a revaluation gain.

The following criteria are used for recording impairment losses related to specific types of assets.

Goodwill

The Group verifies goodwill on a yearly basis in order to identify any impairment losses.

Impairment losses on goodwill are determined by measuring the recoverable amount of the cash-generating unit to which the goodwill refers.

If the recoverable amount of the cash-generating unit is lower than the carrying amount of the cash-generating unit to which the goodwill was allocated, an impairment loss is recognised. The impairment of the goodwill value cannot be recovered in future periods. The Group carries out an annual assessment of goodwill impairment as at 31 December.

Associates and joint ventures

After applying the equity method, the Group determines whether it is necessary to recognise an additional loss from its shareholdings in associates. At each financial statements date, the Group determines if there is unbiased evidence that a shareholding in an associate has been subject to an impairment loss. If this is the case, the Group calculates the amount of the loss as the difference between the fair value of the associate and the purchase cost of the shareholding and records the loss in the income statement.

Shareholdings and other financial assets

The IAS 39 includes the following types of financial assets at fair value with changes recorded in the income statement, loans and receivables, investments held to maturity and assets available for sale. Initially, all financial assets are recognised at their fair value, increased by their ancillary charges in the case of assets not measured at fair value in the income statement.

The Group determines the classification of its own financial assets after the initial recognition and, where appropriate and permitted, reviews this classification at the close of each financial period.

All standardised (regular way) purchases and sales of financial assets are recognised at their trade date or at the date when the Group undertakes to purchase the asset. The term 'standardised purchases and sales' refers to all transactions on financial assets involving the transfer of the asset in the time period set forth in the rules and regulations of the market where the transaction takes place.

Financial assets at fair value with changes recorded in the income statement

This category includes assets held for trading and assets designated at the time of their first recognition as financial assets at fair value with changes recorded in the income statement.

Assets held for trading are those assets which are acquired for sale in the short term. Derivatives, including separated derivatives, are classified as financial instruments held for trading unless designated as effective hedging instruments. Gains or losses from assets held for trading are recorded in the income statement.

If a contract contains one or more embedded derivatives and the Group becomes a contractual party, the Group determines if the derivative should be separated from the hosting contract. This occurs only if changes are made to the contract conditions that significantly modify the cash flows which would otherwise be required.

Held-to-maturity investments

Financial assets that are not derivative instruments and are not characterised by payments with a fixed or determinable maturity date are classified as 'held-to-maturity investments' if the Group intends and is capable of retaining them in the portfolio up to the maturity date.

After the initial recognition, financial investments held to maturity are valued using the amortised cost criteria using the effective interest rate method. Gains and losses are recognised in the income statement at the time when the investment is written off or when an impairment loss occurs, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market. After the initial recognition, these assets are valued with the amortised cost criteria using the effective interest rate method net of any impairment loss provision. Gains and losses are recognised in the income statement at the time when the loans and receivables are written off or when an impairment loss occurs, as well as through the amortisation process.

Financial assets available for sale

Financial assets available for sale are those financial assets, excluding derivative financial instruments, which have been designated as such or are not classified under any of the three previous categories. After the initial recognition, financial assets available for sale are assessed at fair value and the gains and losses are recognised under a separate item of shareholders' equity. When the assets are written off, the gains and losses, accumulated in the shareholders' equity are recognised in the income statement.

Fair value

In the case of securities traded in regulated markets, the fair value is determined by referring to the market quotation at the end of the trading day at the closure date of the financial year. For investments which do not have an active market, the fair value is determined using assessment techniques based on: recent transaction prices between independent parties; the current market value of an essentially similar instrument; the analysis of discounted cash flows; option appreciation models.

Amortised cost

Financial assets held to maturity and loans and receivables are measured at their amortised cost. The amortised cost is calculated using the effective interest rate method, net of any impairment loss provision. The calculation takes into account any premium or discount at purchase and includes transaction costs and commissions which are an integral part of the effective interest rate.

Inventories

Inventories include materials used for maintenance and repair of tangible fixed assets, in addition to consumables such as fuel and lubricants, clothing and various materials used for waste sweeping/cleaning services.

Inventories of raw and ancillary materials and consumables are valued at their purchase cost, which is determined through the weighted average cost method at each inventory change. In the case of obsolete or discontinued materials, the inventory is valued at the lower amount between the previously determined cost and the realisable value inferable from the market.

Contract work in progress

Contract work in progress is assessed according to the respective contractual terms and conditions, which are generally agreed as equal to the costs incurred for each job order, accrued with reasonable certainty based on the percentage of completion criterion, so as to attribute the revenue and economic result of the job order to the relevant individual financial periods, in proportion to the state of progress.

The state of progress of the job order is determined as the ratio between the costs incurred for the works already completed up to the reference date and the total estimated costs pertaining to the job order. The positive or negative difference between the contracts expiring at the end of the period and the state of progress of invoiced works is recorded respectively under the assets or liabilities in the balance sheet.

Revenues from the job order, in addition to contractual considerations, include any changes, price revisions and the recognition of incentives to the extent in which it is possible that they represent actual revenues that may be accurately determined. Proven losses are recognised independently from the state of progress of the job order.

Trade receivables and other receivables

Receivables included under non-current and current assets are initially recognised at fair value and subsequently assessed at their amortised cost and written-down in the event of an impairment loss.

Trade receivables, the expiration date of which falls within normal commercial terms, are not discounted and are recognised at cost (identified by their nominal value), net of the related impairment losses. They are adjusted to their estimated realisable value by being recorded in a specific adjustment provision, which is set up if there is unbiased evidence that the Group will not be able to collect the original amount of the receivable. Provision for doubtful debts are recorded in the income statement.

Transfer of financial assets

The Group transfers some of its trade receivables through factoring transactions. Factoring transactions may be with recourse or without recourse. If this type of transaction complies with the requirements set forth in IAS 39, the receivables are derecognised from the financial statements when the risks and benefits associated with their collection are transferred. Otherwise, the receivables transferred in this manner are recognised in the Group's financial statements and a financial liability of an equal amount is recognised under Payables for advances on assigned receivables.

Cash and cash equivalents

Cash on hand and short-term deposits include cash and deposits on demand and on short term, in the latter case with an original expiry date not exceeding three months.

For the purpose of the consolidated cash flow statement, cash and cash equivalents are represented by cash on hand as defined above.

Financial liabilities

Trade payables

Trade payables, the expiration date of which falls within normal commercial terms, are not discounted and are recognised at cost (identified by their nominal value), which represents the fair value at the reference date.

Other liabilities, included under non-current and current liabilities, are initially recognised at cost corresponding to the fair value of the liability, net of transaction costs which are directly attributable to the issuance of the liability itself. After the initial recognition, these financial liabilities are assessed at their amortised cost, using the original effective interest method.

Interest-bearing loans

All loans are initially recognised at the fair value of the amount received, net of any ancillary acquisition charges, if not recognised at fair value with changes recorded in the income statement.

After the initial recognition, these loans are assessed using the amortised cost criterion, through the effective interest method.

Each gain or loss is recorded in the income statement when the liability is extinct, as well as through the amortisation process.

Financial liabilities at fair value with changes recognised in the income statement

Financial liabilities at fair value with changes recognised in the income statement include liabilities held for trading and financial liabilities designated at fair value with changes recognised in the income statement at the time of the initial recognition.

Liabilities held for trading are those acquired for sale in the short term. Derivatives, including separated derivatives, are classified as financial instruments held for trading unless designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

If a contractual term set forth in a long-term loan agreement is breached as at or before the financial statements reference date, resulting in the liability becoming a debt collectable upon request, the liability is classified as current, even if the funder has agreed – after the financial statement reference date and before authorisation for publication of such financial statements – not to request the payment pursuant to the contractual breach. The liability is classified as current because, as at the financial statements reference date, the entity does not hold an unconditional right to defer its settlement for at least 12 months from that date.

Financial guarantees payable

Financial guarantees payable, issued by the Group, include contracts that require the disbursement of a payment in order to reimburse the holder for a loss resulting from the debtor failing to make the payment due at the set expiry date according to the contractual terms and conditions of the debt instrument.

Financial guarantee agreements are initially recognised as fair value liabilities, increased by those transaction costs directly attributable to the issue of the guarantee. Subsequently, the liability is measured at the greater amount between the best estimate of the expense to be incurred to fulfil the actual obligation as at the date of the financial statements and the amount that was initially recognised.

Write-off of financial assets and liabilities

Financial assets

A financial asset (or where applicable, part of a financial asset or part of a group of similar financial assets) is written off in the financial statements when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has undertaken the contractual obligation to transfer them – entirely and without any delay – to a third party;
- the Group has transferred the right to receive cash flows from the asset and (a) has substantially transferred all risks and benefits deriving from the ownership of the cash flow or (b) has neither substantially transferred nor retained all the risks and benefits of the asset, but has transferred the control thereof.

If the Group has transferred the rights to receive cash flows from an asset and has neither substantially transferred nor retained all risks and benefits nor has lost the control thereof, the asset is recognised in the financial statements of the Group to the extent of its residual involvement in the asset itself. The residual involvement, which takes the form of a guarantee on the transferred asset, is valued at the lower amount between the initial carrying amount of the asset and the highest consideration that the Group may be required to pay.

If the residual involvement takes the form of an option issued and/or purchased on the transferred asset (including options settled in cash or by similar provisions), the amount of involvement of the Group corresponds to the amount of the transferred asset that the Group can repurchase; however, in the case of a put option issued on an asset measured at fair value (including options settled in cash or by similar provisions), the extent of the residual involvement of the Group is limited to the lower amount between the fair value of the transferred asset and the exercise price of the option.

Financial liabilities

A financial liability is written off from the financial statements when the obligation associated with the liability is extinguished, or cancelled or fulfilled.

If an existing financial liability is replaced by another one from the same lender, at substantially different conditions, or if the conditions applied to an existing liability are substantially changed, this exchange or change is treated as a write-off of the original liability and a new liability is recorded with the recognition, in the income statement, of any differences in the carrying amounts.

Provisions for risks and charges

Provisions for risks and charges are allocated when the Group must fulfil a current obligation (legal or implicit) resulting from a past event, an outflow of resources is likely to fulfil this obligation and it is possible to carry out an accurate estimate of its amount.

If the Group believes that an allocation to provisions for risks and charges will be partially or entirely reimbursed, for example in the event of risks covered by insurance policies, the indemnity is stated separately from the asset if, and only if, it is practically certain. In such case, in the income statement the cost of any allocation is stated net of the amount recognised for the indemnity. If the effect of discounting of the value of money is significant, the allocations are discounted by applying a pre-tax discount rate which reflects, where appropriate, specific risks pertaining to the liabilities.

When discounting is carried out, the increase in the allocation due over time is recognised as a financial charge.

Liabilities against charges after closure of the landfill plant

Provisions have been set up for the management and recovery costs of the areas designated as landfill sites, which must be borne at the end of the concessions for management after closure. As a balancing entry, an increase in the assets has been recognised under plant and equipment, including the plant related to the individual landfill site.

The costs related to management after closure are stated at the current value of the expected costs in order to settle the obligation, using estimated cash flows and a pre-tax discounting rate reflecting the risks specifically related to such liability.

The effects deriving from discounting are recognised in the income statement as financial costs as they arise. Estimated cash flows are reviewed on an annual basis and adjusted accordingly. Changes in the cost estimates and in the applied discount rate are deducted from the asset cost.

Employees benefits – Employee severance indemnity

The liability related to the defined-benefit schemes (employee severance indemnity accrued as at 31 December 2006), net of any assets involved in the scheme, is determined on the basis of actuarial hypotheses and is recognised for the relevant period consistent with the provision of work required to obtain the benefits; the liability is assessed by independent actuaries.

Following the changes made to the employee severance indemnity by Italian Law no. 296 of 27 December 2006 (‘2007 financial law’) and subsequent decrees and regulations, the employee severance indemnity of Italian companies, accrued as from 1 January 2007 or from the date of the option to be exercised by employees, is included in the category of defined contribution plans, both in the case of opting for a complementary pension plan or for the allocation to the INPS Treasury Fund. The accounting treatment of this employee severance indemnity was therefore assimilated to that applicable to other types of contributions.

The defined-benefit liability, net of any assets involved in the plan, is determined on the basis of actuarial hypotheses and recognised on an accrual basis, consistently with the provision of work required to obtain the benefits.

Liabilities are measured by independent actuaries. Gains and losses resulting from the actuarial calculation related to defined benefit plans are recognised in the comprehensive income statement entirely over the period in which they occur. These actuarial gains and losses are classified immediately under retained profit, and are not reclassified in the income statement of the successive periods.

The employee severance indemnity, accrued from 1 January 2007, or from the chosen option date, is included under the defined contribution plans, both in the case of opting for a complementary pension plan or for the allocation to the INPS Treasury Fund. The accounting treatment of this employee severance indemnity was therefore assimilated to that applicable to other types of contributions.

Derivative financial instruments and hedging transactions

The Group uses derivative financial instruments, such as interest rate swaps, in order to hedge risks deriving from interest rates fluctuations. These derivative financial instruments are initially recognised at fair value as at the date of their stipulation; subsequently, this fair value is periodically re-measured. They are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Any losses or gains resulting from changes in the fair value of derivatives that are not suitable for hedge accounting are recognised directly in the income statement of the relevant period.

The fair value of interest-rate swap agreements is determined based on the market value of similar instruments.

For the purpose of hedge accounting, the hedging transactions are classified as:

- hedges of the fair value if carried out against the risk of a change in the fair value of the underlying asset or liability; or an irrevocable commitment (except for currency risks);
- cash flow hedges if against the exposure to changes in the cash flows, attributable to a particular risk associated with a recognised asset or liability or a planned highly probable transaction or a currency risk related to an irrevocable commitment;
- hedges of a net investment in a foreign operation (net investment hedge).

At the conception of a hedging transaction, the Group formally designates and documents the hedging relationship based to which it intends to apply hedge accounting, its main risk management objectives and the strategy adopted. The documentation includes the identification of the hedging instrument, the element or transaction subject to the hedging, the nature of the risk and the methods by which the company intends to assess the efficacy of the hedge in offsetting the exposure to changes occurring in the fair value of the hedged item or the cash flows associated with the hedged risk.

These hedges are expected to be highly effective in offsetting the exposure of the hedged element to changes in the fair value or in the cash flows attributable to the hedged risk; the assessment of the efficacy of these hedging transactions is carried out on an on-going basis during the periods in which they were designated.

The transactions that meet the hedge accounting criteria are recognised as follows:

Fair value hedges

Changes in the fair value of hedging derivatives are recognised through the income statement. Changes in the fair value of the hedged element and attributable to the hedged risk are recognised as part of the carrying amount of the hedged element and as a balancing entry in the income statement.

As for the fair value hedges referring to items recorded according to the amortised cost criteria, the adjustment of the carrying amount is amortised in the income statement over the period prior to its expiry. Any changes to the carrying value of any hedged financial instrument to which the effective interest rate method is applied are amortised in the income statement.

The amortisation can start as soon an adjustment is made but not beyond the date at which the element subject to hedging ceases to be adjusted due to changes in its fair value attributable to the hedged risk.

If the hedged element is written off, the fair value still to be amortised is immediately recognised in the income statement.

If a non-recognised irrevocable commitment is designated as a hedged element, the subsequent cumulative changes to its fair value, attributable to the hedged risk, are recorded as assets or liabilities and the corresponding gains or losses are recognised in the income statement. Changes in the fair value of the hedging instrument are also recognised in the income statement.

Cash flow hedging

The portion of gain or loss of the hedged instrument, related to the effective hedged portion, is directly recognised under the shareholders' equity whereas the non-effective portion is immediately recognised in the income statement.

The gain or loss recorded in the shareholders' equity is reclassified in the income statement in the period when the hedged transaction affects the income statement (for example when the financial revenue or charge is recognised or when an expected sale or purchase occurs). When the element subject to hedging is the cost of a non-financial asset or liability, the amounts stated in the shareholders' equity are transferred at the initial carrying amount of the asset or liability.

If it is deemed that the expected transaction will no longer occur, the amounts initially recorded under the shareholders' equity are transferred to the income statement. If the hedging instrument expires or is sold, written off or exercised without being replaced, or if its designation as a hedging instrument is revoked, the amounts previously allocated to the shareholders' equity remain there until the expected transaction occurs.

It is worth noting that on 11 December 2012 the European Commission amended the IFRS 13 *Fair Value Measurement*, while introducing, within the IFRS, one unambiguous guideline for the fair value measurement if required or allowed by accounting principles. The application of IFRS 13 had no relevant impact on the fair value assessments carried out by the Company.

Leasing

The definition of a contractual agreement as a leasing transaction (or containing a leasing transaction) is based on the substance of the agreement and requires an assessment as to whether the performance of the agreement depends on the use of one or more specific assets and whether the agreement transfers the right of use of such assets.

For contracts stipulated prior to 1 January 2005, the effective date is 1 January 2005, in compliance with the transitional provisions of IFRIC 4.

The Group as the lessee

Financial lease contracts, which substantially transfer to the Group all the risks and benefits deriving from the ownership of the leased asset, are capitalised as at the start date of the leasing at the fair value of the leased asset, or if lower, at the actual value of the leasing instalments. The leasing instalments are divided pro-quota between principal and interest so as to obtain the application of a constant interest rate on the residual balance of the debt. Financial charges are directly recognised in the income statement.

The capitalised leased assets are amortised over the shorter period of time between the estimated useful life of the asset and the duration of the leasing contract if there is no reasonable certainty that the Group will obtain ownership of the asset at the end of the contract.

The operating leasing instalments are recognised as expenses in the income statement, on a straight-line basis, divided according to the duration of the agreement.

The Group as the lessor

The leasing contracts, which essentially attribute to the Group all the risks and benefits of the ownership of the asset, are classified as operating leases. The initial trading costs are added to the carrying amount of the leased asset and stated based on the duration of the agreement on the same basis as income from leasing transactions. Non-budgeted rentals are recognised as revenues in their accrual period.

Revenues

Revenues are recognised to the extent to which it is likely that the financial benefits are achieved by the Group and the relative amounts can be accurately determined. Revenues are assessed at the fair value of the payment received, net of discounts, allowances and other taxes on the sale. The following specific criteria for the recognition of revenues must be met before being recorded in the income statement:

Revenue from tariffs

Revenues from the integrated water service are calculated with reference to the corresponding turnover, rectified for any positive or negative tariff equalisations, which are of certain application. These revenues were calculated by taking as a reference the permitted revenue level (VRG), calculated according the water tariff method (MTI-2) currently in force for the 2016-2019 period.

The approval of tariffs according to the MTI-2 consists in defining a VRG, which determines the tariff multiplier (the so-called 'theta') that defines the tariff increases with respect to periods prior to 2015 (last year of application of the previous MTI method).

Besides containing a component linked to tariff equalisations for previous years, the VRG determines with certainty the amount of the settlement, with respect to the amount actually invoiced, pertaining to the financial year. This equalisation will then be included, in accordance with the current method, within the definition of the VRG of the second year subsequent to the reference year.

The MTI-2 requires a portion of the revenues defined within the VRG to be allocated to the new investments fund (FONI).

Nonetheless, given the legal nature of the fee, it was decided to consider the FONI as revenue for the period, as also supported by authoritative legal theory.

Art. 20.1 of AEEGSI resolution 664/2015/R/IDR (MTI-2) state that 'the operator of the integrated water service (*servizio idrico integrato*, SII) is required to allocate exclusively for new investments to be made in the territory served, or for the financing of subsidised tariffs to provide social support, a portion of the permitted revenue level to FONI'.

The directors deem it appropriate to ensure the required allocation to the FONI by having the Shareholders' Meeting allocate a portion of the profit for the year corresponding to the amount of the revenue constraints (net of the tax effect) to a non-distributable shareholders' equity reserve upon approval of the financial statements.

If the FONI amount net of the tax effect is higher than the profit for the year, the remaining part is allocated to the non-distributable reserve by reducing the distributable reserves recognised in shareholders' equity at that time.

The allocation of the FONI to the non-distributable reserve does not take place in the subsequent year if investments made relating to integrated water service are equal to or greater than the FONI.

Revenues from tariffs for the municipal waste management services are recorded on an accrual basis, represented by the tariff applied with the time-based criterion.

Provision of services

The revenue is recognised on the basis of the accrual principle represented by the criteria of the state of progress of the activities and/or amounts to be paid annually in accordance with the service contracts entered into with the various municipalities.

The state of progress is measured as a percentage of the costs incurred against the total costs estimated for each contract. When the outcome of the contract cannot be accurately measured, the revenue is recognised only to the extent in which it is deemed that the incurred costs are considered recoverable.

Sale of assets

The revenue is recognised when the company has transferred to the purchaser all significant risks and benefits related to the ownership of the asset, generally at the date of shipment of the merchandise.

Instalments receivable and concessions

Rentals deriving from investment properties are recorded on a straight-line basis over the duration of the leasing contracts as at the date of the financial statements.

Revenues from concessions primarily refer to instalments received for the usage of spaces by market operators. These revenues are recognised on an accrual basis according to the time-based criterion.

Costs

Costs are assessed at the fair value of the amount paid or to be paid.

Government grants

Government grants are recognised when there is a reasonable certainty that they will be received and that all the conditions referring to them are fulfilled. When the contributions are related to cost components, they are recognised as revenue but are systematically divided among the periods so as to be commensurate with the costs they intend to compensate. If the contribution is related to a fixed asset, it is recognised at the corresponding nominal value as a reduction of the asset cost, and recognition of the earnings in the income statement occurs progressively over the useful life of the reference asset on a straight-line basis, through the reduction of the related amortisation cost.

Financial income and charges

Interest income

It is recognised as a financial income following an assessment of the relevant interest income (using the effective interest method, which is the rate that exactly discounts the expected future cash flows based on the expected life of the financial instrument at the net carrying amount of the financial asset).

Dividends

Dividends are recognised when the shareholders' right to receive the payment arises.

Financial charges

Financial charges are recognised in the income statement pertaining to the relevant period.

Income taxes

Current taxes

Current tax assets and liabilities for the current and previous periods are valued at the amount that is expected to be recovered from or paid to the tax authorities. The rates and the tax legislation used to calculate such amounts are those issued or essentially issued as at the closing date of the financial statements.

Current taxes relative to elements directly recognised under equity are also directly recognised under equity and not in the income statement.

Deferred taxes

Deferred taxes are calculated using the liability method as regards the temporary differences, existing at the date of the financial statements, between the tax amounts used as a reference for the assets and liabilities, and the amounts recorded in the financial statements.

Deferred tax liabilities are recognised against all temporary taxable differences, except:

- when the deferred tax liabilities derive from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, does not impact the profit for the period, calculated for financial statement purposes, nor the profit or the loss calculated for tax purposes;

- with reference to the temporary taxable differences associated with investments held in subsidiaries, associates and joint ventures, if the reversal of the temporary differences can be controlled and if its future occurrence is unlikely.

Deferred tax assets are recognised against all deductible temporary differences and for the tax assets and liabilities carried forward, to the extent that the existence of adequate future taxable profits is likely and may involve the use of deductible temporary differences as well as tax assets and liabilities carried forward, except when:

- the deferred tax assets, associated with the deductible temporary differences derive from the initial recognition of an asset or a liability in a transaction that is not a business combination and that, at the time of the transaction, does not impact the profit for the period, calculated for financial statement purposes, nor the profit or loss calculated for tax purposes;
- with reference to temporary taxable differences associated with investments in subsidiaries, associates and joint ventures, the deferred tax assets are recognised only to the extent that it is likely that the temporary differences will reverse in the near future and that there are adequate taxable profits against which the related temporary differences can be utilised.

The amount to be recognised in the financial statements for deferred tax assets is reassessed at each financial statement date and reduced to an extent by which it is no longer likely that sufficient taxable profits will be available in the future so as to enable the full or partial use of this receivable. Non-recognised deferred tax assets are periodically reassessed on an annual basis at the close of the financial statements, and are recognised to the extent that it is likely that the taxable profit is sufficient to enable these deferred taxes assets to be recovered.

Deferred tax assets and liabilities are measured based on tax rates that are expected to be applied to the period when these receivables are realised or liabilities settled based on the current rate or the rates issued or essentially issued as at the date of the financial statements.

The income taxes relative to items that are directly recognised under shareholders' equity are also directly recognised under shareholders' equity and not in the income statement.

Deferred tax assets and liabilities can be offset if there is a legal right which allows for offsetting current tax assets and current tax liabilities, and if the deferred income taxes refer to the same taxpayer and to the same tax authority.

Value added taxes

Revenues, costs and assets are recognised net of value added taxes, except when:

- this tax, applied to the purchase of goods or services, is non-deductible, in which case it is recognised as part of the purchase cost of the asset or part of the cost item recognised in the income statement;
- it refers to the measured trade payables and receivables including the tax amount.

The net amount of indirect taxes on sales which can be recovered from or paid to the tax authorities is included in the financial statements under trade receivables or payables, according to the negative or positive balance.

3. Business combinations and transfer of minority interests

Acquisitions and transfers in 2017

Business combination of Asi spa in Veritas spa

On 22 May 2017, a share exchange agreement was signed between Veritas spa and the partner local authorities of Asi spa, as a result of which Veritas spa became a holder of a stake in Asi spa.

Subsequently, on 1 June 2017, as a result of the resolution of the extraordinary shareholders' meeting of Veritas spa of the share capital increase, a part of which reserved to the partner local authorities of Asi spa, to be paid through contributions in kind, Veritas spa became the owner of all of the share capital and therefore the sole shareholder of Asi spa.

For the purposes of completing the aggregation operation, on 1 June 2017, the respective Boards of Directors of the companies Veritas spa and Asi spa resolved to approve the project for the merger by incorporation of Asi spa in Veritas spa. This project was therefore approved by the respective extraordinary shareholders' meetings on 11 July 2017.

The entire transaction is described in point 3 Corporate transactions occurred in 2017, of the Notes to the separate financial statements of the parent company, to which reference should be made.

Acquisition of 25.16% of shares in Alisea spa

In May 2017, Veritas purchased from the partner municipalities the remaining stake in Alisea spa, equal to 25.16% of the share capital, through the exchange of Veritas shares for Alisea shares, which took place on the basis of the conditions of the initial aggregation operation, which started in 2012; the difference between the purchase price and the carrying value of the portion of net assets acquired, amounting to EUR 504 thousand, was allocated to the increase in shareholders' equity, pursuant to IFRS 3 and 10. Following this transaction, the company is wholly-owned.

The entire capital invested was tested for impairment at balance-sheet date, and determined based on discounted future cash flows of both CGUs (cash-generating units) connected with subsidiary Alisea, i.e. CGU "Management of the municipal waste service" and the CGU "Management of the landfill in the Municipality of Jesolo". The impairment test highlighted no need for write-downs.

Sale of 100% of Ecopiave srl by Eco-ricicli Veritas srl

In January 2017, Eco-ricicli signed a framework agreement with Ecopatè srl and Sibelco Green Solutions sas (Sibelco Group) aimed at regulating the disposal of its corporate shareholdings in Ecopiave srl and Ecopatè srl, defining the associated legal transactions and outlining the new commercial relations between the parties.

In March 2017, Eco-ricicli completed the sale of the entire shareholding in Ecopiave srl (100%), already consolidated in accordance with IFRS 5, to Ecopatè srl, and the sale of 30% of its shareholding in Ecopatè srl to the Sibelco Italia spa.

The sale of Ecopiave srl made provision for a total consideration of EUR 2,033 thousand, which generated a consolidated economic result (difference between the net sale price and the shareholders' equity of the company) of EUR 11 thousand.

Acquisitions/terminations after the reporting date

In January 2018, the parent company acquired an additional stake in the subsidiary Eco-ricicli Veritas srl (4.29% of the share capital) from the company Demont in liquidation.

4. Acquisition of investments in jointly controlled companies

In 2017, no acquisitions of investments in jointly controlled companies by the Group were formalised.

5. Assets and liabilities held for sale and discontinued or receivables and payables due from/to subsidiaries held for sale

These assets and liabilities are classified in the balance sheet under the following items:

- receivables from subsidiaries held for sale, EUR 155 thousand;
- long-term payables to subsidiaries held for sale, EUR -332 thousand;
- assets held for sale, EUR 4,646 thousand;
- liabilities held for sale of EUR -603 thousand.

In the table below, the 2016 values refer exclusively to Ecopiave srl, which left the Group at the start of 2017. The 2017 values, by contrast, refer to Steriladria srl, whose transfer of 60% by Ecoprogetto was completed in the first few months of 2018.

Receivables from and payables to subsidiaries held for sale refer to amounts due to the Group from the subsidiary Steriladria, of a commercial nature, as well as Group payables due to said subsidiary, related to the payables of Ecoprogetto for the acquisition of a property.

Assets held for sale, totalling EUR 4,646 thousand (EUR 9,873 thousand as at 31 December 2016), relate to the assets of the subsidiary Steriladria (EUR 807 thousand) and to movable and property assets owned by the subsidiary Mive srl in liquidation, held for sale (EUR 3,839 thousand).

Liabilities held for sale, totalling EUR 603 thousand (EUR 4,294 thousand as at 31 December 2016), relate to the liabilities of the subsidiary Steriladria.

The table below shows the figures for assets held for sale or discontinued for the years 2017 and 2016:

(thousands of Euro)	31.12.2017	31.12.2016
net profit/(loss) Ecopiave srl		325
net profit/(loss) Steriladria srl	-508	
net profit from measurement at equity of companies held for sale		
total profit of discontinuing and discontinued operations	**-508**	**325**
of which pertaining to third parties	**-303**	**71**

Disposal of the subsidiary Steriladria srl

In October 2016, the equity investments in the subsidiaries of Ecoprogetto include the shareholding in Steriladria srl, incorporated on 16 September 2011 to manage a sanitary waste treatment and disposal plant, with share capital of EUR 100 thousand.

The closure of an important commercial contract in the middle of 2016, with the resulting economic effects, prompted management to research new operating solutions and a different corporate structure. The shareholders' meeting in February 2017 approved the new industrial plan, which envisaged investments in the 2017-2021 period for the start of further economic activities, in order to guarantee a greater business capacity and stronger market presence.

The relaunch initiatives undertaken in the year did not produce the desired outcome and, in November, the shareholders' meeting of Ecoprogetto resolved the guidelines for ensuring the safety of the subsidiary. At the end of December, Ecoprogetto acquired an additional 10% stake.

In relation to the operating performance, the book value of the equity investment recognised in Ecoprogetto's financial statements as at 31 December 2017 came to EUR 90 thousand, net of the write-down totalling EUR 510 thousand registered during the year, for EUR 150 thousand covered by provisions for risks already allocated.

On 15 February 2018, Ecoprogetto sold 60% of the share at a price of EUR 60 thousand, reducing the stake to 30%, with the subsequent loss of control pursuant to art. 2497 of the Italian Civil Code and the tax consolidation of the same.

The shareholders' meeting of Steriladria approved the 2017 financial statements in February, and the administration of the company passed to the new parent company, Saste srl.

Shown below is the income statement relating to 2017 of the subsidiary Steriladria srl, already classified as held for sale in the current financial statements:

(thousands of Euro)	31.12.2017
revenues	230
costs	-856
operating income	-626
net financial charges	-29
profit (loss) before taxation of discontinuing operations	-655
income taxes for the year	147
total profit/loss for the year of assets held for sale	**-509**
of which pertaining to third parties	**-303**

The main classes of assets and liabilities as at 31 December 2017, attributed to subsidiary Steriladria srl, classified as held for sale, are as follows:

(thousands of Euro)	31.12.2017
assets	
intangible assets	
goodwill	
tangible fixed assets	264
other non-current assets	
prepaid tax receivables	
receivables from companies of the Veritas Group	332
current assets	169
cash and cash equivalents	42
total assets held for sale	**807**
liabilities	
current liabilities	243
payables to companies of the Veritas Group	155
current financial liabilities	145
non-current liabilities	61
non-current financial liabilities	
total liabilities held for sale	**604**
total net assets held for sale	**203**

Disposal of single assets held for sale

Listed below are some assets and related liabilities, classified as held for sale, following the directors' decision to sell them or, subsequently, due to the signing of preliminary sales agreements. The corresponding items as at 31 December 2016 are also disclosed. There are no liabilities held for sale.

(thousands of Euro)	31.12.2017	31.12.2016
assets		
investment property	3,839	3,557
assets available for sale		0
valuation at equity of companies held for sale		
total assets held for sale	**3,839**	**3,557**
liabilities		
total liabilities held for sale	**0**	**0**
total net assets held for sale	**3,839**	**3,557**

The item investment property includes mainly

- an area of land located in Mestre-Venezia in via Porto di Cavergnago, owned by the subsidiary Mive, for a total value of EUR 3,721 thousand, an increased value compared to the previous year by EUR 301 thousand, due to the new acquisition of a portion of allocated land;
- the former historical newsstand in sestiere San Polo in Venice, owned by the subsidiary Mive, for a total value of EUR 30 thousand, while during the year, the historical newsstand in sestiere Santa Croce was sold, again owned by Mive, for a value of EUR 20 thousand.

6. Intangible assets

Changes to intangible fixed assets as at 31 December 2017 and 31 December 2016 are indicated below:

(thousands of Euro)	start-up and expansion costs	develop-ment costs	patent rights	licences and software	public ser-vice con-cession	other intan-gible assets	investments in progress	total
cost								
as at 1 January 2016	**11**	**0**	**197**	**28,531**	**28,460**	**402**	**3,074**	**60,676**
increases for business combinations	30	31		-100	-62	8	-55	-146
increases			3	2,417		700	2,265	5,385
disposals						-13		-13
reclassifications				939		-306	-718	-85
impairment								
purchase of minority interests								
other transactions		-31		-169	0	-412	-635	-1,247
discontinuing operations								
as at 31 December 2016	**41**	**0**	**200**	**31,619**	**28,398**	**380**	**3,932**	**64,569**
amortisation, depreciation and write-downs								
as at 1 January 2016	**-11**		**-190**	**-25,617**	**-15,021**	**-29**	**-109**	**-40,979**
increases for business combinations	-15			120	62	-11		156
amortisation	-8		-2	-2,019	-2,011	-28		-4,069
disposals						19		19
reclassifications				-5		-385		-390
impairment							-558	-558
other transactions				182		432	6	620
as at 31 December 2016	**-34**	**0**	**-193**	**-27,339**	**-16,970**	**-3**	**-661**	**-45,201**
residual value of contributions						-195		-195
net carrying amount								
as at 31 December 2016	**7**	**0**	**8**	**4,280**	**11,427**	**181**	**3,270**	**19,173**
cost								
as at 1 January 2017	**41**	**0**	**200**	**31,619**	**28,398**	**380**	**3,932**	**64,569**
increases for business combinations		32	9	1,020				1,061
increases				2,890		176	809	3,875
disposals								
reclassifications	-12		-7	593	-527	-135	-561	-649
impairment								
purchase of minority interests								
other transactions	-8			-3		-9	-874	-894
discontinuing operations								
as at 31 December 2017	**21**	**32**	**202**	**36,119**	**27,871**	**412**	**3,306**	**67,962**
amortisation, depreciation and write-downs								
as at 1 January 2017	**-34**	**0**	**-193**	**-27,339**	**-16,970**	**-3**	**-661**	**-45,201**
increases for business combinations		-32	-9	-1,020				-1,061
amortisation	-3		-2	-2,656	-2,011	-26		-4,698
disposals								
reclassifications	11		8	4	527	6	103	659
impairment								
other transactions	8			3		2		13
as at 31 December 2017	**-18**	**-32**	**-196**	**-31,008**	**-18,454**	**-21**	**-558**	**-50,288**
residual value of contributions								
net carrying amount								
as at 31 December 2017	**3**	**0**	**6**	**5,111**	**9,417**	**391**	**2,748**	**17,674**

For the year 2017, the increases reclassified as increases for business combinations relate to intangible assets deriving from the aggregation of Asi in Veritas.

The *Licences and software* item mainly includes costs for the development and updating of SAP software modules, and the development of new software for the parent company's personnel.

The *Public service concessions* item from 2013 also comprises the fair value of the concession of Elios srl, with duration now updated to 2038, relative to the crematorium adjacent to the cemetery in Spinea.

Since 2011 the same item includes the current value attributed to the concession for the management of the landfill site located in the Municipality of Jesolo, within the acquisition of Alisea spa. This concession will expire in 2030 and its value has been amortised starting from 2012 based on the duration of the concession itself.

The remaining amount of the 'Public service concessions' item relates to the residual value of concessions for the municipal waste management services for the Mirese area and the municipalities of Chioggia, Mogliano and Cavarzere, the expiry dates of which were defined based on provisions set out in the service contract of Veritas spa, i.e. 31 December 2019, in addition to the expiry date of 31 December 2018, established by the AATO (authority of the optimal territorial area) for the Venetian lagoon, concerning the management of the integrated water service for the Mirese, Chioggia and Mogliano Veneto areas.

In light of the evolving regulatory framework for local public services, the directors deemed it unnecessary to review the residual duration of current concessions for the environmental hygiene service.

The increases for investments in progress refer mainly to advances paid for the takeover of the concession on an area owned by the Municipality of Venice and works carried out on assets under concession by Eco-ricicli Veritas.

Concession services

Following the adoption of IFRIC 12 and after analysing the concession relations in place with entities, the Group deemed it necessary to apply the interpretation to all activities of the integrated water cycle managed by the parent company.

All infrastructures involved were therefore reclassified under a separate item of intangible assets, namely 'Concession services'.

Moreover, the corresponding government grants, previously stated as components of current and non-current liabilities, were reclassified by disclosing the net amount of concession services.

The concession services refer entirely to the parent company, and include, from this year, the activities of the integrated water cycle as a result of the aggregation of Asi spa.

The amounts relative to concession services are listed below:

(thousands of Euro)	31.12.2017	31.12.2016
'water' concession services	210,387	169,749
total concession services	**210,387**	**169,749**

The following table highlights changes in Concession services as at 31 December 2017 and 31 December 2016:

(thousands of Euro)	concession services
cost	
as at 1 January 2016	**487,579**
increases	13,384
reclassifications	2,474
disposals	-39
as at 31 December 2016	**503,398**
amortisation, depreciation and write-downs	
as at 1 January 2016	**-173,986**
amortisation	-14,714
reclassifications	-508
disposals	
impairment	
other transactions	36
as at 31 December 2016	**-189,172**
residual value of 2016 contributions	**-144,477**
net carrying amount	
as at 31 December 2016	**169,749**
cost	
as at 1 January 2017	**503,398**
increases for business combinations	127,316
increases	19,646
reclassifications	61
disposals	-2
as at 31 December 2017	**650,419**
amortisation, depreciation and write-downs	
as at 1 January 2017	**-189,172**
increases for business combinations	-84,471
amortisation	-16,454
reclassifications	229
disposals	2
impairment	-704
other transactions	
as at 31 December 2017	**-290,570**
residual value of 2017 contributions	**-149,462**
net carrying amount	
as at 31 December 2017	**210,387**

With reference to the economic-technical amortisation rates applied, representing the expected future economic benefits resulting from the use of the asset, as well as from the residual value of infrastructures, as envisaged by the reference regulations, it is worth noting that these are the same as those already adopted by the Group.

7. Goodwill and impairment test

Goodwill acquired through business combinations were allocated to the following CGUs, even belonging to different business sectors, for impairment testing purposes:

- Waste disposal hub unit - Ecoprogetto;
- SII territorial area unit in Mogliano Veneto;
- Eco-ricicli Veritas (former Vetrital) unit;
- SIA Asvo unit.

The book value of goodwill allocated to each single CGU is listed hereunder:

(thousands of Euro)	31.12.2016	increases	decrease	31.12.2017
CGU Ecoprogetto	12,606			12,606
CGU SII Mogliano Veneto area	788			788
CGU Eco-ricicli Veritas (former Vetrital)	3,460			3,460
CGU Asvo	4,370			4,370
total goodwill	**21,223**	**0**	**0**	**21,223**

No changes were recorded with respect to 2016.

Waste disposal hub unit - Ecoprogetto

The amount recoverable from the waste disposal hub unit currently managed by the subsidiary Ecoprogetto srl, was determined based on the value in use.

Projected cash flows, included in the 2018-2024 financial plan approved by the BoD, were used for the calculations.

The discounting rate applied to projected cash flows was 9.46% for the years 2018-2024, in consideration of the higher increases of expected flows in the new industrial plan. The terminal value was taken by assuming NOPAT for year 2018 as reference cash flow for capitalisation, at a constant 1% growth rate.

The impairment test, performed by an expert appointed by the parent company, confirmed that goodwill recorded in the financial statements was recoverable based on the business plan approved by the BoD of Ecoprogetto.

Eco-ricicli Veritas unit

The recoverable value of this unit was determined based on the value in use. Projected cash flows, included in the 2018–2020 three-year financial plan approved by the BoD, were used for the calculations.

The discounting rate applied to projected cash flows is 7.22%, using a growth rate g of 1%.

The impairment test, performed by an expert appointed by the parent company, confirmed that goodwill recorded in the financial statements was recoverable based on the business plan approved by the BoD of Eco-ricicli Veritas.

Also Metalrecycling Venice srl, a subsidiary of Eco-ricicli Veritas srl, was subject to an impairment test by an expert to check for impairment. The equity value is consistent with the book value of the equity investment.

Asvo unit

The recoverable value of this unit was determined based on the value in use. Projected cash flows, included in the 2018–2020 three-year financial plan approved by the BoD, were used for the calculations.

The discounting rate applied to projected cash flows is 7.22%, and cash flows after 2020 were calculated using a growth rate of 1%.

The impairment test, performed by an expert appointed by the parent company, confirmed that goodwill recorded in the financial statements was recoverable based on the business plan approved by the BoD of Asvo.

Sensitivity to changes in assumptions

Waste disposal hub unit

The sale of Ecoprogetto shares in October 2016 was driven by the desire to strengthen the subsidiary's industrial development, through the insertion in the shareholding structure of new industrially qualified shareholders.

The strategic-industrial development plan approved, with the associated business plan, in November 2017, is highly ambitious, with a significant programme of investments, which should help Ecoprogetto become a player in the energy development of Foru (organic fraction of urban waste) through bio-digestion, the production and distribution of biomethane, the production of electricity from biomass, at the same time resolving the issue of the disposal of urban bioconcentrate.

The unit will also continue with the production of Css (secondary solid fuel) and its development at Enel produzione spa's Palladio thermoelectric plant.

The preliminary project activities of the new plant development already commenced in 2017, with the first variations to the production processes in place planned for the second half of 2018, especially for the secondary solid fuel production type.

As regards incoming waste, it is believed that the flow of RUR (residual urban waste) from the Veritas Group will now be stabilised at 2017 values. The unit's attention will be focused, in the near future, on the fractions that should fuel the energy development that has been authorised and/or is to be authorised.

The four-year assignment of urban waste treatment services with the parent company expires in 2019, with the possibility of a four-year extension; up until 2019, it will ensure a certain stability in terms of cash flows, then the tariff reduction drive should lead to further rationalisation of the industrial costs of manufacturing, in line with the guidelines of the strategic-industrial development plan of November 2017.

Eco-ricicli unit

With regard to this unit, the actions implemented lead us to reasonably believe that the 2018–2020 industrial plan will be fulfilled.

The quantities treated recorded a rising trend and the market shares of activities appear consistent with the budget forecasts. The increase is due to the strengthening of commercial relations with major environmental service managers operating in the surrounding area.

In addition, from April 2017, the framework agreement for the glass chain signed by Ecopatè and Sgs Sibelco has been applied, which led the unit to exit the oven-ready glass market to concentrate on new industrial projects in the selection and treatment of light multi-material (plastic-cans in particular), on the expansion of the services offered and on industrial research and experimental development of processes regarding the disposal of separated waste. New investments are also planned in the Marghera Ecodistrict area.

The Directors believe that any risk of changes in cash flows is minimal and sustainable.

Asvo unit

With regard to the Asvo unit, the implemented actions reasonably lead us to believe that the 2018–2020 industrial plan will be fulfilled.

The unit registered stable cash flows over time, relating to the integrated municipal waste management service.

8. Tangible fixed assets

Changes in tangible fixed assets as at 31 December 2017 and 31 December 2016 are as follows:

(thousands of Euro)	land and buildings	plant and machinery	industrial and commercial equipment	other assets	leasehold improvements	assets subject to reversion free of charge	leased assets	fixed assets in progress or advances	total
net carrying amount									
as at 1 January 2016	**109,505**	**59,928**	**14,592**	**29,158**	**2,800**	**994**	**20,639**	**9,765**	**247,385**
cost									
as at 1 January 2016	**143,812**	**117,452**	**41,275**	**83,210**	**10,695**	**2,265**	**48,738**	**6,738**	**454,184**
increases for business combinations	-436	-940	125	-132	9	2,603	-69		1,162
increases	1,399	1,993	4,715	8,108	746		423	5,811	23,196
disposals	-698	-230	-343	-1,763					-3,034
reclassifications	-1,656	721	-36	-246	531		162	-1,096	-1,621
impairment		32						-65	-33
other transactions		-140	0	-36			16	625	464
discontinuing operations									
as at 31 December 2016	**142,421**	**118,888**	**45,736**	**89,140**	**11,981**	**4,869**	**49,270**	**12,013**	**474,318**
amortisation, depreciation and write-downs									
as at 1 January 2016	**-32,310**	**-56,540**	**-26,653**	**-54,028**	**-7,895**	**-1,272**	**-28,099**	**3,619**	**-203,176**
increases for business combinations	431	609	-22	128		-1,176	69		37
amortisation	-3,197	-5,699	-2,801	-4,049	-947	-195	-2,549		-19,436
disposals	56	157	351	1,700					2,264
reclassifications	175	20	48	72	-22		-162		131
impairment								-9	-9
other transactions		-1	1	28				32	60
as at 31 December 2016	**-34,844**	**-61,454**	**-29,076**	**-56,150**	**-8,864**	**-2,643**	**-30,741**	**3,643**	**-220,129**
residual value of contributions at 31.12.2016	-1,892	-899	-52	-43				-1,174	-4,060
net carrying amount									
as at 31 December 2016	**105,685**	**56,534**	**16,608**	**32,947**	**3,118**	**2,226**	**18,529**	**14,482**	**250,129**
cost									
as at 1 January 2017	**142,421**	**118,888**	**45,736**	**89,140**	**11,981**	**4,869**	**49,270**	**12,013**	**474,318**
increases for business combinations	11,889	782	2,169	2,404		11		641	17,896
increases	27,565	3,481	3,150	6,226	703		195	4,090	45,410
disposals		-5,156	-561	-2,702					-8,419
reclassifications	6,873	32,534	5,718	7,650	5,699	-4,869	-19,996	-4,335	29,274
impairment	-40	22							-18
other transactions	-189	-721	-196	-15				-861	-1,982
discontinuing operations									
as at 31 December 2017	**188,519**	**149,830**	**56,016**	**102,703**	**18,383**	**11**	**29,469**	**11,548**	**556,479**
amortisation, depreciation and write-downs									
as at 1 January 2017	**-34,844**	**-61,454**	**-29,076**	**-56,150**	**-8,864**	**-2,643**	**-30,741**	**3,643**	**-220,129**
increases for business combinations	-11,282	-626	-1,910	-2,251		-11			-16,080
amortisation	-3,307	-5,865	-3,231	-4,835	-1,222		-1,717		-20,177
disposals		2,397	504	2,538					-5,439
reclassifications	2,334	-28,591	-3,605	-9,965	-3,001	2,643	15,296	-4,682	-29,571
impairment	-131								-131
other transactions	272	306	167	8					753
as at 31 December 2017	**-46,958**	**-93,833**	**-37,151**	**-70,655**	**-13,087**	**-11**	**-17,162**	**-1,039**	**-279,896**
residual value of contributions as at 31.12.2017	-2,030	-298	-577	-32	-180			-1,174	-4,291
net carrying amount									
as at 31 December 2017	**139,531**	**55,699**	**18,288**	**32,016**	**5,116**	**0**	**12,307**	**9,335**	**272,292**

There was a net increase of EUR 22,163 thousand in tangible fixed assets, from EUR 250,129 thousand to EUR 272,292 thousand.

The amounts indicated in the item Increases for business combinations relate to the aggregation of Asi in Veritas. As regards the parent company, please refer to the comments on the fixed assets reported in the appropriate note to the separate financial statements.

The reclassifications, used to standardise the criteria for the recognition of the fixed assets of the Group, were also used this year to allocate the leased assets redeemed (which up until 2016 appeared in the column “Leased assets”), to the corresponding classes of fixed assets.

As a result of the share capital increase of the parent company, subscribed in June 2017, the Municipality of Venice conferred land for a total value of EUR 25,605 thousand.

Eco-ricicli continued to invest in glass-plastic-cans (VPL) treatment plants and the associated machinery (roughly EUR 2,100 thousand) and in the area serving as the Marghera Ecodistrict, built offices (EUR 375 thousand), while it had to eliminate assets for a value of EUR 1,752 thousand, following the fire last June at the bulky goods warehouse, which was destroyed.

Ecoprogetto completed the Css2 (secondary solid fuel) section K plant, capitalising the job for a total of EUR 2,895 thousand, to buildings for EUR 1,318 thousand and plant and machinery for EUR 1,577 thousand. It also purchased an industrial building (RUP - hazardous urban waste) and offices from the subsidiary Steriladria for a value of EUR 680 thousand. By contrast, it reclassified plant assets for EUR 4,824 thousand to assets held for sale, as a result of the sale settlement deed signed in January 2018 with the company Ladurner.

Alisea carried out investments in assets and equipment for the municipal waste management services totalling around EUR 850 thousand, and signed a new finance lease agreement for EUR 195 thousand.

With regard to Asvo, the investments in vehicles and municipal waste management equipment totalled EUR 941 thousand; the transfer station for the landfill in Centa Taglio (total investment EUR 2,522 thousand) entered into operation in 2017.

Depreciation for the period, amounting to EUR 41,330 thousand, was calculated on all depreciable assets at year-end, by applying rates deemed to reflect the technical-economic useful life of assets, as described in the valuation criteria. The definition and/or review of useful lives were carried out to adjust depreciation valuation criteria at a Group level.

The aforesaid rates, proportionally reduced for assets that have become operational during the year to account for their shorter use, were defined based on the residual possible use of assets and are therefore deemed to reflect the economic-technical useful life of tangible fixed assets.

9. Investment property

The following table shows the changes in investment property as at 31 December 2017 and 31 December 2016, entirely composed of land and buildings:

(thousands of Euro)	total
cost	
as at 1 January 2016	**12,716**
increases	
reclassifications	
as at 31 December 2016	**12,716**
amortisation, depreciation and write-downs	
as at 1 January 2016	**-51**
depreciation	-3
as at 31 December 2016	**-54**
net carrying amount	
as at 31 December 2016	**12,662**
cost	
as at 1 January 2017	**12,716**
increases	
reclassifications	
as at 31 December 2017	**12,716**
amortisation, depreciation and write-downs	
as at 1 January 2017	**-54**
amortisation	-2
as at 31 December 2017	**-56**
net carrying amount	
as at 31 December 2017	**12,660**

Investment property is composed almost entirely of the value of a plot of land (termed ex Alcoa) in Fusina-Marghera, in which the Group is implementing the 'Ecodistrict' project. This project involves relocating a number of industrial businesses, which will be managed both by Group companies and external companies, to treat the recyclable part of waste, thus creating a waste treatment hub.

10. Shareholdings in associates and jointly controlled companies

As at 31 December 2017, the Group holds shareholdings in associates, as shown in the table below:

	book value		Group's % shareholding	
(thousands of Euro)	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Sifa scpa	7,884	8,057	32.14	32.14
Insula spa	496	496	24.73	24.73
Amest Srl *in liquidation*		0		43.46
Depuracque servizi srl	3,354	2,956	20.00	20.00
Lecher ricerche e analisi srl	677	539	60.00	60.00
Ecopatè srl		800		31.22
Ecoplastiche Venezia srl	39	39	31.22	31.22
Veritas Conegliano srl	49	49	48.80	48.80
total shareholdings in associate companies	**12,499**	**12,935**		
total shareholdings in jointly controlled companies				
total shareholdings in associates and jointly controlled companies	**12,499**	**12,935**		

The item 'Shareholdings in associates and jointly controlled companies' decreased by EUR 436 thousand from EUR 12,935 thousand to EUR 12,499 thousand. Ecopatè srl (now 10% owned) left, Sifa scpa was written down by EUR 173 thousand, while Depuracque servizi srl and Lecher srl increased their value. Veritas Conegliano, incorporated in December 2016, closed its first year of activities with a break-even position, while Amest srl in liquidation was struck off the Register of Companies in August 2017.

Associate companies are not listed in any regulated market.

The summary of the financial information of the individual companies is shown below; the disclosed figures are taken from IFRS financial statements for the companies that have drawn them up, and from the reclassification of separate financial statements drafted in accordance with Italian accounting standards in other cases, as it is believed that the latter are representative for IAS purposes as well.

Associates retain a fundamental role in contributing to the industrial and market management of the parent company and the subsidiaries, providing the necessary strategic flexibility in the management of industry activities.

Sifa scpa

The main object of the company, established in 2005, is the design, construction and economic-financial management of initiatives through the funding of projects related to the concession of the complex named 'Progetto Integrato Fusina' (Fusina Integrated Project) by the Veneto Region.

Therefore, the table below summarises the financial disclosures on the shareholding:

(thousands of Euro)	31.12.2017	31.12.2016
balance sheet of the associate		
current assets	26,020	27,738
non-current assets	184,955	214,338
current liabilities	-112,486	-141,075
non-current liabilities	-67,746	-70,338
total net assets	**30,743**	**30,662**
revenues and profit/loss of the associate		
Revenues	18,490	25,723
profit (loss)	81	-9,541
carrying value of the shareholding	**7,884**	**8,057**

The Fusina integrated project, which involves the construction of plants to ensure the treatment of waste from the industrial hub of Marghera and the Mirese area and water for civil use (the manager of industrial plants in current operation is Sifagest scarl), consists of a large project of environmental recovery, which incorporates a vast area of Fusina and involves the underground installation of high voltage power lines, a new road network for road-based heavy goods transport, hydraulic works, the repositioning of a production facility and the reconversion of the disused areas of the petrochemical plant to port areas (additional works set out in the Moranzani programme agreement).

The initial agreement, entered into in July 2005 with the Veneto Region, was subsequently supplemented in December 2008 (1st supplementary deed) and March 2010 (2nd supplementary deed).

The two aforementioned deeds were necessary to restore the company's economic and financial balance following changes in the reference scenario, whereby the activities carried out in the industrial area of Porto Marghera contracted, resulting in a decrease for the company in the quantity of sludge delivered and wastewater to be treated.

A further deterioration in the economic situation led Sifa's directors to ask the Region for another review of the concession.

After lengthy negotiations, in order to resolve the criticalities that arose in relation to the concession relationship which had a major negative impact on management in the last few years, Sifa signed a settlement and modification agreement on 27 December 2016 with the Veneto Region.

The economic-financial plan attached to the agreement requires, in compliance with the contents of the concession and subsequent supplementary deeds, Sifa to continue to manage the plants constructed in relation to the water line, by ensuring the following services:

a) post-treatment of "A" urban waste, also targeted at the production of R1 re-use water with discharge into the sea of any excess with respect to the industrial requirements;

b) treatment of industrial wastewater and leaching storm water from the industrial area of Porto Marghera with allocation to the plant platform of Fusina or Sg31;

c) treatment of groundwater drawn from drainage pipes placed in the inner side of the embankments constructed by the Interregional Procurement and Supply Department for Public Works and by Sifa.

On the same date, Sifa's shareholders signed new shareholders' agreements which make provision, among other things, for the conversion of trade receivables of shareholders due from Sifa to financial receivables, with the recognition of an interest rate of 2% and a deferred payment based on the repayment of positive cash flows, which the latest estimates put at 10 years.

Given that the shareholders' agreements were also signed by Sifagest, as it is a partner of Sifa, the same type of instalment-based repayment was extended to the receivables of said entity.

As a consequence, the payment of the receivable of Veritas due from Sifagest will also be deferred, foreseeably over 10 years.

Therefore, 2017 represents the first year of the new twenty-five-year concession. On 10 May, Sifa's shareholders' meeting approved the 2017 financial statements, with a net profit of EUR 81 thousand.

Furthermore, in March 2018, the industrial plan was updated by taking into account the actual profits accrued in 2017, with medium/long-term economic-financial prospects that point to positive economic results and healthy generation of cash.

As at 31 December 2017, the Group recognised:

- EUR 7.9 million as the book value of the shareholding in Sifa, in line with the equity value of the associate, estimated by the company by taking the Economic-Financial plan cited above as a starting point; in particular, Veritas maintained the write-down (carried out in 2016) of the shareholding for EUR 4.6 million, covered by the provision for risks already allocated in previous years;
- EUR 16.5 million in nominal financial receivables due from Sifa, relating to the parent company (EUR 5.4 million) and from Sifagest, with deferred repayment over 10 years;
- trade receivables due from Sifa, amounting to EUR 4.8 million, mainly regarding Sifagest.

The new agreement signed with the Region, the change of governance and the removal of financial risks, mean Sifa is now in a position to plan for a financial break-even position and kick-start ordinary activities.

In addition, the signing of the "Pact for Venice" in November 2016 may ensure Sifa is able to reposition part of its activities.

As regards the above, the management believes that it can confirm the carrying value of the shareholding.

For further details, please refer to the Report on Operations of the parent company.

Insula spa

The company operates in the context of works financed by the special law regarding Venice for the consolidation and extraordinary maintenance of Venice's historical centre, and the RII integrated project, as well as the management and administration of public residential housing and the administrative management of municipally-owned condominiums.

The following table summarises the financial disclosures on the shareholding in Insula spa:

(thousands of Euro)	31.12.2017	31.12.2016
balance sheet of the associate		
current assets	50,057	84,586
non-current assets	30,538	7,518
current liabilities	-42,415	-52,370
non-current liabilities	-33,929	-35,512
total net assets	**4,250**	**4,222**
revenues and profit/loss of the associate		
revenues	16,167	19,444
profit (loss)	28	-435
carrying value of the shareholding	**496**	**496**

After a period of uncertainty due to the lack of planning and financing of projects, in 2017, the company was able to benefit from different assignments of public works which allowed it to maintain economic equilibrium. In the medium-term, new assignments are planned by the Municipality of Venice for a total value of just under EUR 30 million.

Depuracque servizi srl

The company operates mainly in the following sectors: special waste recovery and disposal, industrial remediation, environmental redevelopment and water treatment.

The table below provides summary financial information on the shareholding in Depuracque Servizi:

(thousands of Euro)	31.12.2017	31.12.2016
balance sheet of the associate		
current assets	9,925	9,640
non-current assets	10,182	8,426
current liabilities	-4,885	-5,234
non-current liabilities	-1,310	-1,171
total net assets	**13,912**	**11,661**
revenues and profit/loss of the associate		
revenues	17,614	15,417
profit (loss)	2,652	2,107
carrying value of the shareholding	**3,354**	**2,956**

In July 2013, Veritas acquired a 20% stake in Depuracque servizi, through a direct purchase from the shareholders of the company and the subscription of a share capital increase.

This transaction occurred at the same time as the acquisition of a 50% shareholding in Lecher ricerche e analisi srl (already wholly-owned by Depuracque servizi) and the sale from Veritas to Depuracque servizi of plot of land in the ex Alcoa area in Marghera, reserved for an 'Ecodistrict', for which Depuracque had expressed an interest.

The company's shareholding structure was unchanged, with private entities making up 80% and Veritas 20%.

The net book value includes the higher net carrying amount attributed to mobile assets and goodwill determined at the acquisition date, resulting from the sworn estimate drawn up by an independent expert for the transfer deed.

Lecher ricerche e analisi srl

The company handles sampling, laboratory analyses and advisory services in the environmental sector.

The table below provides a summary of the financial information on the shareholding in Lecher:

(thousands of Euro)	31.12.2017	31.12.2016
balance sheet of the associate		
current assets	1,497	1,490
non-current assets	553	436
current liabilities	-743	-920
non-current liabilities	-252	-228
total net assets	**1,055**	**778**
revenues and profit/loss of the associate		
revenues	2,948	2,653
profit (loss)	276	184
carrying value of the shareholding	**677**	**539**

The purchase of 50% of the shareholding by Veritas derives from the transaction that took place in July 2013 with Depuracque servizi, as described above.

The company's shareholding structure is unchanged and composed of Depuracque servizi (50%) and Veritas (50%). Therefore, the Group's direct and indirect shareholding amount to 60%.

The net carrying amount includes goodwill defined at the acquisition date.

Ecoplastiche Venezia srl

The company was established on 16 May 2014 by Idealservice sc and Eco-ricicli Veritas srl, which hold 60% and 40% of its shares, respectively. The share capital amounts to EUR 100 thousand.

Ecoplastiche Venezia will handle the recycling of plastic within the future Marghera Ecodistrict, through the construction of a recovery and preparation plant for the recycling and production of plastic raw materials. At the end of 2017, it was not yet operational.

The table below provides summary financial information on the shareholding in Ecoplastiche Venezia srl as at the date of drafting of these notes:

(thousands of Euro)	31.12.2016
balance sheet of the associate	
current assets	95
non-current assets	2
current liabilities	-1
non-current liabilities	0
total net assets	**97**
revenues and profit/loss of the associate	
revenues	0
profit (loss)	-1
carrying value of the shareholding	**39**

Veritas Conegliano srl

The company was incorporated by the parent company and another four private shareholders in December 2016, following the definitive award of the tender for the construction of a crematorium facility and the management of cemeteries in the Municipality of Conegliano.

The plant will be constructed with project financing, and the proposers are shareholders of Veritas Conegliano srl.

The company will be operational from 2017, following the issuing of the thirty-year concession for the management of cemetery services and the crematorium, effective from 1 January 2017. The regional authorisation process for the works to construct the new plant concluded at the end of 2017; during the year in question, the company dealt primarily with cemetery services in Conegliano and the ordinary maintenance of said cemeteries.

The project company closed the first company year at 31 December 2017 with a substantial balance sheet break-even position.

The share capital amounts to EUR 100 thousand; the value of the Group's shareholding amounts to EUR 49 thousand.

(thousands of Euro)	31.12.2017	31.12.2016
balance sheet of the associate		
current assets	271	100
non-current assets	682	
current liabilities	-846	
non-current liabilities	-5	
total net assets	**102**	
revenues and profit/loss of the associate		
revenues	213	
profit (loss)	2	
carrying value of the shareholding	**49**	**49**

11. Financial assets available for sale

Available-for-sale financial assets, equal to EUR 1,686 thousand, relate to minority interests held by the parent company (EUR 380 thousand), by Ecoprogetto (EUR 1,005 thousand) and by Asvo (EUR 101 thousand). Ecoprogetto maintains a 2% stake in Bioman spa, with a book value of EUR 1,000 thousand.

By contrast, Eco-ricicli reclassified its shareholding in Ecopatè after the sale of 30% in March 2017. The value of the residual 10% is EUR 200 thousand, consistent with the value of the sale completed.

Within these Group shareholdings, there are limited shares of certain compulsory consortia amounting to EUR 5 thousand.

12. Other financial assets

(thousands of Euro)	31.12.2017	31.12.2016
guarantee deposits	713	1,094
financial receivables due from other entities	2,521	18
other non-current receivables	6,964	7,301
total other financial assets	**10,198**	**8,413**

The total for other financial assets recorded an increase of EUR 1,785 thousand.

Financial receivables due from other entities refer primarily to the share of the irregular pledge of EUR 2,400 thousand, equal to 16% of the bond issued by Asi spa for a total of EUR 15,000 thousand, paid to an interest-bearing term account. It may be converted to cash in favour of the company from the date on which the amount of capital still due is equal to 50% of the initial capital.

Other non-current receivables consist, for EUR 3,200 thousand, of receivables due after the year of the parent company, in particular relating to the sale of part of the Sant'Andrea area in Venice and payments of EUR 3,567 thousand made by the subsidiary Alisea as a guarantee for the management of the Jesolo landfill site in the Metropolitan City of Venice.

13. Inventories

The following table highlights disclosures on inventories as at 31 December 2017 and 31 December 2016:

(thousands of Euro)	31.12.2017	31.12.2016
spare parts and consumables	4,506	3,857
CDR (waste-derived fuel)		7
fuels	143	91
inventories of work in progress and semi-finished products	63	40
inventories of goods for sale	3,506	898
advances to suppliers		27
provision for inventory depreciation	-347	-195
total inventories	**7,871**	**4,725**

Inventories primarily comprise spare parts for maintenance purposes of water and sewerage networks, as well as of purification plants, and for the maintenance of waste treatment plants owned by the Group.

Inventories are recorded net of the provision for inventory depreciation created to take account of the obsolescence of some spare parts, which were no longer usable.

An increase totalling EUR 3,146 thousand was recorded, due in particular to the value of inventories contributed by Asi spa for EUR 633 thousand (spare parts and consumables) and the reclassification of assets held for sale by Ecoprogetto amounting to EUR 2,642 thousand.

14. Contract work in progress

The following table highlights disclosures on contract work in progress as at 31 December 2017 and 31 December 2016:

(thousands of Euro)	31.12.2017	31.12.2016
revenues from contract work recognised as revenue for the period	1,351	2,447
costs for contract work incurred at the reporting date	1,351	2,447
profit recognised at the reporting date	**0**	**0**
advances received from the Municipality of Venice	565	597
gross amount due by the principal for contract works	**1,676**	**1,643**

Contract works primarily relate to works and supplies ordered by the Municipality of Venice to the parent company and still uncompleted at the end of these financial statements.

It is worth noting that agreements with the Municipality of Venice envisage the payment for the mere costs incurred for the works carried out, without any margin being recognised.

The advance payments received from the Municipality of Venice are recognised under item Payables due to partner entities.

15. Trade receivables

The following table highlights disclosures on trade receivables as at 31 December 2017 and 31 December 2016:

(thousands of Euro)	31.12.2017	31.12.2016
trade receivables	20,735	18,276
receivables due from SII and SIA users	95,850	96,449
receivables due from related parties	1,915	7,383
receivables due from entities controlled by the Municipality of Venice	602	516
total nominal trade receivables	**119,102**	**122,624**
provision for doubtful trade debts	-2,842	-2,615
bad debt provision related to utilities	-27,597	-28,329
total provision for doubtful debts	**-30,439**	**-30,944**
total trade receivables	**88,663**	**91,680**

Trade receivables as at 31 December 2017 amounted to EUR 88,663 thousand (EUR 91,680 thousand as at 31 December 2016) and comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 31 December 2017. The values are recorded net of the provision for bad debt provision to EUR 30,439 thousand (EUR 30,944 thousand at 31 December 2016), which is deemed appropriate and prudential in relation to the presumed realisable value of such receivables.

The total decrease compared to 31 December 2016 was EUR 3,017 thousand.

The main changes include the contribution of receivables, especially due from SII users, the aggregation with Asi as at 1 January 2017 for EUR +12,610 thousand, the billing during the year by the parent company of SII tariff equalisations accounted for in previous years amounting to EUR -8,923 thousand, the accounting of new receivables for negative tariff equalisations for EUR 5,220, also accounted for by the parent company, the reduction in the bad debt provision by Alisea related to receivables for the billing of Tia1 in the Municipalities of Eraclea and Jesolo totalling EUR +3,613 thousand, with the subsequent recognition of a contingent asset, booked to the item Other income.

The receivables due from SII and SIA users, amounting to EUR 95,850 thousand, include the receivables due from Tia1 users, for which it should be noted that Ruling no. 5078/2016 of the Court of Cassation, in a joint sitting of all divisions, definitively confirmed the fiscal nature of the municipal waste management tariff (Tia1).

Although the ruling does not produce any effects regarding the ownership of the Tia1 credit, which therefore continues to remain with the manager, the latter cannot, however, continue to bear the risk of insolvency, owing to the assessed tax nature of the tariff.

In fact, the tax nature transferred the risk of insolvency to the Municipalities, and this occurs through the insertion of portions of any losses on receivables in the municipal waste management financial plans following the one of the assessed non-collectability of the receivable, net of any residual portions of allocations for losses already included in the old financial plans based on the Tia1 regime.

Receivables for Tia1 as at 31 December 2017 of the Group, relating generally to Veritas and Alisea, amounted to EUR 21,069 thousand; the residual portions of allocations for losses already inserted in the old financial plans based on the Tia1 system and recognised as the bad debt provision came to EUR 8,284 thousand.

In addition, as at 31 December 2017, under receivables due from SII and SIA, the parent company recorded receivables due from residual users for water tariff equalisations (including Asi management) amounting to EUR 2,169 thousand, composed of:

equalisation description	amount in thousands of Euro	year of invoicing	ref. year equalised	resolution
(residual amount to be invoiced) equalisations for 2004–11 cost/revenue variance and recognition of amortisation prior to 2004 (normalised method)	96	2014-16	2004-2011	Basin Council director decision 585-586/2014 of 30.06.2014
equalisations for 2010–11 ex-Asi cost/revenue variance (normalised method)	-2,499	to be defined	2010-2011	determination of Eastern Veneto Basin Council 4/2012 of 24.02.2012
equalisation for adjustment to VRG applied for 2013 (VRG interim tariff method - water tariff method equalisation)	3,364	2018	2013	Basin Council resolution no. 485/2014 of 29.05.2014 AEEGSI resolution no. 12/2015/R/IDR
equalisation for adjustment to VRG applied for 2014 (VRG interim tariff method - water tariff method equalisation 2)	7,357	2018	2013	Basin Council resolution no. 485/2014 of 29.05.2014 AEEGSI resolution no. 12/2015/R/IDR
equalisation for adjustment to VRG applied for 2015 (VRG interim tariff method - water tariff method equalisation 2)	1,455	2019	2015	Basin Council resolution no. 485/2014 of 29.05.2014 AEEGSI resolution no. 12/2015/R/IDR
equalisation for adjustment to VRG applied for 2016 (VRG and water tariff method equalisation 2)	-4,172	2018	2016	Basin Council resolution 5/2017 – 6/2017 of 16.02.2017 AEEGSI resolution no. 113/2017/R/IDR
equalisation for adjustment to VRG applied for 2017 (VRG and water tariff method equalisation 2)	-3,432	2019	2017	Basin Council resolution 5/2017 – 6/2017 of 16.02.2017 AEEGSI resolution no. 113/2017/R/IDR
total receivables for water tariff equalisations	**2,169**			

Trade receivables are not interest-bearing and usually have a 60-day maturity term.

Receivables due from SII and SIA users are not interest-bearing until maturity, which is 30 days from invoice issue. After their maturity date, default interest is accrued according to terms and conditions agreed upon by municipalities.

Receivables due from related parties comprise receivables due from subsidiaries of partner entities. For further details please refer to Note 45.

The table below shows the changes in the bad debt provision for each year under evaluation:

(thousands of Euro)	written down individually	written down collectively	Total
as at 1 January 2016	**2,023**	**33,259**	**35,282**
increases for business combinations	0	16	16
accruals	531	4,308	4,839
uses	-416	-1,575	-1,991
increases, decreases and reversals	-12	-7,190	-7,202
as at 31 December 2016	**2,126**	**28,818**	**30,944**
increases for business combinations	0	948	948
accruals	380	2,497	2,879
uses	-219	-427	-650
increases, decreases and reversals	-4	-3,680	-3,680
as at 31 December 2017	**2,283**	**28,157**	**30,439**

As at 31 December, the analysis of trade receivables, overdue but not written down, is as follows:

			overdue but not written down				
(thousands of Euro)	total	not overdue - performing	<30 days	30–60 days	60–90 days	90–120 days	>120 days
2017	**88,663**	45,951	6,140	4,543	2,540	1,728	27,760
2016	**91,680**	54,688	7,479	2,471	1,659	1,045	24,338

The column overdue over 120 days is primarily attributable to billing receivables (TIA-TARIP-water).

16. Receivables due from partner entities

The following table highlights disclosures on receivables due from partner entities as at 31 December 2017 and 31 December 2016:

(thousands of Euro)	31.12.2017 within 12 months	31.12.2017 beyond 12 months	31.12.2016 within 12 months	31.12.2016 beyond 12 months
receivables due from the Municipality of Venice	9,552	5,186	10,964	6,852
receivables due from municipalities with a shareholding of than 10%			64	
receivables due from municipalities with a shareholding of less than 10%	18,083		15,534	
total due from partner entities	**27,635**	**5,186**	**26,562**	**6,852**

Receivables due from the Municipality of Venice are shown below:

(thousands of Euro)	31.12.2017 within 12 months	31.12.2017 beyond 12 months	31.12.2016 within 12 months	31.12.2016 beyond 12 months
receivables due from service contract, engineering works and other current receivables	5,975		5,762	
instalment-based receivables	1,994	5,186	1,994	6,852
receivables due for invoices to be issued	893		772	
receivables due from SII and SIU	690		2,210	
receivables for plant grants due			226	
total receivables due from the Municipality of Venice	**9,552**	**5,186**	**10,964**	**6,852**

Receivables due from partner municipalities decreased by a total of EUR 593 thousand.

Receivables due from the municipality with a shareholding of over 10% until 2016 refer only to the Municipality of Chioggia, whose shareholding in the parent company fell to 8.44% in 2017.

Also for this financial year, the parent company relied on the transfer of receivables due from the main partner municipalities to dispose of receivables relative to accrued considerations.

In particular, in November the parent company completed a transfer without recourse of receivables due from the Municipality of Venice, which made it possible to immediately dispose of such receivables for an amount of EUR 21,034 thousand.

17. Receivables due from associates and jointly controlled companies

The following table highlights disclosures on amounts due from associates as at 31 December 2017 and 31 December 2016:

(thousands of Euro)	31.12.2017 within 12 months	31.12.2017 beyond 12 months	31.12.2016 within 12 months	31.12.2016 beyond 12 months
Insula spa	515		678	
Sifa scpa	4,786	16,452	4,302	17,035
Steriladria srl				
Ecopatè srl			1,854	1,560
Amest Srl *in liquidation*				1,189
Depuracque servizi srl	107		71	
Lecher ricerche e analisi srl			18	
Veritas Conegliano srl	26	300		
total amounts due from associates and jointly controlled companies	**5,434**	**16,752**	**6,923**	**19,783**

The Group's trade receivables due from Sifa, mainly attributable to Sifagest, were converted to financial receivables expiring after one year, following the signing of new shareholders' agreements in December 2016 between the shareholders of Sifa, including Sifagest and Veritas, and which makes provision, among the various clauses, for the deferred payment of these receivables over a period of around 10 years.

As regards the company Ecopatè, in 2017, the shareholding of this company held by Eco-ricicli Veritas fell to 10% and, therefore, the associated receivables are no longer reported in this table.

The company Amest Srl in liquidation, an investee of the parent company, was struck off the Register of Companies in August 2017. The associated receivables, according to the provisions of the agreement between the shareholders, were written off with the use of the appropriate provision for risks allocated gradually in previous years.

18. Other receivables

The following table highlights disclosures on other receivables as at 31 December 2017 and 31 December 2016:

(thousands of Euro)	31.12.2017	31.12.2016
receivables due from Region for grants related to plants	1,291	244
receivable due from tax authorities for VAT	1,730	16,392
receivables due from tax authorities for excise duties, additional taxes, other	144	100
advances to suppliers and employees	5,993	565
receivables due from social security institutes	374	380
financial receivables due from other companies	816	123
accrued income and prepaid expenses	10,182	11,240
receivables for disposal of investment property	1,350	13,000
other receivables	5,495	6,024
total other receivables	**27,374**	**48,068**

Receivables due from the Region for grants refer to grants on investments resolved but not yet paid to the parent company.

The receivable due from the tax authorities for VAT decreased by as much as EUR 14,662 thousand, mainly as a result of the reimbursements requested and obtained by the parent company, Alisea and Asvo, from the Italian Revenue Agency, for the VAT credit that arose previously and deriving from the introduction of the split payment system for the billing of amounts receivable from the public administration (for the parent company, the VAT reimbursements totalled EUR 11,598 thousand).

The entire Group, with the increase, from July 2017, of the number of entities subject to the split payment system, became a taxable entity through this special system; this new situation made it possible to offset the VAT payable by suppliers to be paid to the tax authorities with the VAT credit generated by the invoicing to the public administration, essentially also cancelling the creation of high amounts of VAT credits in the future.

The item Advances to suppliers includes the amount due for the insurance reimbursement of EUR 2,720 thousand paid to Eco-ricicli Veritas for the fire at the bulky goods warehouse in June 2017, and the receivables of Alisea due from a factor amounting to EUR 2,891 thousand.

The receivable for the disposal of investment property totalling EUR 13,000 thousand, that arose in 2016 relating to the parent company, fell due to the settlement of EUR 11,000 thousand concerning the sale of 40% of the shares of Ecoprogetto.

The residual receivable for the disposal of investment property is due to the completion of a property sale regarding the Sant'Andrea area owned by the parent company. The portions of said receivable expiring after 2018, amounting to EUR 3,200 thousand, were classified under other financial assets.

The item Prepaid expenses includes, since 2013, the consideration of EUR 5,412 thousand recognised to Ladurner srl by the subsidiary Ecoprogetto following the novation of the relationship for the running and management of the waste-derived fuel/secondary solid fuel plants in Fusina, as part of the framework agreement stipulated on 15 November 2013. The cost was suspended for the purposes of the separate financial statements given that, although the cost in question was certain and objectively determined in 2013, it will have to be deducted over the years 2016 to 2023, in compliance with the chosen accounting method. At the end of 2017 the deferral amounted to EUR 5,278 thousand.

19. Receivables due from income taxes

The following table highlights disclosures on amounts due from income taxes as at 31 December 2017 and 31 December 2016:

(thousands of Euro)	31.12.2017	31.12.2016
IRES tax receivables within the year	342	373
IRES tax receivables beyond the year	5,779	5,831
IRAP tax receivables	249	938
other tax receivables	7	14
total receivables due from income taxes	**6,378**	**7,157**

IRES and IRAP tax receivables correspond to the difference between taxation pertaining to the financial year and advance taxes.

In particular, with regard to IRES, it should be recalled that most of the Group's companies adhered to the domestic tax consolidation regime. For these companies, therefore, the payment of IRES tax shall be borne by the parent company only.

The IRES tax receivables, payable beyond the year and amounting to EUR 5,779 thousand, relate to the deduction of the IRAP tax on labour costs for IRES tax purposes for the years 2007–2011, after the reimbursement claims filed in February 2013 (Art. 4, Par. 16 of Italian Decree Law 16/2012) by the parent company, on behalf of all companies included in the tax consolidation regime in the above period (totalling EUR 5,325 thousand), as well as by the other subsidiaries that, at the time, did not participate in tax consolidation (EUR 454 thousand).

20. Cash and cash equivalents

The following table highlights disclosures on cash and cash equivalents as at 31 December 2017 and 31 December 2016:

(thousands of Euro)	31.12.2017	31.12.2016
cash on hand and cheques	39	127
bank deposits	103,848	81,092
total cash and cash equivalents	**103,887**	**81,219**

Cash deposited on bank deposits accrues floating-rate interest based on daily bank deposit rates.

Bank and postal current accounts classified under cash on hand are also used for the collection of TARES and TARI.

The fair value of cash on hand is EUR 103,887 thousand (EUR 81,219 thousand as at 31 December 2015).

Cash on hand increased by EUR 22,668 thousand compared to the previous year; the contribution of the aggregation of Asi came to EUR 14,981 thousand.

As at 31 December 2017, the Group reported unused credit facilities amounting to around EUR 112 million, compared to EUR 93 million as at 31 December 2016.

21. Share capital and reserves

The following table highlights disclosures on share capital and reserves as at 31 December 2017 and 31 December 2016:

(thousands of Euro)	31.12.2017	31.12.2016
share capital	142,235	110,974
legal reserve	2,583	2,309
own shares	-1	-1,331
other reserves	85,161	49,388
total Group shareholders' equity	**229,978**	**161,340**
share capital and reserves pertaining to minority interests	34,408	35,379
total shareholders' equity of minority interests	**34,408**	**35,379**
total shareholders' equity	**264,386**	**196,719**

The share capital of the parent company as at 31 December 2017 amounted to EUR 142,235 thousand and is composed of 2,844,707 shares with a nominal value of EUR 50 each. Of these, 8 shares – for a nominal value of EUR 400 – are own shares held by Veritas for the purposes of any future transfers to partner municipalities and other municipalities, resulting from the planned corporate aggregations and assignment of services in other areas.

Share capital increased this year by EUR 31,261 thousand following the share capital increase with premium resolved and subscribed by the extraordinary shareholders' meeting on 1 June 2017, according to the following methods:

- in relation to the issuing by Veritas of 323,996 new shares, the partner municipalities of Asi conferred 91.31% of Asi's shares for a value of EUR 27,540 thousand;
- in relation to the issuing by Veritas of 301,234 new shares, the Municipality of Venice conferred two plots of instrumental land for EUR 25,605 thousand.

The premium paid was EUR 35 for each share, for a total of EUR 21,883 thousand.

By means of this transaction, the Municipality of Venice's stake in the parent company fell to 49.85%.

Said shareholders' meeting also resolved an additional share capital increase, reserved to the Municipality of Venice for EUR 5,375 thousand, through the transfer of a second lot of the second plot of land already transferred on 1 June; the Municipality of Venice subscribed the share capital increase in April 2018, bringing its stake to over 50%.

The Legal reserve increased by EUR 274 thousand, compared with the previous year, as a result of the allocation of 5% profit for 2016. The reserve is not distributable as it has not reached the threshold set out by Art. 2430 of the Italian Civil Code.

Please refer to the appropriate note of the separate financial statements of the parent company, for additional details on changes in own shares.

The other reserves rose by a total of EUR 35,773 thousand, mainly due to the recognition of the Group profit equal to EUR 13,813 thousand.

For further information, refer to the Statement of Changes in Shareholders' Equity.

Shareholders' Equity pertaining to minority interests comprises the portion of shareholders' equity and profit (loss) pertaining to minority interests in subsidiaries Ecoprogetto, Eco-ricicli Veritas, Sifagest, Asvo, Consorzio bonifica e riconversione produttiva Fusina, Steriladria and Metalrecycling. As at 31 December 2017, it totalled EUR 34,407 thousand, marking a total decrease of EUR 972 thousand, mainly due to the purchase, by the parent company, of the 25.16% stake in Alisea, augmented by the profit pertaining to minority interests of EUR 1,057 thousand.

22. Payables due to banks and medium/long-term loans

The following table highlights disclosures on amounts due to banks and medium/long-term loans as at 31 December 2017:

(thousands of Euro)	disbursement date	original amount	interest rate	expiry date	residual amount 31.12.2017	of which short-term	of which medium/long-term
	20.01.1998	119	6.00%	31.12.2018	10	10	0
	31.03.1998	1,724	6.00%	31.12.2018	143	143	0
	28.07.1998	2,943	fixed 5.50%	31.12.2018	235	235	0
**	04.08.1999	1,420	6m Euribor + 1.4%	31.12.2018	70	70	0
**	15.05.2005	12,000	6m Euribor + 1.4%	30.06.2018	404	404	0
**	30.09.2005	2,000	6m Euribor + 1.4%	31.12.2018	90	90	0
**	29.12.2006	12,000	6m Euribor + 1.4%	31.12.2018	805	805	0
	29.12.2009	25,000	6m Euribor + 1.3%	31.12.2025	14,362	1,655	12,707
*	24.07.2009	20,000	6m Euribor + 1.75%	30.06.2024	11,289	1,464	9,825
* **	03.08.2011	7,000	3m Euribor + 2.10%	01.07.2022	3,837	740	3,097
*	28.12.2011	1,200	4.40%	30.06.2026	660	64	596
**	27.02.2013	15,000	3m Euribor + 3.25%	28.02.2018	731	731	0
**	30.07.2013	4,000	3m Euribor + 3.75%	30.01.2018	254	254	0
*	20.03.2014	800	3m Euribor + 4.00%	20.03.2024	535	74	461
	08.05.2014	4,000	3m Euribor + 6.25%	30.06.2018	543	543	0
**	06.05.2015	30,000	0.677%	06.05.2030	30,116	116	30,000
**	19.09.2016	20,000	0.612%	19.09.2031	20,105		20,105
	22.02.2016	5,000	3m Euribor + 2.9%	31.12.2018	2,553	2,553	0
(a) **	13.01.2017	10,000	3m Euribor + 2.25%	31.03.2024	8,962	1,325	7,637
	30.11.2007	2,280	6m Euribor + 0.95%	30.11.2022	940	168	772
	30.06.2008	1,450	6m Euribor + 0.90%	30.06.2023	671	105	566
**	30.06.2010	3,000	6m Euribor + 1.49%	31.12.2025	1,600	200	1,400
	22.11.2010	587	6m Euribor + 1.307%	31.12.2025	338	39	299
**	31.12.2012	4,000	6m Euribor + 4.35%	30.06.2022	2,145	434	1,711
(b)	13.01.2017	5,000	6m Euribor + 0.95%	31.12.2024	5,001	673	4,328
(c)	30.05.2017	10,000	3m Euribor + 2.50%	30.06.2023	9,921	907	9,014
(d) **	01.06.2017	15,000	3m Euribor + 2.90%	30.06.2024	14,945	2,055	12,890
	settl.	21,333	6m Euribor + 4.375%	28.01.2024	15,161	2,328	12,833
**	18.07.2014	5,000	6m Euribor + 4.45%	31.07.2024	3,889	556	3,333
	03.10.2008	10,000	6m Euribor + 0.79%	30.06.2021	3,500	1,000	2,500
	18.12.2013	1,000	6m Euribor + 4.25%	31.12.2018	200	200	0
	21.03.2014	1,000	3m Euribor + 5.00%	31.03.2019	276	219	57
	07.03.2014	500	6m Euribor + 4.5%	07.03.2019	137	109	28
	27.01.2014	1,000	3m Euribor + 5.5%	23.01.2019	240	221	19
	24.10.2014	500	3m Euribor + 4.00%	23.10.2019	195	105	90
	30.04.2015	1,000	3m Euribor + 3.5%	30.04.2018	116	116	0
	14.04.2014	1,000	3m Euribor + 4.25%	15.04.2019	289	215	74
total medium/long loans					**155,268**	**20,925**	**134,343**
less current portion					-20,925		
medium/long-term loans – non-current portion					**134,343**		

It is worth noting that the following loans (marked in the table with *) disbursed in previous years are covered with mortgages:

- loan stipulated in July 2009 by Veritas spa with Mediocredito del Friuli Venezia Giulia, in the amount of EUR 20,000 thousand, with a residual debt of EUR 11,289 thousand as at 31 December 2017, covered by a mortgage on the property of Santa Croce 489, where the parent company's registered office is located;
- loan stipulated in August 2011 by Veritas spa with Banca Antonveneta (now Monte Paschi di Siena) in the amount of EUR 7,000 thousand, with a residual debt of EUR 3,837 thousand as at 31 December 2017, covered by a mortgage on the property of the Centro Direzionale 2 in Mestre, via Orlanda 39;
- loan acquired in December 2011 by Veritas spa from Banca Intesa Infrastrutture e Sviluppo, in the amount of EUR 1,200 thousand, with a residual debt of EUR 660 thousand as at 31 December 2017, secured by a mortgage on the area relating to the Mogliano Veneto eco-centre;
- loan stipulated in March 2014 by Veritas spa with Banca Popolare dell'Alto Adige in the amount of EUR 800 thousand, with a residual debt of EUR 535 thousand as at 31 December 2017, covered by a mortgage on the areas pertaining to the Ca' Perale landfill site in Mirano.

The following unsecured loans were stipulated in 2017:

a) loan stipulated on 13 January 2017 by Veritas spa with Banca popolare di Vicenza, now Banca Intesa Sanpaolo spa, in the amount of EUR 10,000 thousand with the aim of making structural investments and purchasing machinery; the loan, with maturity term on 31 March 2024, envisages monthly repayments at a floating rate of 3-month Euribor + 2.25% spread; the repayment started on 30 April 2017;

b) loan signed on 13 January 2017 by the aggregated company Asi spa, with Banca popolare di Milano, in the amount of EUR 5,000 thousand, with the aim of making structural investments and purchasing machinery. The loan, with maturity term on 31 December 2024, envisages half-yearly repayments at a floating rate of the 6-month Euribor +0.95% spread. The loan repayment will start on 30 June 2018;

c) loan signed on 30 May 2017 by Veritas spa with Banca popolare di Milano, in the amount of EUR 10,000 thousand, with the aim of making structural investments and purchasing machinery. The loan, with maturity term on 30 June 2023, envisages quarterly repayments at a floating rate of the 3-month Euribor +2.5% spread. The loan repayment will start on 30 September 2018;

d) loan signed on 1 June 2017 by Veritas spa with Unicredit, in the amount of EUR 15,000 thousand, with the aim of making structural investments and purchasing machinery. The loan, with maturity term on 30 June 2024, envisages quarterly repayments at a floating rate of the 3-month Euribor +2.9% spread. The loan repayment will start on 31 March 2018.

Certain medium/long-term loans, concluded over the years by the Group (marked in the table with **), envisage terms which include compliance with certain economic-financial parameters (covenants) based on the results of the consolidated financial statements and/or for the year ending 31 December of each year.

If these covenants are not respected, the banks are entitled to exercise their right to advance repayment of loans granted, for the residual amount.

On the basis of the results of the consolidated financial statements and of the financial statements as at 31 December 2017, the parent company and the other companies of the Group have complied with the financial parameters underlying these medium/long-term loans.

As at 31 December 2017, the maturity dates for medium/long-term loans for the period are as follows:

(thousands of Euro)	31.12.2017
31 December 2018	20,926
31 December 2019	17,808
31 December 2020	18,853
31 December 2021	19,693
31 December 2022	19,443
beyond 2022	58,545
total medium/long-term loans	**155,268**

The following table shows the breakdown of payables due to banks and of the current portion of medium/long-term loans as at 31 December 2017 and 31 December 2016:

(thousands of Euro)	31.12.2017	31.12.2016
current portion of medium/long-term loans	20,925	28,433
payables due to banks in current account	2,835	9,253
other bank payables		
total payables due to banks and current portion of medium/long-term loans	**23,760**	**37,686**

Payables due to banks in current account relate to bank overdrafts at the end of the financial year. These overdrafts are not supported by collaterals or personal guarantees and accrue interest payable based on a floating interest rate.

23. Loans from other funders

Loans from other funders total EUR 124,268 thousand, of which EUR 113,591 thousand at medium/long term and EUR 10,677 thousand at short term. The increase of EUR 15,003 thousand compared to the previous year is linked to the aggregation of Asi spa, which contributed its bond (Hydrobond).

The item is composed of bonds for EUR 116,116 thousand, financial leasing payables of EUR 3,931 thousand, payables for factoring with assignments on a recourse basis amounting to EUR 3,110 thousand and other loans for EUR 1,111 thousand.

Payables for bonds, recognised according to the amortised cost criteria using the effective interest rate method, refer

1. for EUR 101,689 thousand to the bond issued by Veritas in November 2014 for a nominal amount of EUR 100,000 thousand on the Irish regulated market (Irish Stock Exchange – ISE), Main Securities Market segment;
2. for EUR 14,428 thousand to the bond issued by Asi in July 2014 (called Hydrobond) for a nominal amount of EUR 15,000 thousand on the Italian regulated market *ExtraMot Pro*.

The bond of EUR 100,000 thousand has the following characteristics:

- nominal amount to be repaid in a lump sum upon maturity of EUR 100,000 thousand;
- placed in November 2014 on the Irish regulated market (Irish Stock Exchange – ISE), Main Securities Market segment, and subscribed by qualified investors;
- duration 6.5 years and, therefore, with maturity in May 2021;
- postponed annual coupons to be repaid in May each year at a nominal interest rate of 4.25%;
- issued below par for EUR 99,328 thousand; therefore, the effective interest rate (yield) is 4.375%;
- with respect to the following covenants:

  NFP/shareholders' equity <= 2;

  NFP/EBITDA <=5

  These parameters are checked on an annual basis in light of the results of the consolidated financial statements. As at 31 December 2017, these parameters were respected.

The Hydrobond of EUR 15,000 thousand has the following characteristics:

- twenty-year duration with expiry in July 2034;
- nominal amount to be repaid in portions of EUR 375 thousand from January 2017; therefore, in 2017, a principal amount of EUR 750 thousand was repaid;
- issued as part of a project that involved the companies participating in Viveracqua, with two issue phases (that of Asi is part of the first issue), for a total value of EUR 227,000 thousand; the Hydrobonds issued by the Viveracqua companies were placed by a SPV established on an ad hoc basis (Viveracqua Hydrobond 1 – VH1) and then subscribed for 97.2% by the European Investments Bank (EIB) and for the residual portion of 2.8% by other institutional investors;
- the bonds accrue simple interest of 4.2% recognised to VH1, which then pays subscribers interest of 3.9%; provision is made for the retrocession of the interest paid by both VH1 for 0.3%, and second issuers for 1.5%, given that the latter paid lower interest than the first issuers;

- establishment of an irregular pledge (credit enhancement) of EUR 2,400 thousand, recorded under *Other financial assets*, deposited in a term account; the interest that accrues on these amounts is to be used, as a matter of priority, to pay the transaction costs;
- respect for the following financial covenants vis-à-vis the EIB subscribers:

  EBITDA/Fe <= 3.5;

  NFP/EBITDA <=5

  These parameters are checked on a half-yearly basis in light of the results of the consolidated financial statements. As at 31 December 2017, these parameters had been fulfilled.

Financial leasing payables are detailed in the following table:

(thousands of Euro)	subscription date	original amount	original interest rate	duration in months	loan maturity term	residual amount 31.12.2017	of which short-term	of which medium/long-term
Banca Italease	01.03.2007	3,468	3.57%	180	2022	957	235	722
AlbaLeasing	01.03.2012	27	5.61%	72	2018	1	1	0
AlbaLeasing	01.05.2012	135	5.26%	72	2018	10	10	0
AlbaLeasing	01.06.2012	135	5.26%	72	2018	11	11	0
Iveco Capital	10.05.2013	366	7.20%	60	2018	30	30	0
Iveco Capital	21.06.2013	298	7.20%	60	2018	37	37	0
Iveco Capital	20.06.2013	183	7.20%	60	2018	24	24	0
Iveco Capital	19.06.2013	23	7.20%	60	2018	3	3	0
Iveco Capital	28.08.2013	366	7.20%	60	2018	60	60	0
Iveco Capital	09.10.2013	1,042	7.19%	60	2018	166	166	0
Iveco Capital	12.11.2013	484	7.32%	60	2018	102	102	0
Iveco Capital	23.12.2013	114	7.29%	60	2018	28	26	2
Iveco Capital	24.01.2014	262	7.19%	60	2019	66	58	8
Iveco Capital	03.04.2014	77	7.24%	60	2019	23	17	6
Iveco Capital	11.04.2014	709	7.25%	60	2019	194	148	46
Iveco Capital	22.05.2014	125	7.24%	60	2019	38	27	11
Iveco Capital	27.06.2014	189	7.24%	60	2019	65	41	24
Iveco Capital	24.11.2014	890	7.16%	61	2019	360	170	190
Iveco Capital	10.11.2014	200	7.72%	61	2019	81	38	43
Mcc	01.01.2007	10,604	0.00%	84	2019	467	467	0
Mcc	01.01.2007	5,019	0.00%	84	2019	270	270	0
Palladio Leasing	30.06.2011	90	4.15%	80	2018	2	2	0
Palladio Leasing	30.07.2011	126	4.22%	80	2018	5	5	0
Unicredit L	10.05.2013	30	5.72%	60	2018	3	3	0
Unicredit L	26.06.2013	12	7.79%	61	2018	2	2	0
Palladio Leasing	14.02.2013	127	7.90%	80	2019	35	19	16
Palladio Leasing	08.07.2013	57	5.55%	60	2018	7	7	0
Palladio Leasing	09.07.2013	57	5.55%	60	2018	6	6	0
Civileasing	18.04.2012	90	5.75%	80	2019	17	16	1
Delagelandel	30.12.2011	57	6.25%	84	2019	11	10	1
Delagelandel	30.12.2011	130	6.75%	84	2019	25	22	3
Palladio Leasing	02.04.2015	495	4.80%	60	2020	216	87	129
CNH Iveco Capital	18.06.2015	423	5.30%	60	2020	204	75	129
Selmabipiemme	28.01.2016	54	3.86%	59	2021	30	9	21
Selmabipiemme	19.02.2016	108	3.86%	59	2021	62	18	44
Selmabipiemme	04.03.2016	266	3.86%	59	2021	155	49	106
Selmabipiemme	04.09.2017	195	4.04%	60	2022	158	31	127
total leasing		**27,034**				**3,931**	**2,302**	**1,629**

The additional portion of EUR 1,111 thousand, of which EUR 825 thousand medium/long-term and EUR 286 thousand short-term, consists of:

- EUR 57 thousand in loans of the parent company for the acquisition of environmental hygiene vehicles, of which EUR 34 thousand short-term;
- EUR 157 thousand in payables for loans from minority shareholders of Eco-ricicli Veritas srl, all short-term;
- EUR 897 thousand in payables for loans from minority shareholders of Sifagest scarl, of which EUR 95 thousand short-term.

Alisea registered payables for factoring with recourse amounting to EUR 3,110 thousand.

24. Provisions for risks and charges

The following table shows the movements of the provisions for risks and charges as at 31 December 2017 and 31 December 2016:

(thousands of Euro)

	provision after closure of Ca' Rossa landfill	provision after closure of Piave Nuovo landfill	provision after closure of Centa Taglio landfill	provision for legal disputes	provision for risks of the Sifa shareholding	other provisions for risks and charges	total
as at 31 December 2015	**3,812**	**9,566**	**13,719**	**1,501**	**5,812**	**15,274**	**49,684**
increases for business combinations							
accruals		-90	-477	474	343	6,120	6,370
other transactions		278	391			-159	510
uses			-204	-265	-4,569	-1,527	-6,565
as at 31 December 2016	**3,812**	**9,753**	**13,429**	**1,710**	**1,585**	**19,709**	**49,999**
increases for business combinations				999		484	1,483
accruals		60		520		6,134	6,714
other transactions		286	264			634	1,183
uses			-336	-580	-191	-4,301	-5,408
as at 31 December 2017	**3,812**	**10,099**	**13,357**	**2,649**	**1,394**	**22,660**	**53,971**

The provisions for risks and charges increased by EUR 3,972 thousand, from EUR 49,999 thousand at 31 December 2016 to EUR 53,971 thousand at 31 December 2017; Asi spa contribution provisions amount to EUR 1,483 thousand.

A brief description of the largest provisions is provided below.

Provisions after closure of landfill sites

Landfill site in Ca' Rossa/Chioggia (VE)

This provision includes the amount required to cover costs for the recovery of the landfill area, including costs related to waste disposal and monitoring. The works for the closure of the plant continued during the year and the funds allocated were partly used.

Following new geotechnical conditions of the landfill site, upon completion of the investigations started in 2008 and condition precedent to the renewal of the integrated environmental authorisation, in the light of new rules on financial guarantees issued by the Region during 2012, and based on the outcome of studies carried out by the University of Padua, which highlighted the need for reducing the level of leachate within the landfill to avert any possible environmental pollution, the company had started to update estimates regarding closure and management costs after closure of the Ca' Rossa landfill site.

These preliminary estimates revealed potential additional charges regarding both new works and the updating of economic components related to activities after closure, amounting to EUR 9.3 million.

The directors therefore started negotiations with the Municipality of Chioggia, in order to obtain that these potential additional costs be included in the annual fees for environmental hygiene services envisaged in the financial plans and connected with the calculation of TARES/TARI tax. This proposal, which concerned the inclusion of a specific cost item, for all the years of management after closure of the landfill site, as from the 2014 financial year, was approved by the Town Council with resolution no. 62 of 27 June 2013.

The inclusion of the aforesaid costs in the tariff calculation or of the environmental hygiene service fees therefore did not entail the need for any supplement to the provision for the recovery of the area.

The thirty-year coverage plan for the after-closure costs and the costs relative to the works required for closing the landfill site, guaranteed by the provision for charges entered in the balance sheet and by the inclusion in the financial plans of the TARES/TARI tax of a special item, was subsequently modified by an agreement between the parent company and the Municipality in February 2016, but only with reference to the payment method of the fee, which for the years 2015–2018 will be paid through a single payment as a capital grant, but without altering the total coverage of costs in the thirty-year reference period.

Landfill site in Pieve Nuovo/Jesolo (VE)

The amount allocated corresponds to that calculated based on annually updated appraisals drawn up by an expert.

The amount allocated includes both future charges bearing on the Group after the closure and costs to be sustained for ‘capping' the landfill site, as well as future revenues related to higher assumed payments. The overall project will be reviewed this year, based on the new evaluations shared with the parent company.

The amount of this provision has been adequately discounted.

Landfill site in Centa Taglio/Portogruaro (VE)

The amount allocated corresponds to that calculated based on annually updated appraisals drawn up by an expert.

The provision takes into account the environmental recovery charges for lots 0, 1 and 2, and of the post-closure charges for lots 1 and 2. Coverage initiatives amounting to roughly EUR 5,300 thousand are envisaged for the years 2018–2021, while the after-closure operations will continue until the expiry of the concession currently set at 2045.

The amount of this provision is adequately discounted on the basis of its expected usage; the relative forecast is updated annually.

Provision for legal disputes

The provision for legal disputes relates almost entirely to the parent company, and includes allocations on possible disputes with employees and third parties.

Provision for risks of the Sifa shareholding

The signing of the agreement between Sifa, the Veneto Region and Sifa shareholders on 27 December 2016, and the disbursement by said Region of a grant for plants of EUR 56 million, which made it possible to fully repay the bank loan falling due at the end of December 2016, eliminated the uncertainties raised in the financial statements of the previous few years, regarding the assumption of Sifa as a going concern, which had suggested an initial allocation of EUR 7,000 thousand.

In addition, thanks to the signing of the new shareholders' agreements between Sifa's shareholders on 27 December 2016, the receivables due to Sifa from all shareholders were converted, based on mutual agreement, to financial receivables with deferred repayment on the basis of the provisions of the economic-financial plan attached to said agreements and the recognition of an interest rate of 2%.

The directors also checked whether the value of the Group shareholding booked to the financial statements is consistent with reference to the recoverability of invested capital through the discounting of cash flows. According to said valuation, Sifa's equity value was estimated at roughly EUR 26.1 million.

In 2016, the directors wrote down the Sifa shareholding using part of the provision for risks allocated in previous years for an amount of EUR 4,569 thousand.

In the current year, Sifagest wrote down the shareholding using EUR 191 thousand from the provision for risks.

For further details, please refer to Point 10 of the Explanatory Notes.

Other provisions for risks and charges

The other provisions for risks and charges concern the parent company in particular. They include amounts allocated to hedge possible risks related to tax disputes with certain authorities for tax assessments under way or already concluded and concerning municipal taxes on properties, the ecotax on landfill sites, future payment of concession instalments, charges deriving from liability for damages in the event of accidents, a provision for future building charges of the former Alcoa area in Fusina, as well as provisions transferred from the Consortium in charge of the Venice basin for the final remediation of the former landfill site in Marcon.

This provision also includes amounts for hidden leakages in the water service charged to users of the parent company and which can be used whenever actual damages are encountered in the water network.

25. Employee severance indemnity

The following table shows the movements of employee severance indemnity as at 31 December 2017 and 31 December 2016:

(thousands of Euro)	31.12.2017	31.12.2016
current value of the obligation at the beginning of the year	25,239	24,808
current value of the obligation at the acquisition date	1,510	196
current value of the obligation of discontinuing or discontinued operations		
curtailment effect		
cost relative to current work provided	198	131
financial charge	75	101
benefits paid out	-1,134	-1,123
actuarial loss (profit) on the obligation	674	1,126
current value of the obligation at year-end	**26,562**	**25,239**

Based on IAS 19, the employee severance indemnity pertaining to the parent company and the largest Group companies, up to 31 December 2006, was considered as a defined-benefit obligation, in which the liability is valued on an accrual basis. The employee severance indemnity, accrued as from 1 January 2007, is included under the defined contribution plans, both in the case of opting for a complementary pension plan or for the allocation to the INPS Treasury Fund. The accounting treatment of this employee severance indemnity was therefore assimilated to that applicable to other types of contributions.

The new version of the IAS 19 standard in force since the 2013 financial year modifies the recognition rules of defined-benefit plans and requires that actuarial profits and losses be recognised directly under the Other components category in the comprehensive income statement, and allocated to a special reserve in the shareholders' equity (by contrast, until 2012, they were booked to the income statement as cost or revenue pertaining to the year).

The main assumptions used in calculating the actual value of employee severance indemnity are shown below:

(thousands of Euro)	2017	2016
discount rate at the beginning of the year	0.89%-0.98%	1.09%-1.21%
expected rate of salary increases	3%-4.5%	3%-4.5%
expected employee turnover rate	3.97%	3.96%
expected average remaining working lives of employees	13	14

In elaborating the employee severance provision as at 31 December 2017, the independent actuary took account of the updating of the technical basis of Group information available from 2003 to date. With regard to the rates, the chosen curve was determined on the basis of a basket of AA-rated securities (Iboxx type EU Corporate AA rates – solely ZCB), continuing on with the approach adopted in 2016. The curve values were updated as at 31 December 2017. Compared to the values in the previous year, all durations decreased and, consequently, the values of the commitments increased (i.e. discounted employee severance indemnity). This year was also impacted by the adjustment of the pension requirements in line with the life expectancy, in accordance with ministerial decree of 5 December 2017, which envisaged a lengthening of 5 months from 1 January 2019.

An analysis of the actuarial losses shows that the most significant component is connected with the change in financial assumptions, as a result of the updating of the discounting rates at the valuation date.

26. Payables due to partner entities

The following table highlights disclosures on amounts due to partner entities as at 31 December 2017 and 31 December 2016:

(thousands of Euro)	31.12.2017 within 12 months	31.12.2017 beyond 12 months	31.12.2016 within 12 months	31.12.2016 beyond 12 months
payables due to the Municipality of Venice	15,521	33,641	35,830	39,248
payables due to municipalities with shareholding exceeding 10%			8,702	
payables due to municipalities with shareholding below 10%	28,989	332	21,147	572
total payables due to partner entities	**44,510**	**33,973**	**65,678**	**39,820**

The decrease in payables due to partner municipalities within one year (EUR -21,168 thousand), is due mainly to the decrease in the amount due for the collection of TARI and TARES attributable to the parent company; for the Municipality of Venice, this decrease came to EUR 18,905 thousand.

Also, payables due to partner entities beyond the year fell (EUR -5,847 thousand), and relate almost entirely to the payment of the annual instalment resulting from the agreement signed in 2015 between the parent company and the Municipality of Venice, which envisages an instalment-based payment, over ten years, of the previous payables due to the Municipality.

Details of the payables due to the Municipality of Venice are shown below, which concern the parent company:

(thousands of Euro)	31.12.2017 within 12 months	31.12.2017 beyond 12 months	31.12.2016 within 12 months	31.12.2016 beyond 12 months
payables for cemetery concessions	668		540	
amounts due to the Municipality of Venice for contract work in progress	565		597	
payables pursuant to Italian Law 206/95	1,446		3,402	
payables for collection of TARI/TARES tax	6,112		25,017	
payables for recognitions of 2015 agreement	5,607	33,641	5,607	39,248
other payables	1,123		667	
total payables due to the Municipality of Venice	**15,521**	**33,641**	**35,830**	**39,248**

Payables resulting from Italian Law 206/95 concern amounts received for purification services pertaining to the Municipality, but collected by the parent company given related to integrated water service tariffs.

The payables for recognitions of the 2015 agreement refer to the parent company's signing, in December 2015, of a settlement agreement which envisaged the 10-year deferment, with annual instalments, of the payment of previous payables due to the Municipality, for an initial value of EUR 56,069 thousand.

27. Payables due to associates and jointly controlled companies

The following table highlights disclosures on payables due to associates and jointly controlled companies as at 31 December 2017 and 31 December 2016:

(thousands of Euro)	31.12.2017 within 12 months	31.12.2017 beyond 12 months	31.12.2016 within 12 months	31.12.2016 beyond 12 months
payables due to Sifa scpa	1,505		425	
payables due to Insula spa	1,125		1,062	
payables due to Ecopatè srl			2,767	
payables due to Amest srl *in liquidation*			-41	
payables due to Depuracque Servizi srl	770	900	964	515
payables due to Lecher ricerche analisi srl	238		487	
payables due to Veritas Conegliano srl			37	
total payables due to associates and jointly controlled companies	**3,639**	**900**	**5,700**	**515**

This item decreased by EUR 1,676 thousand, mainly due to the decrease in payables due to Ecopatè from Eco-ricicli (EUR -2,767 thousand) and the increase in payables due to Sifa amounting to EUR 1,080 thousand (relating to the parent company).

As already outlined in the comments on receivables due from associates, as regards the company Ecopatè, in 2017, the shareholding of this company held by Eco-ricicli Veritas fell to 10% and, therefore, the associated payables are no longer reported in this table.

28. Other non-current liabilities

The following table highlights disclosures on other current liabilities as at 31 December 2017 and 31 December 2016:

(thousands of Euro)	31.12.2017	31.12.2016
guarantee deposits from customers - SII	12,991	6,089
advance payments on consumption	202	202
payables due to social security institutes - long-term portion		820
other long-term payables	712	1,745
total other non-current liabilities	**13,905**	**8,856**

This item includes guarantee deposits of users for the integrated water service and advance payments on consumption. Guarantee deposits for SII users are interest-bearing as from 1 June 2014, on the basis of the provisions of AEEGSI resolution 86/2013/R/IDR, which requires the application of interest during the agreement termination phase or when the deposit is returned.

In particular, in 2017, guarantee deposits rose by EUR 6,902 thousand, of which EUR 3,239 thousand relating to the contribution deriving from the aggregation of Asi and EUR 3,663 thousand, due primarily to the billing of adjustments to the value of deposits into line with the new provisions provided by Arera.

29. Trade payables

The following table highlights disclosures on trade payables as at 31 December 2017 and 31 December 2016:

(thousands of Euro)	31.12.2017	31.12.2016
trade payables	90,233	110,020
payables due to related parties	2,478	2,546
payables due to entities controlled by the Municipality of Venice	338	748
total trade payables	**93,049**	**113,314**

Trade payables are normally not interest-bearing and are usually paid after 60–150 days.

Trade payables contributed by the aggregation of Asi as at 1 January 2017 amounted to EUR 3,669 thousand.

30. Derivative financial instruments

The following table highlights disclosures on derivative financial instruments as at 31 December 2017 and 31 December 2016:

(thousands of Euro)				31.12.2017		31.12.2016	
type	bank	notes	residual notional	fair value assets	fair value liabilities	fair value assets	fair value liabilities
IRS	Banca Opi now Intesa 2003 loan		-				-7
IRS	Unicredit 2013 loan	a)	833		-2		-37
Option cap	Friuladria 2013	c)	4,000			0	
IRS	Unicredit 2017 loan	b)	15,000		-69		
Interest rate	BPM financing option	d)	10,000	49			
total derivative financial instruments			**29,833**	**49**	**-71**	**0**	**-44**

As at 31 December 2017, the Group had:

a. an interest rate swap contract, stipulated on 31 May 2013 with Unicredit, to hedge risks connected with changes in interest rates related to a mortgage loan stipulated with the same Unicredit and amounting to EUR 15,000 thousand, expiring on 28 February 2018. The contract envisages the payment of a premium on the notional value, which, as at 31 December 2017, amounted to EUR 833 thousand, equal to 0.88% on a quarterly basis. This interest rate swap contract has a negative fair value of EUR -2 thousand as at 31 December 2017;

b. an interest rate swap contract, stipulated on 1 June 2017 with Unicredit, to hedge risks connected with changes in interest rates related to a mortgage loan stipulated with the same Unicredit and amounting to EUR 15,000 thousand, expiring on 30 June 2024. The contract envisages the payment of a premium on the residual notional value, which, as at 31 December 2017, amounted to EUR 15,000 thousand, equal to 0.29% on a quarterly basis. This interest rate swap contract had a negative fair value of EUR -69 thousand as at 31 December 2017;

c. an option cap contract, stipulated on 30 July 2013 with Banca Friuladria, to hedge risks connected with changes in interest rates related to a mortgage loan stipulated with the same Banca Friuladria and amounting to EUR 4,000 thousand. The contract envisages the payment of an advance single premium, calculated on the opening notional value of the transaction (i.e. the mortgage amount paid), equal to EUR 68 thousand. As at 31 December 2017, the contract had a zero value. The contract expires with the loan as at 30 January 2018;

d. an interest rate option contract, stipulated on 30 May 2017 with Banco BPM, to hedge risks connected with changes in interest rates related to a mortgage loan stipulated with the same Banco BPM and amounting to EUR 10,000 thousand. The contract envisages the payment of an advance single premium, calculated on the opening notional value of the transaction (i.e. the mortgage amount paid), equal to EUR 125 thousand. As at 31 December 2017, the contract had a market value of EUR 49 thousand. The underlying loan expires on 30 June 2023.

On 30 June 2017, the derivative stipulated on 22 December 2003 with Banca Nazionale del Lavoro to hedge risks connected with changes in interest rates related to a mortgage loan taken out with Banca Opi spa for EUR 7,000 thousand expired.

31. Other current liabilities

The following table highlights disclosures on other current liabilities as at 31 December 2017 and 31 December 2016:

(thousands of Euro)	31.12.2017	31.12.2016
advances from customers	791	657
payables due to personnel	15,702	15,278
payables due to social security institutes	7,345	8,456
payables due for excise duties and additional taxes	2,915	2,909
payables due to tax authorities for IRPEF (personal income tax) withholding tax	3,691	3,492
payables due to tax authorities for VAT	466	236
accrued liabilities and deferred income	812	3,604
other payables	9,114	7,474
total other current liabilities	**40,837**	**42,107**

Payables due to personnel relate to payables for holiday entitlement and accrued and unused leave as at the reference dates, in addition to amounts due for a production bonus, which is usually paid by the Group by the end of the first half of the following year. These payables include the relative contributions.

Payables due to social security institutes include the costs of redundancy incentives pursuant to Italian Law 92/2012.

This regulation enabled both companies and employees, in the years 2013, 2014 and 2015 to voluntarily terminate – through a trade union agreement – the employment relationship for those employees who are expected to retire within a period shorter than four years. This termination obliged the company to pay the former employee a 'remuneration to support income', through INPS [National Social Security Institute] (so-called 'isopensione'), until reaching the actual retirement date.

Owing to the fact that remunerations to support income from the date of termination of the employment relationship until the retirement date are actually charges for incentives to leave, the accounting principles envisage that these costs be recognised entirely in the year of termination.

The portion of remuneration to support income inclusive of social security charges still to be paid by the Group expire fully by 2018.

Other payables include the payable contributed by the aggregation of Asi, amounting to EUR 1,936 thousand, due to the Eastern Veneto water basin Council regarding surcharges on the purification and sewerage tariffs, collected on its behalf, in order to implement plans for the write-off of investments in the sector, to be repaid to said authority or as "offsetting" with the supporting of these investments.

32. Current tax payables

The following table highlights disclosures on current tax payables as at 31 December 2017 and 31 December 2016:

(thousands of Euro)	31.12.2017	31.12.2016
IRES payables	1,238	140
IRAP payables	128	25
other tax payables	512	14
total current tax payables	**1,878**	**179**

IRES and IRAP payables correspond to the difference between taxation pertaining to the financial year and advance taxes paid, if this difference is positive.

For the IRES payable, note that the parent company and some subsidiaries subscribed to the national tax consolidation.

33. Revenues from sales and services

(thousands of Euro)	2017	2016
revenues from water service and sewerage tariff	111,002	88,450
revenues from environmental hygiene tariff	21,650	18,991
institutional service revenues	174,002	168,724
revenues from third-party services	49,204	56,976
revenues from the sale of electricity/photovoltaic energy	339	308
sale of raw and ancillary materials, semi-finished goods and movable assets	4,068	3,009
changes to contract work in progress	1,354	1,891
changes to inventories of work in progress	-17	156
total revenues from sales and services	**361,602**	**338,505**

Note that the 2017 income statement includes the economic values of the entire year of the aggregated company Asi spa.

Revenues resulting from sales and services amounted to EUR 361,602 thousand, marking an increase of EUR 23,097 thousand compared with the previous year, attributable in particular to revenues from the water tariff of Asi.

The revenues relating to the water tariff amounted to EUR 111,002 thousand, marking an increase of EUR 22,552 thousand compared to the previous year.

These revenues concern the services provided in the 36 municipalities in the metropolitan area of Venice and province of Treviso, within the water territorial sub-division of the Venice lagoon, therefore including the 11 municipalities previously managed by Asi.

The water tariff for the 2017 financial year was applied based on the VRG approved by the Basin Council on 1 June 2016 and 16 February 2017, then ratified by AEEGSI on 3 March 2017, which envisaged, on a 2016 basis:

- a 5% tariff increase for the Veritas area;
- a 5.3% tariff increase for the former Asi area.

With the definition of the VRG relating to 2017, the parent company accounted for negative equalisations amounting to EUR 3,432 thousand, plus equalisations for 2016 and 2015 totalling EUR -1,788 thousand.

Revenues from the environmental hygiene tariff, amounting to EUR 21,650 thousand, refer to the application of the quantity-based TARIP tariff by the parent company, and increased by EUR 2,659 thousand compared to the previous year.

Revenues relative to the environmental hygiene fees, reported in the table under *institutional service revenues* and TARIP tariff concern services provided by Veritas, Alisea and Asvo within the territory of all partner municipalities of Veritas of the metropolitan area of Venice, the Municipality of Cona from June 2017, in addition to the Municipality of Mogliano Veneto.

Revenues from services provided to third parties are broken down as follows:

(thousands of Euro)	2017	2016
revenues from services and works on green areas	11	31
revenues from consortia (Conai)	226	220
revenues from leases	646	785
revenues from purification activities and waste water management	2,174	2,013
revenues from waste disposal service	3,440	4,691
revenues from differentiated waste disposal service	19,821	26,979
revenues from sludge disposal service	21	29
revenues from cleaning and hygienic services	1,048	917
revenues from consultancy	627	694
revenues from management of plants on behalf of third-parties	2,218	1,854
revenues from reclamation of land	186	209
revenues from cemetery services	4,327	4,754
revenues from maintenance and water service connections	3,306	2,804
revenues from heat management	4,479	4,738
revenues from sale of electricity	179	241
other revenues from third-party services	6,301	5,822
minor revenues	196	195
total revenues from third-party services	**49,204**	**56,976**

The decrease of EUR 7,772 thousand in Other revenues from third-party services is attributable to fewer services provided by the Group, generally corresponding, at operational level, to lower costs for services.

In particular, Eco-ricicli Veritas recorded a decrease in revenues from the sale of scrap glass and the disposal of waste amounting to around EUR 6,200 thousand related to the new contractual agreements signed with the Sibelco Group at the start of 2017, as part of the redefinition of commercial and corporate relations with the investee Ecopatè. Eco-ricicli also recorded a significant decrease in transformation and the associated delivery costs.

34. Other income

(thousands of Euro)	2017	2016
leases and concessions	1,056	1,198
capital gains on disposal of assets	59	134
insurance reimbursements	3,169	852
cost reimbursement	1,914	1,500
seconded staff	220	100
other revenues and income	12,770	13,813
capital grants	1,211	1,707
gains on extraordinary disposals	20	35
ordinary contingent assets	511	199
total other income	**20,930**	**19,537**

An amount of EUR 3,613 thousand was also recorded under the item Other revenues and income resulting from the release of the Tia1 bad debt provision by Alisea. In this regard, please refer to the comments on item 15 - trade receivables. Veritas had booked the transaction in 2016 for an amount of EUR 7,791 thousand.

Insurance reimbursements refer, for EUR 2,720 thousand, to the compensation recognised to Eco-ricicli Veritas, as a result of the fire at the bulky goods warehouse in June 2017.

35. Costs for use of raw and ancillary materials and consumables

(thousands of Euro)	2017	2016
drinking water	45	435
purchase of materials	6,493	9,002
combustibles, fuels and lubricants	6,345	5,231
electricity available for sale		2,000
consumables and materials for maintenance and ordinary repairs	10,840	9,791
change in inventories	-33	33
total costs for raw and ancillary materials and consumables	**23,690**	**26,493**

The costs for raw materials and consumables fell by EUR 2,803 thousand compared to the previous year.

The decrease is attributable to savings and rationalisations achieved by the entire Group.

36. Costs for services

(thousands of Euro)	2017	2016
works and maintenance	14,125	14,129
industrial services	8,517	8,969
utilities	22,704	20,485
operating services	45,828	49,973
general services	20,115	18,132
corporate bodies	789	819
total costs for services	**112,077**	**112,507**

Costs for services decreased by EUR 430 thousand compared to the previous year, despite the entry of Asi spa.

This trend confirms the Group's commitment to rationalising expenses, through new synergies, which have delivered excellent results in the last few years.

Eco-ricicli Veritas, also as a result of the new commercial agreements signed with the Sibelco Group, which modified the glass treatment cycle, recorded a decrease in costs for services amounting to around EUR 5,700 thousand.

Corporate bodies include remuneration to directors, statutory auditors and members of the supervisory bodies.

It is the parent company's policy that any roles assigned to the members of Veritas Board of Directors in subsidiaries should not be remunerated. Therefore, the total remuneration of the members of the Veritas Board of Directors, equal to EUR 218 thousand, corresponds to the total remuneration paid by the Group to the directors of Veritas.

37. Costs for use of third-party assets

(thousands of Euro)	2017	2016
lease instalments	4,724	4,779
rental and lease payments	1,239	1,223
concession payments	1,337	1,137
other	3,115	2,191
total costs for use of third-party assets	**10,415**	**9,330**

The increase of EUR 1,085 thousand compared to the previous year is due mainly to the refreshments charges and repayment of loan instalments of the water service charged by the partner Municipalities to the aggregated company Asi.

38. Personnel costs

(thousands of Euro)	2017	2016
wages and salaries	107,334	99,680
social security charges	37,449	34,359
employee severance indemnity	7,155	6,352
provisions for pension liabilities and similar	33	31
other costs	665	-142
total personnel costs	**152,636**	**140,280**

An increase of EUR 12,356 thousand was recorded, due primarily to the aggregation of Asi spa which, with an average workforce of 143 employees, registered personnel costs of EUR 7,500 thousand in 2016.

The increase, net of the cost relating to Asi, stands at 3.5%.

This increase is explained by the salary increases set forth in the latest contractual renewals, as well as the hiring of personnel on fixed-term contracts as a result of the launch of new services and/or insourcing.

The table below shows the changes in personnel registered during the year, broken down by category, expressed in average number of full-time equivalent employees.

(thousands of Euro)	31.12.2017	31.12.2016	change
senior managers	21.27	20.00	1.27
middle managers	74.07	73.00	1.07
white-collar employees	842.51	786.35	56.16
blue-collar employees	2,074.19	1,927.99	146.20
total employees	**3,012.04**	**2,807.34**	**204.70**

39. Other operating costs

Other operating costs amounted to EUR 16,324 thousand, marking an increase of EUR 1,698 thousand compared to the previous year. The variation relates primarily to lower allocations recorded for the write-down of receivables (down by EUR 1,962 thousand), the increase in capital losses on disposal of assets (EUR 1,810 thousand), the increase in other expenses and taxes of EUR 921 thousand and higher provisions for risks and charges of EUR 668 thousand.

(thousands of Euro)	2017	2016
provisions for write-down of receivables	2,860	4,822
provisions for default interest	19	17
provisions for risks and charges	6,694	6,026
other provisions	20	
membership fees and other contributions	592	549
ATO operating expenses	599	502
special tariff for landfill sites	76	65
taxes, duties and local taxation	2,553	2,169
credit losses	1	
capital losses on disposal of assets	1,911	101
other minor charges	914	377
ordinary contingent liabilities	31	-81
fines and compensation for damages	54	78
total other operating costs	**16,324**	**14,626**

The decrease in provisions due to the write-down of receivables is the result of the transfer of the risk of insolvency of Tia1 receivables to the Municipalities, following ruling 5078/2016 of the Court of Cassation, which confirmed the tax nature of said tariff (however, not modifying the formal ownership of said receivable, which remains with Veritas and Alisea).

The parent company recorded a provision of EUR 2,900 thousand regarding the likely dispute with the Italian Revenue Agency relating to the request for the payment of registration tax on the transfer of plots of land by the Municipality of Venice through an increase in share capital.

The increase in costs relating to taxes, duties and local taxation and ATO operating expenses is attributable to the higher expenses deriving from the aggregation of Asi.

Eco-ricicli Veritas booked capital losses of EUR 1,752 thousand deriving from the cancellation of the value of the assets making up the bulky goods facility, which suffered a fire in June 2017.

40. Amortisation, depreciation and write-downs

The value of amortisation, depreciation and write-downs amounted to EUR 35,150 thousand, compared to EUR 32,395 thousand in 2016. The value of amortisation/depreciation was reduced by the annual portion of grants for plants, and the value of tangible fixed assets was reduced by the value of contributions disbursed.

(thousands of Euro)	2017	2016
amortisation of intangible assets	4,697	4,069
amortisation of concession services	16,454	14,714
depreciation of tangible fixed assets	20,176	19,436
depreciation of investment property	3	3
other write-downs of fixed assets	-22	150
impairment of tangible fixed assets	171	77
impairment of intangible fixed assets		376
impairment of concession services	606	
grants for plants	**-6,935**	**-6,429**
total amortisation, depreciation and write-downs	**35,150**	**32,395**

41. Portion pertaining to shareholdings valued with the equity method

The portion of profit (loss) from shareholdings valued with the equity method totalled a positive EUR 617 thousand, and takes into account the result for the year, the write-downs and revaluations of associates, accounted for in the year, with particular reference to Depuracque servizi and Lecher ricerche e analisi srl.

42. Financial charges and income

Financial charges

Financial charges totalled EUR 12,160 thousand, and include, in the amount of EUR 909 thousand, discounting charges for both employee severance indemnity (EUR 75 thousand) and other equity items, including in particular the after-closure provision for the Jesolo landfill site managed by Alisea (EUR 286 thousand) and the Centa Taglio landfill site managed by Asvo (EUR 389 thousand).

Financial charges decreased by EUR 596 thousand compared to the previous year.

From the previous year, financial income and expenses includes the effect of the discounting of the financial receivables and payables of Sifagest due from/to Sifa and the shareholders, as a result of the shareholders' agreements signed between Sifa shareholders at the end of 2016.

Financial charges include accrued interest for the year, amounting to EUR 4,955 thousand, relating to the bonds issued by Veritas and Asi.

Financial charges payable to banks, leasing institutes and on other financial instruments used amounted to EUR 4,784 thousand, compared to EUR 5,009 in the previous year.

(thousands of Euro)	2017	2016
financial charges from associates		1
interest payable to banks for current account overdrafts	328	426
interest payable to banks for medium/long-term loans	3,537	3,852
financial charges for financial leasing and rental contracts	278	374
charges for fair value measurement of derivatives	256	
financial charges from discounting to Sifa		1,289
financial charges from other discounting	833	670
financial charges from discounting of employee severance indemnity	75	101
financial charges for factoring transactions	385	357
interest payable on bonds	4,955	4,511
write-down of shareholdings		374
other financial charges	1,512	803
total financial charges	**12,160**	**12,756**

Financial income

The increase in financial income, amounting to EUR 773 thousand mainly concerns interest income from banks of EUR 168 thousand and financial income from associates of EUR 626 thousand, deriving for EUR 254 thousand from the discounting of financial receivables that arose in 2016 due from Sifa (concerning the parent company and Sifagest).

(thousands of Euro)	2017	2016
interest income from banks	490	322
measurement at fair value of derivatives	42	94
default interest and payment extension	360	315
financial income from associates	438	66
financial income from discounting vs Sifa	254	
financial income from other discounting	130	160
other financial income	147	141
income from other equity investments	11	
total financial income	**1,871**	**1,098**

43. Taxes for the year

The table below highlights the reconciliation between income taxes (IRES) applicable to the Group's profit before taxation, using the rate in force compared to the actual rate for the period ended 31 December 2017:

(thousands of Euro)	2017	2016
applicable ordinary rate	**24.00%**	**27.50%**
income before taxes	**22,568**	**10,921**
theoretical tax charge (income)	**5,416**	**3,003**
effect of the rate change to 24% as from 2017	6	-370
adjustments compared to income taxes of the previous year	164	-221
write-down and adjustments of prepaid taxes recorded in the previous financial year	459	1
recognition of prepaid taxes on temporary differences related to previous financial years	0	-420
non-recognition of prepaid/deferred taxes for the year on temporary differences	0	26
(income)/expenses from tax consolidation	-8	0
exempt income/tax incentives/non-taxable income	-888	-1,597
non-deductible costs	853	2,587
other permanent differences	38	-22
actual IRES tax charge	**6,040**	**2,987**
current taxes	5,882	4,748
deferred taxes (prepaid)	2	-1,540
taxes related to previous financial years	164	-221
(income)/expenses from tax consolidation	-8	0
actual IRES tax charge (income)	**6,040**	**2,987**
current local taxes (IRAP)	1,543	1,375
local deferred (prepaid) taxes	-268	-189
local taxes for previous financial years	-125	-183
actual local tax charge (income)	**1,150**	**1,003**
total actual tax charge (income)	**7,190**	**3,990**

It is worth noting that the current IRAP rate of the parent company, Alisea and Asvo is equal to 4.2% (special rate for companies holding concessions for the management of public services and works).

Prepaid and deferred taxes, relative to the two financial years ended 31 December 2017 and 2016, are as follows:

(thousands of Euro)	31.12.2017	31.12.2016
provision for doubtful debts	4,096	4,508
provision for risks and charges	8,268	7,049
provision for inventory depreciation	104	93
depreciation of fixed assets	688	609
maintenance expenses	398	296
civil amortisation/depreciation difference	722	1,227
other costs deductible in subsequent financial years	128	2,012
fair value adjustment of derivatives	1	11
business combination bonus	548	627
reversal of capital gains on intragroup transactions	38	19
other minor	63	90
tax losses	19	60
discounting of employee severance indemnity	623	464
total prepaid tax assets	**15,696**	**17,065**

(thousands of Euro)	31.12.2017	31.12.2016
non-taxable default interest	459	484
non-taxable revenues	2,180	75
landfill asset	210	226
other temporary differences	86	2
higher value allocated to property and conduits	808	670
concessions at market value	2,278	2,936
leased assets	2,894	3,203
separation of land	118	118
total deferred tax liabilities	**9,033**	**7,714**

It is worth noting that the parent company Veritas spa and most of its subsidiaries have jointly exercised the option of Group taxation, pursuant to the Consolidated Act on Income Taxes. The economic relations, as well as mutual responsibilities and obligations between the consolidating company and the other adhering companies, are set forth in a special consolidation agreement.

The determination of prepaid tax assets is based on the reasonable expectation of the tax burden for future years.

As regards the aggregation of Asi by the parent company, it should be noted that, prudentially, the deferred tax asset relating to the higher values of the net assets contributed by the merger recognised for tax purposes was not recorded, but re-stated pursuant to IAS 8 accounting principle, given subject to the appropriate request for a tax ruling to the Italian Revenue Agency.

This higher tax benefit amounted to around EUR 13 million.

The IRES rate fell from 27.5% to 24% in 2017.

44. Commitments and risks

Commitments related to operating leases – the Group as lessee

The Group signed commercial lease agreements for some motor vehicles and machines. These leases have an average useful life between 3 and 5 years without the renewal clause. The stipulation of these contracts does not entail any restrictions for the Group.

Future instalments related to operating lease contracts, not subject to cancellation and existing as at 31 December 2017 and 2016, include the following:

(thousands of Euro)	2017	2016
within 1 year	1,175	1,137
beyond 1 year but within 5 years	3,228	3,350
beyond 5 years	2,256	2,917
total commitments for leases and rentals	**6,659**	**7,404**

Commitments related to operating leases – the Group as lessor

The Group stipulated commercial lease agreements in order to value equipment and properties located within the territory, above all for advertising purposes. These lease contracts, not subject to cancellation, have a residual life between 5 and 10 years. All lease contracts include a clause that allows for writing up the instalments on an annual basis at market conditions.

Future instalments related to operating lease contracts, not subject to cancellation and existing as at 31 December 2017 and 2016, include the following:

(thousands of Euro)	2017	2016
within 1 year	389	208
beyond 1 year but within 5 years	789	663
beyond 5 years	65	199
total commitments for leases and rentals	**1,243**	**1,070**

Commitments for investments

The MTI-2 water tariff method, which only concerns the parent company, requires the calculation components making up the tariff to include a component called 'New investments fund' (FONI). Art. 20.1 of AEEGSI resolution 664/2015/R/IDR (MTI-2) actually requires operators to allocate a specific portion of the VRG exclusively to new investments identified as priority.

The amount of the FONI relative to the 2017 VRG, including the portion relating to Asi, is EUR 7,598 thousand net of the tax effect.

The directors of the parent company have decided to allocate said amount to a dedicated shareholders' equity reserve.

In particular, on the basis of the FONI constraint, a proposal was made to allocate to a non-distributable reserve the profit for the year 2017 (net of the legal reserve), amounting to EUR 7.6 million.

In addition, Veritas' directors reasonably believe that the water investments subject to the allocation constraint will be made; therefore, in the next financial year the 2017 FONI reserve may become available, which will be allocated at the time of approval of these financial statements.

Guarantees provided

The Veritas Group granted the following guarantees as at 31 December 2017 and 2016 in favour of the subjects indicated hereunder:

(thousands of Euro)	2017	2016
Metropolitan city of Venice	26,359	26,258
Ministry of the Environment	9,461	9,461
Port Authority - former Water Authority - Venice Harbour Office	1,675	1,559
banks and insurance companies	90	299
Italian Revenue Agency	628	628
other entities	576	561
ULSS and other local entities	5,925	6,545
total	**44,714**	**45,311**

The parent company issued guarantees totalling EUR 32,818 thousand to the subsidiaries and EUR 353 thousand to partner municipalities. Eco-ricicli Veritas issued guarantees of EUR 265 thousand to its subsidiary.

By contrast, the guarantee that the parent company had signed in favour of Sifa amounting to EUR 26,977 thousand, to guarantee a bank payable, was extinguished, as a result of the full repayment of said payable in December 2016, as part of the Sifa/Region agreement.

The parent company presented letters of patronage to subsidiaries for EUR 13,740 thousand. By contrast, the letter of patronage presented by Ecoprogetto to its subsidiary Steriladria amounting to EUR 450 thousand was released in December 2017 by the bank, following the extinguishment of the three loans granted to Steriladria.

The Group also reserved tangible assets to guarantee certain mortgage loans. For further details please refer to Note 22.

Other risks and uncertainties

Duration of concessions

Refer to the description under Point 2.2 in the first part of the Explanatory Notes.

Regulations on water tariffs

This issue concerns the parent company. Refer to the Report on Operations and to the Explanatory Notes accompanying the company's separate financial statements.

In March, the parent company presented the first regulatory financial statements of the integrated water service with the new unbundling information system, with the certification report required by law.

The 20-year renewal of the assignment of the integrated water service is in progress at the basin council for the Venetian lagoon.

Regulations on tariffs for the municipal waste management service, TARI

The new tariffs for municipal waste management services involve Veritas but also, directly or indirectly, other companies, above all for the impact of tariffs on the Group financial management.

It should be noted that the Government also established the transfer of the regulation of the environmental sector to the Authority for energy, gas and the water service, which was then renamed the Italian Regulatory Authority for Energy, Networks and the Environment (Arera).

By means of this reform, the executive expects greater homogeneity of tariffs and service quality at national level, to be obtained also through the definition of tender mechanisms for the assignment of concessions relating to sweeping and the collection of urban waste.

By means of resolution 1/2018/A, the Authority launched the necessary activities for the first operations relating to the tasks of regulating and controlling the cycle of urban and similar waste, including separated.

By means of resolutions approved on 5 April 2018 (226/2018/R/ref and 225/2018/R/ref), the Authority adopted provisions which outline the first decisions in the field of waste:

1. *resolution 225/2018*. The provision starts the process for the definition of tariff measures regarding the cycle of waste and the collection of data and information at administrations, Regions, local authorities and public and private entities operating in the sector;
2. *resolution 226/2018*. The document provides for the start of a procedure for the regulation of the service quality of the cycle of urban and similar waste, including separated, and for the collection of the relevant data and information.

Dispute concerning the application of VAT on the TIA tariff

The Court of Cassation intervened in a joint sitting of all divisions in March 2016 with ruling no. 5078/2016, which definitively confirmed the fiscal nature of the TIA1 tariff and, therefore, the non-applicability of VAT to such tariff.

The risk profiles for the Group after said ruling nonetheless remain very limited, as, considering the application of the general principle of neutrality of VAT for commercial operators, it is not possible to refund VAT on TIA1 unless the State regulates the refunding procedures, and in consideration of the fact that the relevant amounts were paid to the tax authorities and thus the Group does not have them physically.

Associates

For information on associates, please refer to note 10 of the Explanatory Notes.

45. Relations with related parties

Subsidiaries

The consolidated financial statements include the financial statements of Veritas spa and of the following subsidiaries:

consolidated companies	head office	share capital	31.12.2017 Group's shareholding	31.12.2016
Veritas spa (parent company)	Venice	142,235,350		
Ecoprogetto Venezia srl	Venice	42,120,000	44.86%	44.86%
Vier srl	Venice	100,000	100.00%	100.00%
Mive srl *in liquidation*	Mirano (Ve)	110,000	100.00%	100.00%
Eco-ricicli Veritas srl	Venice	7,000,000	78.06%	78.06%
Sifagest scarl	Venice	500,000	64.40%	64.40%
Alisea spa	Jesolo (Ve)	415,000	100.00%	74.84%
Asvo spa	Portogruaro (Ve)	18,969,650	55.75%	55.75%
Consorzio bonifica riconv. produttiva Fusina	Venice	100,000	78.32%	78.32%
Metalrecycling Venice srl	Venice	100,000	78.06%	78.06%
consolidated companies pursuant to IFRS 5				
Steriladria srl	Adria (Ro)	100,000	40.37%	35.89%

The company Ecopiave srl left the Group at the start of 2017.

Steriladria srl is consolidated from the current year in accordance with IFRS 5.

Partner entities

The following table shows the total values of transactions which occurred during the financial year with other partner entities:

(thousands of Euro)	2017 sales to partner municipalities	2016 sales to partner municipalities	2017 purchases from partner municipalities	2016 purchases from partner municipalities	2017 receivables due from partner municipalities	2016 receivables due from partner municipalities	2017 payables due to partner municipalities	2016 payables due to partner municipalities
Municipality of Annone Veneto	377	366			90	80	6	3
Municipality of Campagna Lupia	12	14	5	29	4	5	57	85
Municipality of Campolongo Maggiore	17	45	22	15	10	47	238	253
Municipality of Camponogara	22	22	9	9	8	7	47	74
Municipality of Caorle	6,423	6,248	165		1,632	1,603	267	88
Municipality of Cavallino-Treporti	4,368	4,325	5	5	15	327	2,639	1,625
Municipality of Cavarzere	1,492	1,467			5	5		
Municipality of Ceggia	547	503	97		344	245	1,016	2
Municipality of Cessalto	2		25		2		50	
Municipality of Chioggia	13,543	14,288	459	40	96	64	6,511	8,702
Municipality of Cinto Caomaggiore	254	257			121	60	2	
Municipality of Cona	152				149			
Municipality of Concordia Sagittaria	1,087	1,052			1,087	784		
Municipality of Dolo	2,134	2,112	27	61	535	254		32
Municipality of Eraclea	2,043	1,993	126		190	350	501	310
Municipality of Fiesso d'Artico	17	18	29	28	4	6	136	111
Municipality of Fossalta di Piave	16	4	7		5	7	7	
Municipality of Fossalta di Portogruaro	804	707			431	665		
Municipality of Fossò	15	18	16	16	5	3	236	241
Municipality of Gruaro	280	262			67	62	1	
Municipality of Jesolo	10,091	10,032	207	171	2,776	96	3,457	3,689
Municipality of Marcon	34	47	21	21	24	32	56	23
Municipality of Martellago	2,552	2,379	30	28	435	241	1,841	1,871
Municipality of Meolo	792	782	3		882	2,486	712	2,317
Municipality of Mira	116	107	23		109	115	443	206
Municipality of Mirano	3,551	3,357	127	127	747	583	1,833	2,325
Municipality of Mogliano Veneto	3,692	3,648	13	13	620	328	1,391	1,305
Municipality of Morgano	1					1		
Municipality of Musile di Piave	1,287	1,222	107		1,119	1,031	168	221
Municipality of Noale	1,931	1,859	14	35	331	344	1,128	1,119
Municipality of Noventa di Piave	801	777	44		211	129	106	23
Municipality of Pianiga	1,400	1,299	6	20	500	224	1,341	1,451
Municipality of Portogruaro	3,070	2,998			720	374	17	7
Municipality of Pramaggiore	398	411			201	99	1	1
Municipality of Preganziol	126	105			22	53		
Municipality of Quarto d'Altino	1,140	1,163		6	1,145	1,490	681	1,065
Municipality of Quinto di Treviso	12	6			1	1		
Municipality of Salzano	37	28	72	70	8	9	62	62
Municipality of San Donà di Piave	5,039	4,797	284	4	1,134	814	1,994	1,655
Municipality of San Michele al Tagliamento	5,824	5,911		91	1,232	1,221		64
Municipality of San Stino di Livenza	1,325	1,324			351	323	162	49
Municipality of Santa Maria di Sala	39		132		12		10	
Municipality of Scorzè	1,974	1,902	15	15	243	192	767	19
Municipality of Spinea	3,310	3,332	118	122	411	780	1,194	1,248
Municipality of Stra	16	17	40	34	7	9		
Municipality of Teglio Veneto	170	175			42	46		
Municipality of Torre di Mosto	500	463	71		63	55	130	1
Municipality of Venice	99,758	99,402	1,791	1,452	14,738	17,816	49,162	75,078
Municipality of Vigonovo	41	32	4	4	27	41	189	174
Municipality of Zenson di Piave	1		31		1		31	
Municipality of Zero Branco	1	1						
total nominal amounts	**182,634**	**181,279**	**4,145**	**2,416**	**32,912**	**33,505**	**78,590**	**105,498**
provision for doubtful debts					**-91**	**-91**		
discounting of receivables/payables							**-107**	
total	**182,634**	**181,279**	**4,145**	**2,416**	**32,821**	**33,414**	**78,483**	**105,498**

The Group presents receivables due from partner entities net of a provision for doubtful debts of EUR 91 thousand, booked with extreme prudence, regarding the request for the recognition of some relations attributable for the company shareholding structure to the so-called "off-balance sheet payables", i.e. receivables for services duly performed by the company, but for which the partner Municipality did not make provision, for various reasons, for a spending commitment.

Payables due to partner entities are indicated net of the discounting value of EUR 108 thousand.

As regards the integrated municipal waste management service, the Group signed the appropriate service contracts with the majority of the Municipalities, that have been applying the TARI tax since 2014. By contrast, for the municipalities that have decided to apply the 'quantity-based TARI' tariff, more specifically, the Municipalities of Fiesso d'Artico, Stra, Salzano, Camponogara, Campolongo Maggiore, Campagna Lupia, Fossò, Vigonovo, Santa Maria di Sala, Marcon, Mira and Fossalta di Piave, the Group bills end users directly.

In the case of the Municipality of Venice, the following services were charged besides environmental hygiene services:

- cemetery;
- markets;
- high-tide footbridges;
- public green areas (ended in 2017).

Also for other Municipalities, cemetery services are charged (Spinea and Mirano); while for the Municipalities of Chioggia and Fossalta di Portogruaro the public lighting service is carried out.

Terms and conditions of transactions with partner entities

Service contracts between the parent company and the Municipality of Venice for the aforesaid services are regularly invoiced every two months and paid on average within 60 days from invoicing.

Works for the building of new sewerage networks and related extraordinary maintenance (engineering works) are charged to the Municipality of Venice based on a service contract which envisages the payment of a percentage of the works, linked to costs for design and supervision as well as to coverage of overheads.

Loans from partner entities

Mortgages were stipulated in previous financial years with Cassa Depositi e Prestiti by municipalities of the Mirese area in order to finance investments in the water supply sector and for which the parent company expects annual repayment.

A payable contributed by the aggregation of Asi relating to a financial advance by the Municipality of Jesolo for investments in the water supply sector has also been recognised.

These loans, booked to the financial statements of the parent company, amounted to EUR 855 thousand as at 31 December 2017.

By contrast, Alisea recorded a loan of EUR 3,282 thousand vis-à-vis the Municipality of Jesolo for the completion of works related to the landfill site.

Associates and jointly controlled companies

The Group has the following shareholdings in associates and jointly controlled companies:

companies valued with the equity method	head office	share capital	31.12.2017 Group's shareholding	31.12.2016
associates				
Insula spa	Venice	3,706,000	24.73%	24.73%
Sifa scpa	Mestre (Ve)	30,000,000	32.14%	32.14%
Depuracque servizi srl	Salzano (Ve)	223,080	20.00%	20.00%
Lecher ricerche e analisi srl	Salzano (Ve)	46,800	60.00%	60.00%
Ecopatè srl	Venice	100,000		31.22%
Ecoplastiche Venezia srl	Venice	100,000	31.22%	31.22%
Veritas Conegliano srl	Venice	100,000	48.80%	48.80%

The following table shows the total values of transactions occurred during the year with associates:

(thousands of Euro)	2017 sales to related parties	2016	2017 purchases from related parties	2016	2017 receivables due from related parties	2016	2017 payables due to related parties	2016
Sifa scpa	11,072	12,088	2,266	3,482	21,238	21,337	1,505	425
Amest Srl *in liquidation*						1,189		-41
Insula spa	873	610	1,335	1,167	516	678	1,125	1,062
Ecopatè srl		4,465		8,573		3,414		2,767
Depuracque servizi srl	356	263	1,238	1,268	107	70	1,670	1,479
Lecher ric. analisi srl	4	37	898	1,035		18	238	487
Ecoplastiche Venezia srl								
Veritas Conegliano srl	67				325			37
total	**12,372**	**17,463**	**5,736**	**15,525**	**22,187**	**26,706**	**4,539**	**6,215**

During the year the company Amest srl in liquidation was terminated, while Ecopatè is no longer included in the associates.

Economic and equity relations with associates are governed at market conditions.

Depuracque servizi and Lecher carry out commercial transactions with the entire Group, transactions with Sifa primarily concern Sifagest while the transactions with Insula mainly regard the parent company.

Other related parties

The other related parties refer to companies and bodies controlled, in some cases also jointly, by local partner entities of Veritas (mainly the Municipality of Venice), companies for which the Group holds, also indirectly, a stake of under 20% and significant minority shareholders of the Group.

The following table shows the total values of transactions occurred during the year with other related parties:

(thousands of Euro)	sales to related parties 2017	2016	purchases from related parties 2017	2016	receivables due from related parties 2017	2016	payables due to related parties 2017	2016
Avm spa	61	52	7	4	32	27	1	536
Actv spa	369	348	356	330	267	216	279	156
Vela spa	82	105	2	6	9	12		1
Pmv spa	10	12		6		4	12	12
Ames spa	30		4	3		2	1	1
Casinò di Venezia gioco spa	65	74			10	15		
Consorzio Urban	48	33			106	97		
Ist. centri di soggiorno	9	7			1	1		
Ist. bosco e grandi parchi	33	44			9	13		
Ive srl	1	24			1	29		
Marco Polo System GEIE	87				92			
Venis spa	14	5	48	49	6	3	11	
Vega scarl	115	57	68	68	58	70	34	41
Viveracqua scarl		5	71	88	25	20		31
Venezia spiagge spa	77	16			11	28		
Basin council for the Venetian lagoon			599	502	160		1,102	1,291
Basin council of Venezia ambiente			91	91			243	243
Bioman spa	305	18,150	5,415	5,564	332	7,150	254	898
Sst spa		57		40	190	36	63	40
Asi spa		235		531		177		44
Ecopatè	2,307		2,260		1,209		816	
Total	**3,614**	**18,989**	**8,922**	**7,282**	**2,518**	**7,900**	**2,816**	**3,294**

Economic and equity relations with other related parties are governed at market conditions.

As regards Bioman spa, the commercial relations refer to Ecoprogetto srl, Steriladria srl and Eco-ricicli Veritas.

Remuneration of the Board of Directors and the Board of Statutory Auditors

Pursuant to Art. 38 of Italian Legislative Decree 127/1991, the remunerations pertaining to the parent company's directors, statutory auditors and independent auditing firm for the performance of their offices, also in other companies included in the consolidation scope, are indicated below. It is the company's policy not to pay any further remuneration for activities carried out by board members of the parent company in other subsidiaries; therefore, the overall remuneration corresponds to that paid out in the parent company Veritas spa.

(thousands of Euro)	2017	2016
Board of Directors		
remuneration for office	218	203
other compensation		
other benefits		
total costs for services	**218**	**203**
Board of Statutory Auditors		
remuneration for office	117	90
other compensation		
other benefits		
total costs for services	**117**	**90**
independent auditing firm		
remuneration for office	107	107
total costs for services	**107**	**107**

46. Financial risk management: objectives and criteria

The Group's main financial instruments, other than derivatives, comprise bank loans, financial leases, direct and indirect factoring contracts, bank sight deposits and short-term deposits and, from 2014, a bond issue, in addition to the Hydrobond contributed by Asi with the merger, again issued in 2014. The main objective of the aforesaid instruments is to finance the Group's operating activities as well as its investments. The Group holds other types of financial instruments, such as trade payables and receivables, resulting from its operating activities.

The Group does not enter into transactions involving speculative derivative instruments, but rather solely transactions in derivatives purely for hedging purposes (swaps) or to limit (caps) the risk of changes in interest rates.

The policy of the Group is, and was in previous financial years, not to trade any financial instruments.

The main risks generated by the Group's financial instruments include interest rate risk, liquidity risk and credit risk. Price risk cannot be determined owing to the fact that the Group operates in sectors which are mostly regulated, the tariffs of which are governed and subject to the approval of the competent authorities. The Board of Directors of the parent company assesses and agrees on the policies for managing such risks, as summarised hereunder.

Interest rate risk

The Group's exposure to market interest rate risk is primarily connected with long-term bonds with floating interest rates subscribed by the Group.

The policy of the Group is to manage financial costs using a combination of fixed and variable debt rates.

In the current year, the following were subscribed:

- a swap contract on interest rates whereby the Group accepted to exchange, at specific intervals, the difference between fixed and floating interest rates, calculated with reference to a pre-defined initial capital;
- an option cap contract that provides for the payment of an initial premium against the right to receive, with reference to predefined capital, the reimbursement of the positive difference between the floating rate of the principal transaction and the fixed rate from the contract.

The policy of the Group does not envisage the subscription of derivative instruments for non-hedging purposes.

Indebtedness exposes the company's earnings before taxes to a certain degree of sensitivity as a result of reasonably possible interest rate fluctuations, with all other variables unchanged.

Credit risk

The Group does not believe it has particular issues relating to credit risk, consistently with the trends in the sector in which it operates.

Billing receivables are, by nature, fragmented over a very high number of users, with limited individual amounts on average.

The insolvency percentage relating to the receivables from municipal waste management services is close to 5%, a percentage deemed to fall within the average percentage for the sector, given the difficulty in stopping the service in case of insolvency. With the move from TIA to TARES/TARI (with the exclusion of TARIP), and the recent ruling of the Court of Cassation of 15 March 2016, which reiterated the tax nature of the expense for municipal waste management services, credit risk, both past and present (and therefore future), is borne by the municipal administrations, which must take account of it when formulating the final tariff.

By contrast, in the water sector, since it is possible to interrupt the supply, the insolvency percentages are lower, hovering at around 1.9% of the turnover.

In the event of the insolvency of the counterparty, the maximum credit risk for the Group's other financial assets, which consist of cash and cash equivalents, financial assets available for sale, loan notes and derivative instruments, is equal to the carrying amount of these assets.

Liquidity risk

The Group controls the liquidity risk by using a planning instrument for the use of cash. This instrument takes into account the maturity term of both financial instruments and financial assets (trade receivables and other financial assets), as well as cash flows expected from transactions.

The objective of the Group is to strike a balance between preserving the funds and optimising flexibility through the use of bank overdrafts, credit lines, financial leases and factoring transactions. The policy of the Group is that not more than 20% of the medium/long-term loans must be due within one year.

As at 31 December 2017, less than 20% of the medium/long-term financial debts of the Group, including bonds, will accrue within one year, based on the budget balances and excluding the assets held for sale.

As at 31 December 2016, the Group reported unused credit facilities amounting to around EUR 112 million, compared to roughly EUR 93 million as at 31 December 2016.

Liquidity risk implies that the available financial resources may not be sufficient to fulfil all obligations with a short-term maturity date, amounting to roughly EUR 34.4 million, and to tackle possible negative changes to working capital.

The company is still of the opinion that the operating investment plans, which are being implemented above all in the water sector, and therefore the parent company, are being offset, even though still partially, by tariff adjustments defined by the water sector authorities.

With regard to municipal waste management services, tariff redefinition activities are continuing, which is leading the Group to change its operating models.

The Group obtained additional medium-term credit lines in 2017 amounting to EUR 40 million, in favour of the parent company.

The Group made use of short-term financial management instruments, by stipulating factoring contracts, both direct and indirect (reverse factoring), and short-term loans with the banking system; by contrast, the use of leasing decreased considerably.

Capital management

The net indebtedness of the Group, equal to EUR 180,414 thousand as at 31 December 2017 (EUR 181,161 thousand as at 31 December 2016), was offset by a total shareholders’ equity of EUR 264,386 thousand as at the same date.

The ratio between the net financial position and shareholders' equity, which defines the degree of balance between external funds and shareholders' equity, was equal to 0.68 as at 31 December 2017, compared with 0.92 as at 31 December 2016.

Fair value valuation and related valuation hierarchical levels

No significant differences worth mentioning emerged from the comparison between the carrying amount and the fair value, divided by category, of all Group financial instruments recognised in the financial statements, except for those already highlighted.

All financial instruments, recorded at fair value, can be classified under the following categories:

- Level 1 market quotation;
- Level 2 measurement techniques (according to observable market data);
- Level 3 valuation techniques (not based on observable market data).

The fair value of derivatives and loans was calculated by discounting expected cash flows, using the prevailing interest rates. The fair value of bonds and other financial assets was calculated using market interest rates.

As at 31 December 2017 the Group held the following financial instruments measured at fair value:

in thousands of Euro			31.12.2017		31.12.2016	
type	bank	residual notional	fair value assets	fair value liabilities	fair value assets	fair value liabilities
IRS	Opi Banca loan - 2003					-7
IRS	Unicredit 2013 loan	833		-2		-37
Option cap	Friuladria 2013	4,000			0	
IRS	Unicredit loan 2017	15,000		-69		
Interest rate	BPM Financing Option	10,000	49			
total derivative financial instruments		**29,833**	**49**	**-71**	**0**	**-44**

It is worth noting that all assets and liabilities that were measured at fair value as at 31 December 2017 can be classified under Level 2 in the fair value hierarchy.

47. Subsequent events

In January 2018, the parent company acquired an additional stake in the subsidiary Eco-ricicli Veritas srl (4.29%) from the company Demont in liquidation.

During the first few months of 2018, the process of aggregation between the companies Veritas, Asi and Alisea continued, which makes provision for the merger of Alisea in Veritas by the end of the year, representing the last part of the aggregation.

Group streamlining transactions through disposals, mergers and liquidations are carried out in compliance with the streamlining plan approved by the analogous control committee of Veritas, reviewed annually, in keeping with legal obligations.

The share capital of the parent company at the date of these Notes amounts to EUR 145,397,150, subscribed and paid-up, as a result of the additional transfer completed by the partner Municipality of Venice by means of notary deed of 27 April 2018.

2.7 Reports

2.7.1 Report of the Board of Statutory Auditors

Report of the Board of Statutory Auditors on the financial statements as at 31 December 2017
(art. 2429, paragraph 2 of the Italian Civil Code)

To the shareholders of Veritas spa
(Veneziana energia risorse idriche territorio ambiente servizi)

by means of this report - drafted in accordance with art. 2429, paragraph 2 of the Italian Civil Code - the Board of Statutory Auditors reports to you on the monitoring activities carried out, in fulfilment of its duties, during the year ended as at 31 December 2017.

Monitoring activities

In the year ended as at 31 December 2017, our monitoring activities were based on the legal provisions and the rules of conduct of the Board of Statutory Auditors recommended by the Consiglio nazionale dei dottori commercialisti e degli esperti contabili (National Institute of Chartered Accountants): the rules of conduct issued by Cndcec which the Board adhered to are those of September 2015 (relating to unlisted companies) and, where deemed more effective, those of April 2018 (relating to listed companies).

Monitoring of the observance of the law and the Articles of Association

In fulfilling its duties, the Board of Statutory Auditors periodically obtained information from the directors, also by participating in meetings of the Board of Directors, needed to carry out its monitoring and audit activities, i.e. the information on the activities carried out and the most significant economic, financial and equity transactions resolved and performed by Veritas and is subsidiaries.

Based on the information acquired through performing its monitoring activities, the Board of Statutory Auditors learned that all transactions were carried out in compliance with the principles of correct administration, were resolved and implemented in compliance with the law and the Articles of Association, were in line with the company’s interests, were in keeping with the resolutions passed by the shareholders’ meeting, and were not manifestly imprudent or hazardous or as such to compromise the integrity of company assets.

The Board did not learn of any transactions that involved a potential conflict of interests.

The Board judged that the Board of Directors provided adequate information on related party transactions in the Report on Operations and in the Explanatory Notes, taking into account the provisions of the applicable regulations. As far as the Board of Statutory Auditors is aware, no intercompany or related party transactions were entered into in 2017 that were not in keeping with the company’s interests.

In 2017, Veritas did not perform any atypical or unusual transactions, neither with third parties or related parties (including therein Group companies). As regards the most significant ordinary transactions, they respect the limits of prudence, are in keeping with the resolutions of the shareholders’ meeting and are not as such to compromise company assets.

Monitoring of the adequacy of the internal audit system,

risk management systems and organisational structure

The Board of Statutory Auditors:

- monitored, for matters within its competence, the adequacy of the company's organisational structure, also by collecting information from directors and the heads of the different departments;
- engaged in dialogue with the top management in order to examine, among other things, the internal audit system and the controls in place to monitor the main risks.

The internal audit and risk management system comprises a set of rules, procedures and organisational structures targeted at allowing - through an adequate process of identification, measurement, management and monitoring of the main risks - sound, correct company management consistent with the pre-established objectives.

This system involves a number of players who act in a coordinated fashion, based on:

I. the responsibilities for the direction and strategic supervision of the Board of Directors and General Manager;

II. the monitoring and supervision of management;

III. the monitoring and support to the Board of Directors for the control and the risks of the Audit department manager;

IV. the monitoring of the Board of Statutory Auditors.

The Audit department manager has an adequate degree of independence and the necessary means to perform his/her function. These individuals are responsible for supporting the administration and control bodies in verifying the adequacy, full operations and effective functioning of the internal audit and risk management system and proposing corrective measures in the case of anomalies, irregularities and/or deficiencies.

The manager of the Audit department reports on the work performed to the directors and the general manager, those responsible for the internal audit and risk management system, as well as to the Board of Statutory Auditors.

The monitoring activity of the audit department manager is oriented, in particular, towards expressing a judgment on the capacity of the internal audit and risk management system to impact the actual achievement of the objectives assigned to the individual company structures (effectiveness profile), taking into account the rational use of the resources for their achievement (efficiency profile), in light of the presence of quali/quantitative risk factors and the likelihood of them influencing the attainment of said objectives.

This monitoring is ensured through:

- the execution of assurance (audit and complementary activities - so-called third-level controls - targeted at evaluating the governance, risk management and control processes) and consultancy services;
- the control of the implementation of improvement plans through the constant monitoring and performance of specific follow-ups, in particularly complex and significant cases, to the issues analysed originally.

The Audit department manager performs his/her activities also at subsidiaries that lack the corresponding audit structures, acting in their interest and reporting to the respective bodies.

The internal audit and risk management system also includes Organisational Model 231, i.e. an organisational and management model targeted at preventing offences from being committed which entail company liability pursuant to Italian Legislative Decree 231/2001. This Organisational Model 231 makes provision for the appointment of the appropriate Supervisory Body, with autonomous powers of initiative and control, with the task of monitoring the functioning and observance of said model, and proposing updates to it.

The functions of the Supervisory Body are distinguished from those of the Board of Statutory Auditors; this decision is due, on the one hand, to the number and complexity of the arguments that are already normally part of the activities of the Board of Statutory Auditors and, on the other, the specific nature of the tasks of the Supervisory Body.

In conclusion: the Board of Statutory Auditors, based on the activities carried out and the information acquired from the internal audit department, believes that the organisational structure is commensurate with the dimensions and complexity of the company as well as with the nature and methods of pursuing the corporate purpose.

Monitoring of the administrative-accounting system and the financial information process and non-financial data

The Board of Statutory Auditors, as Internal Control and Audit Committee, also as result of the changes made to our legal system by Italian Legislative Decree 135/2016, monitored the process and controlled the effectiveness of the internal audit and risk management systems as regards financial disclosure.

In compliance with the suggested guidelines of rule of conduct no. Q.3.6., the Board - in order to monitor the process of production of financial disclosures, to guarantee their integrity, accuracy, reliability and completeness - met periodically with the Afpc manager and the management of the department in order to exchange information on the administrative-accounting system, as well as on the reliability of the latter to correctly represent management events.

Over the course of these meetings - during which the Board examined the corporate documentation and reviewed the results of the activities performed by the independent auditing firm - no significant deficiencies were highlighted in the operating and control processes which could invalidate the judgment of adequacy and effective application of the administrative-accounting procedures.

The Board of Statutory Auditors then acknowledged the control activities performed by the department of the Afpc manager in relation to the subsidiaries falling within the scope of consolidation, which did not bring to light any profiles of significant criticalities.

During periodic meetings, and in light of the additional Report - set forth in accordance with art. 11 of Regulation (EU) no. 537/2014, already provided in advance to the Board and issued to the company on 11 June 2018 - the independent auditing firm, EY spa, did not report to the Board of Statutory Auditors any situations of criticality that could invalidate the internal audit system, as regards the administrative and accounting procedures, nor highlighted any censurable events or irregularities.

In light of the above, no elements emerged to suggest that the activities were not carried out in compliance with the principles of correct administration and that the organisational structure, the internal audit system and accounting-administrative tools are, on the whole, not suited to the company requirements and dimensions.

The company prepared the Non-Financial Disclosure (hereinafter NFD): obligation introduced by Italian Legislative Decree 254/2016 from financial years starting on 1 January 2017. The regulatory indications were completed by the Implementing Regulation of Italian Legislative Decree no. 254 of 30 December 2016, published on 18 January 2018 by Consob by means of resolution no. 20267.

The company prepared the NFD, as an autonomous document on a consolidated basis, and this Board, in light of the provisions of art. 3, paragraph 7, of Italian Legislative Decree 254/2016 and in compliance with the suggested guidelines of rule of conduct no. Q.3.2., verified - also in light of the report issued by the independent auditing firm pursuant to art. 3, paragraph 10, of Italian Legislative Decree 254/2016, already provided in advance to the Board and issued to the company on 11 June 2018 - its completeness and compliance with the provisions of the regulations and the drafting criteria outlined in the Note of the NFD, without identifying any elements that need to be mentioned in our report.

In light of the above therefore, no elements emerged to suggest that the activities were not carried out in compliance with the principles of correct administration and that the organisational structure, the internal audit system and accounting-administrative tools are, on the whole, not suited to the company requirements and dimensions.

Monitoring activities pursuant to Italian Legislative Decree 39/2010

The Board of Statutory Auditors, as the "Internal Control and Audit Committee", carried out monitoring of the operations of the independent auditing firm, as required by art. 19 of Italian Legislative Decree 39/2010.

As already highlighted, the Board of Statutory Auditors - pursuant to art. 2409 septies of the Italian Civil Code and in compliance with the suggested guidelines of rule of conduct no. 5.3 - met several times during the year with the independent auditing firm EY spa in order to exchange data and information regarding the activities carried out in the performance of the respective tasks.

The independent auditing firm never communicated any facts, circumstances or irregularities which needed to be brought to the attention of the Board and which, therefore, needed to be highlighted in this report.

On 11 June 2018, the independent auditing firm - pursuant to art. 14 of Italian Legislative Decree 39/2010 and art. 10 of Regulation (EU) no. 537 of 16 April 2014 - issued the certification report, which shows that, as already sent notified in advance to the Board - the financial statements for the year ended as at 31 December 2017 are drafted with clarity and present a true and fair view of the financial position, economic result and cash flows of Veritas spa for the year ended as at said date. In addition, in the opinion of the independent auditing firm, the report on operations is consistent with the financial statements for the year ended as at 31 December 2017.

The independent auditing firm presented to the Board, on 11 June 2018, the additional Report, required by art. 11 of Regulation (EU) no. 537/2014, that this Board will bring to the attention of the next Board of Directors meeting on 14 June 2018.

The additional Report did not highlight any significant deficiencies of the internal control system related to the financial disclosure process worthy of being brought to the attention of the managers of "governance" activities.

In the additional Report, the independent auditing firm presented the Board of Statutory Auditors with the declaration relating to independence, as required by art. 6 of Regulation (EU) no. 537/2014, which did not bring to light any situations that may compromise the independence or constitute causes for incompatibility pursuant to the aforementioned decree.

Furthermore, the Board of Statutory Auditors acknowledged the Transparency Report prepared by the independent auditing firm published on its website in accordance with art. 18 of Italian Legislative Decree 39/2010.

Lastly, the Board examined, as already stated, the contents of the report of EY spa on the Declaration of non-financial data issued in accordance with art. 3, paragraph 10, of Italian Legislative Decree no. 254/2016 on 15 March 2018.

Following the entry into force of the so-called "Barnier reform" and the subsequent new national regulatory framework, introduced by Regulation (EU) no. 537 of 16 April 2014 and Italian Legislative Decree no. 135 of 17 July 2016, which amended Italian Legislative Decree no. 39/2010, the company prepared adequate procedures for controlling the system of fees disbursed to the independent auditing firm.

The Board of Statutory Auditors reports that, in 2017, in addition to the engagements to audit the separate financial statements, the consolidated financial statements and the financial statements of the subsidiaries, the following engagements for other services were entrusted to EY spa, with the approval of this Board:

- certification of the values certifying the requirement of the financial suitability of transporters required by art. 7 of the Management Decree of 25 November 2011 of the Ministry of Infrastructure and Transport amounting to EUR 1,500;
- audit of the simplified annual separate accounts of Veritas spa as at 31 December 2016, pursuant to art. 14.4 of the Consolidated Law approved by Arera by means of resolution no. 137 of 24 March 2016, amounting to EUR 20,000;
- audit of the table of credit and debit balances with the partner municipalities, as at 31.12.2016, for the purposes set out in art. 11, paragraph 6, of Italian Legislative Decree 118 of 23 June 2011, amounting to EUR 12,000.

The independent auditing firm also confirmed to the Board of Statutory Auditors that, during the year and in the absence of the conditions for their issuing, did not issue any judgments.

Relations with the Supervisory Body pursuant to art. 6, paragraph 1, letter b) of Italian Legislative Decree 231/2001

First of all, the Board of Statutory Auditors points out that, during 2017, more precisely on 28 January 2017, the assignment previously conferred to the Supervisory Body, composed of Luca Maria Pedrotti Dell'Acqua, Fiorella Gottardo and Paolo Castaldini, came to an end. The Board also acknowledges that the Board of Directors, at the meeting on 6 April 2017, appointed the new Supervisory Body - for the 2017-2019 three-year period - in the persons of Raffaele Cusmai (Chairman), Fiorella Gottardo and Paolo Castaldini.

As recommended in the rules of conduct of the Consiglio nazionale dei dottori commercialisti e degli esperti contabili (National Institute of Chartered Accountants), in 2017, the Board of Statutory Auditors acquired all the necessary information from the Supervisory Body in order to verify the aspects relating to the required autonomy, independence and professional qualifications to be able to effectively perform the activities assigned to said Supervisory Body.

The Board of Statutory Auditors therefore acquired from the Supervisory Body that ceased office and, subsequently from the Supervisory Body now in office, the information relating to the activities connected with its role in relation to Organisation Model 231. These activities concerned the functioning of the Supervisory Body, also in coordination with the other control and management bodies and functions, the planning and performance of monitoring activities, the management of reports and performance of investigations, the evaluation of the adequacy and updating of Organisation Model 231.

The activities of the Supervisory Body are documented in the appropriate reports, brought to the knowledge of the Board of Directors, and in the annual report.

During the year, the Supervisory Body and the General Management met regularly in the spirit of full cooperation.

In particular, the Supervisory Body presented recommendations for the purposes of updating the Organisation Model 231 that the Board of Directors, with the continuous support of the General Management, accepted from time to time, for the necessary improvement initiatives.

Lastly, the Board of Statutory Auditors acknowledges that activities are systematically in progress for the improvement of the instruments and procedures making up Organisation Model 231; these activities were necessary as a result of checks and monitoring, as well as due to regulatory amendments, for which Organisation Model 231 was reviewed for the approval of the up-to-date versions of the parts that comprise it.

During the course of our monitoring activities, no complaints were submitted pursuant to art. 2408 of the Italian Civil Code, and no omissions, censurable events, limitations, exceptions, irregularities or significant events emerged that need to be mentioned in this report.

In 2017, no opinions were issued; the Board points out, as already included in its report to the 2016 financial statements, that it issued its opinion on 15 May 2017 on the share capital increase with the exclusion of the option right, in compliance with the provisions of art. 2441, paragraphs 5 and 6 of the Italian Civil Code.

Financial statements for the year

The Board points out that, for the first time, the draft financial statements for the year ended as at 31 December 2017, which the Board of Directors are submitting for your approval, were drafted according to IAS/IFRS.

In fact, Veritas falls under the definition of an EIP (public interest entity) - whose financial statements must be drafted by applying the international accounting standards, pursuant to Italian Legislative Decree 38/2005 - given the company issued, in November 2014, financial instruments consisting of bonds listed on regulated markets.

The draft financial statements are therefore composed of:

I. a statement of financial position, distinguished by current and non-current assets and liabilities based on their realisation or extinguishment as part of the normal company operating cycle within twelve months from the close of the year;

II. a comprehensive income statement, which shows costs and revenues classified by nature (method deemed by directors to be more representative with respect to the business sector in which the company operates);

III. a cash flow statement prepared using the indirect method;

IV. a statement of changes in shareholders' equity;

V. explanatory notes containing the information required by the applicable legislation and the international accounting standards, shown appropriately with reference to the financial statement layouts used. The draft financial statements are accompanied by the report on operations, which clarifies the transactions involved in company operations during the year.

This set of documents was made available to the Board of Statutory Auditors at the Board meeting held on 24 May 2018.

As regards 2017, management recorded a positive result, represented in the financial statements, which are consistent with the facts and information we gained knowledge of - as a result of fulfilling our monitoring duties and exercising our audit and control powers - and we have no observations to make in this regard.

Given the Board is not appointed to conduct the independent audit, and therefore given it has no power of analytical control over the content of the financial statements, we monitored the general approach to the financial statements and their compliance with the law as regards their formation and structure: in this regard, we have no particular observations to make.

We also verified - to the best of our knowledge - that the directors, in drafting the financial statements, did not depart from the provisions of the accounting standards adopted.

In compliance with the suggested guidelines of the rules of conduct of the Board of Statutory Auditors nos. 3.7 and Q.3.7., we verified:

- the observance, by the directors, of the accounting standards adopted for the procedure of preparing the financial statements;
- the compliance of the statement of financial position, of the income statement, of the statement of cash flows and the statement of changes in shareholders' equity with the provisions of the accounting standards IAS/IFRS;
- the correct indication in the explanatory notes of the measurement criteria and their conformance with the law and the accounting standards adopted;
- the compliance of the content of the explanatory notes and the report on operations with the provisions of articles 2427, 2427 bis and 2428 of the Italian Civil Code;
- the completeness and clarity of the information in the explanatory notes and the report on operations, in respect of the principles of truth, correctness and clarity required by law.

Lastly, the Board points out that the merger by incorporation of Asi spa, which took effect from 1 November 2017 for legal purposes, was retroactively effective from 1 January 2017 for accounting and tax purposes: therefore, the values of these financial statements include the total values of both Veritas on a stand-alone basis and of Asi for the whole of 2017.

Consolidated financial statements

Pursuant to law, the Board of Directors prepared the Veritas Group consolidated financial statements for the year ended as at 31 December 2017, which were audited by the independent auditing firm EY spa. The scope of consolidation, clearly outlined in the introductory section of the report on operations, changed as a result of the merger by incorporation of Asi spa.

As regards the consolidated financial statements, as set forth in rules of conduct 3.8 and Q.3.8, the Board of Statutory Auditors' sole task is to monitor compliance of the procedural regulations regarding the preparation and approach of the consolidated financial statements and the report on operations: in fact, the Board is not obligated to produce a report or formally express a judgment.

The Board verified the composition of the Group and the equity relations as defined by art. 2359 of the Italian Civil Code and art. 26 of Italian Legislative Decree 127/1991 and, within the parent company's organisational structure, the existence of an efficient and operational function responsible for relations with subsidiaries and associates.

On 11 June 2018, the independent auditing firm - pursuant to art. 14 of Italian Legislative Decree 39/2010 - issued the certification report, which shows that the consolidated financial statements for the year ended as at 31 December 2017, already presented in advance to the Board, are drafted with clarity and present a true and fair view of the financial position, economic result and cash flows of the Veritas Group for the year ended as at said date. In addition, in the opinion of the independent auditing firm, the report on operations is consistent with the consolidated financial statements for the year ended as at 31 December 2017.

Conclusions

In conclusion, the Board of Statutory Auditors - taking account of the specific tasks that rest with the independent auditing firm regarding checking the accounts and verifying the reliability of the financial statements, which issued its judgment without reservations - has no observations to formulate to the shareholders' meeting regarding the approval of the financial statements as at 31 December 2017, accompanied by the report on operations, as presented by the Board of Directors and, therefore, has no objections regarding the approval of the financial statements and the proposed allocation of profit for the year.

As regards the Group's consolidated financial statements as at 31 December 2017, we examined their contents and have no observations to make in this regard.

Venice, 11 June 2018

The Board of Statutory Auditors
Giovanna Ciriotto
Giovanni Battista Armellin
Roberto Giordani

2.7.2 Report of the independent auditing firm

EY

Building a better working world

EY S.p.A.
Viale Appiani, 20/b
31100 Treviso

Tel: +39 0422 358811
Fax: +39 0422 433026
ey.com

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014

(Translation from the original Italian text)

To the Shareholders of
Veritas S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Veritas Group (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the the Group as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Veritas S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 3.100.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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Key Audit Matter	Audit Response
Recoverability of goodwill	
The goodwill as at December 31 2017 amounts to Euro 21 million and it is allocated to the following Cash Generating Units (CGU) of the Veritas Group: Ecoprogetto, Sii area Mogliano Ambiente, Eco-ricicli Veritas and Asvo. The processes and methodologies for assessing and determining the recoverable amount of each CGU, in terms of value in use, are based on complex assumptions, that by their nature imply the use of the directors' judgment, in particular with reference to the forecast of future cash flows relating to the period covered by the business 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 goodwill, we have considered that this area represents a key audit matter. The consolidated financial statement disclosures relating to the impairment test is included in paragraph "Estimates and assumptions" within section "2.2 Discretionary assessments and significant accounting estimates" and in note "7. Goodwill and impairment test".	Our audit procedures in response to the key matter included, among others: • assessment of the processes and key controls implemented by the Company related to the goodwill impairment test; • assessment of the adequacy of the process adopted in determining the CGU, and allocating assets and liabilities to the carrying amount of each CGU; • assessment of the report produced by the directors' third party specialists, as well as the assessment of their competence, capability and objectivity; • assessment of the reasonableness of future cash flow assumptions, including comparison analysis between the historical forecasts and the actual figures subsequently reported; • assessment of the long-term growth rates and discount rates. In performing our procedures, we engaged our 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 consolidated financial statements
Revenue from tariffs for integrated water service	
Revenues related to the integrated water service are determined on the basis of the national tariff regulation of the integrated water service defined by the Regulatory Authority for Energy Networks and the Environment (*Autorità di Regolazione per Energia Reti e Ambiente)* through the tariff mechanism called Mti-2. The policy for recognizing revenues pertaining to the Group (so-called guaranteed revenue restriction - VRG V*incolo dei ricavi garantito*) ensures that the manager can regulate in the following years the differences between the VRG and the	Our audit procedures in response to the key matter included, among others: • assessment of the processes and key controls implemented by the Company related to the estimate of revenues for gas and electricity sales, including those related to Information Technology (IT); • testing of the design and operating effectiveness of key controls; • assessment of the key assumptions used by the directors;

amount actually invoiced to the users on the basis of the volumes distributed.

Considering the judgment required and the complexity of the assumptions used in the estimation of the revenues from the integrated water service, we identified this area as a key audit matter.

The consolidated financial statements disclosures relating to accrued revenues is included in paragraph "2.4 - Accounting criteria - Revenue from Tariffs " and in note "33- Revenues from sales and services".

- testing on a sample basis the application of the correct reference rates;
- assessment of the correct determination of the VRG according to the tariff regulation.

Lastly, we reviewed the adequacy of the disclosure included in the notes to the consolidated financial statements related to the estimate of the revenues earned from the integrated water service.

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

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Veritas S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

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

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Veritas S.p.A., in the general meeting held on June 27, 2013, engaged us to perform the audits of the consolidated financial statements for each of the years ending December 31, 2013 to December 31, 2021.

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 of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Veritas S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Veritas Group as at December 31, 2017, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Veritas Group as at December 31, 2017 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 Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Veritas Group as at December 31, 2017 and comply with the applicable laws and regulations.

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

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Veritas S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Treviso, June 11, 2018

EY S.p.A.
Signed by: Maurizio Rubinato, Partner

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