# 2018 Financial Statements

consolidated financial statements
as at 31 December 2018

VERITAS

**Veritas spa**

veneziana energia risorse idriche territorio ambiente servizi

*registered office*

Santa Croce 489, Venice

**Board of Directors**

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*directors*

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*alternate auditors*

Daniele Barabin

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## 2.1.1 Activities and operations during 2018

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 standards.

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 2018, reveal a net profit of EUR 20,579 thousand compared with EUR 13,813 thousand of the consolidated financial statements as at 31 December 2017.

If we consider the consolidated result including the share of minority interests, the profit comes to EUR 20,454 thousand, compared to a consolidated profit of EUR 14,870 thousand in 2017.

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 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 2018:

| consolidated companies | head office | share capital | 31.12.2018 | 31.12.2017 |
|---|---|---|---|---|
| | | | Group's shareholding | |
| Veritas spa (parent company) | Venice | 145,397,150 | | |
| 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 | 82.34% | 78.06% |
| Sifagest scarl *in liquidation* | Venice | 500,000 | 65.00% | 64.40% |
| Asvo spa | Portogruaro (Ve) | 18,969,650 | 55.75% | 55.75% |
| Consorzio bonifica Fusina *in liquidation* | Venice | 100,000 | 82.05% | 78.32% |
| Metalrecycling Venice srl | Venice | 100,000 | 82.34% | 78.06% |
| Depuracque servizi srl | Salzano (Ve) | 223,080 | 100.00% | |
| Lecher ricerche e analisi srl | Salzano (Ve) | 46,800 | 100.00% | |
| Rive srl | Venice | 100,000 | 70.00% | |
| **consolidated companies pursuant to IFRS 5** | | | | |
| Steriladria srl | Adria (Ro) | 100,000 | | 40.37% |

With reference to the changes that took place in the scope of consolidation compared to the previous year, please take note of the following:

- on the basis of the programme for the rationalisation of equity investments approved by the partner Municipalities of the parent company, Alisea spa, previously wholly-owned, was merged by incorporation effective as of 5 November 2018, and with accounting and tax effects as of 1 January 2018;

- in February 2018, Ecoprogetto srl sold 60% of the shares held in Steriladria srl to an entity outside the Group (Saste servizi ecologici srl). The company was consolidated in 2017 in compliance with IFRS 5. In the current year, the equity investment decreased to 30% and is classified under assets held for sale. With the extraordinary Shareholders' Meeting of 23 May 2019, the shareholders covered the loss from 2018 and reconstituted the share capital to EUR 10,000. The shareholder Ecoprogetto Venezia srl fully waived the option right on the approved share capital increase;
- on 12 July 2018, the parent company acquired the remaining 80% of the share capital of the associate Depuracque servizi srl. By obtaining control over it, it also acquired indirect control over Lecher ricerche e analisi srl (of which it already held 50% of the shares) and Rive srl, in which Depuracque servizi srl holds a 70% investment. In turn, Depuracque servizi srl has a 0.6% equity investment in the subsidiary Sifagest scarl and a 1% investment in the associate Sifa scpa;
- during the year, Veritas acquired additional shares in Eco-ricicli Veritas srl (4.29% from the shareholder Demont srl in liquidation, in January 2018) and in Consorzio di bonifica e riconversione produttiva Fusina (17%, equity investment sold by Eco-Ricicli Veritas srl which therefore exited the Consortium in July 2018);
- in July 2018, Consorzio bonifica riconversione produttiva was dissolved due to the expiry of the statutory term and placed in liquidation, in order to conclude the urbanisation works in the former Alcoa - segment A - Fusina area, in the advanced completion phase;
- on 1 August 2018, Veritas acquired from Sifa scpa the business unit for the management of the Fusina industrial plants, deriving in turn from the termination by mutual consent of the "integrated polyfunctional plant" business unit lease agreement between Sifa scpa and Sifagest scarl. As of the above-mentioned date, all operating activities managed by Sifagest scarl were transferred to the parent company Veritas, including the relative personnel. In the second half of the year, the subsidiary worked with the intent of closing all pending contractual items and safeguarding the corporate assets; the placement in liquidation was approved by the Shareholders' Meeting at the end of February 2019;
- on 27 December 2018, the parent company acquired from the subsidiary Vier srl the business unit handling the management of electricity and heat production plants meant to serve the Veritas management centres. The activities of Vier srl continue with the installation and management of plants using renewable sources (photovoltaics and cogeneration), with the associated energy management service for end users.

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 | 31.12.2018 Group's shareholding | 31.12.2017 |
|---|---|---|---|---|
| **associates** | | | | |
| Insula spa | Venice | 3,706,000 | 24.73% | 24.73% |
| Sifa scpa | Mestre (Ve) | 30,000,000 | 33.17% | 32.14% |
| Ecoplastiche Venezia srl | Venice | 100,000 | 32.94% | 31.22% |
| Veritas Conegliano srl | Venice | 100,000 | 48.80% | 48.80% |
| Rpm – Riconversione Porto Marghera scarl | Salzano (Ve) | 10,000 | 40.00% | |

Please note that Depuracque servizi srl and Lecher ricerche e analisi srl have been subsidiaries since July 2018; Depuracque servizi srl in turn holds a 1% equity investment in Sifa scpa, which is added to that of Veritas spa and Sifagest scarl, and a 40% investment in Rpm scarl, a new entry.

The change in the stake in Ecoplastiche Venezia srl is instead linked to the change in the equity investment of the parent company in Eco-ricicli Veritas srl.

The share capital of Veritas spa, subscribed and paid up as at 31 December 2018, amounted to EUR 145,397 thousand, as a result of the contribution by the Municipality of Venice of the second real estate lot for a total of EUR 5.5 million, to complete the share capital increase approved on 1 June 2017; the change in the share capital instead amounted to EUR 3,162 thousand.

The Group provides services (local public, environmental and integrated water services) to 51 Partner 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.

As regards the integrated municipal waste management service, the territorial subdivision is that resulting from the aggregation of the territories belonging to the three companies operating prior to the 2007 merger (Vesta spa, Acm Spa and Asp spa), which was combined over time with the area of the municipalities of Cavarzere, Cona, San Donà di Piave, Fossalta di Piave and Mogliano Veneto.

Since 2018, following the merger by incorporation of Alisea, Veritas has also directly served the municipalities of Ceggia, Eraclea, Jesolo, Musile di Piave, Noventa di Piave and Torre di Mosto.

Asvo spa covers the territory of its eleven partner Municipalities, which are also Veritas partners.

The statement below shows the main income statement figures of the Veritas group relating to the year 2018 and the comparison with the previous year, in thousands of euro; the relative weight of each individual item is also compared with total net income.

| consolidated income statement | 2018 | % | 2017 | % |
|---|---|---|---|---|
| **total net income** | **392,954** | **100.00%** | **382,532** | **100.00%** |
| personnel costs | -160,410 | -40.82% | -152,636 | -39.90% |
| other operating and accruals | -169,636 | -43.17% | -155,812 | -40.73% |
| **EBITDA** | **62,908** | **16.01%** | **74,084** | **19.37%** |
| amortisation, depreciation and write-downs | -36,808 | -9.37% | -35,150 | -9.19% |
| provisions for risks and charges | -754 | -0.19% | -6,694 | -1.75% |
| **operating income** | **25,346** | **6.45%** | **32,240** | **8.43%** |
| portion pertaining to shareholdings valued with the equity method | 276 | 0.07% | 617 | 0.16% |
| financial (income) charges | -13,046 | -3.32% | -10,289 | -2.69% |
| **income before taxes** | **12,576** | **3.20%** | **22,568** | **5.90%** |
| income taxes for the year | 7,878 | 2.00% | -7,190 | -1.88% |
| **profit (loss) for the year from continuing operations** | **20,454** | **5.21%** | **15,378** | **4.02%** |
| net profit (loss) from assets held for sale | 0 | 0 | -509 | -0.13% |
| **consolidated profit (loss) for the year** | **20,454** | **5.21%** | **14,870** | **3.89%** |
| profit (loss) pertaining to minority interests | -125 | -0.03% | 1,057 | 0.28% |
| **profit (loss) pertaining to the Group** | **20,579** | **5.24%** | **13,813** | **3.61%** |

* 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 group'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 group's result. Given that the composition of EBITDA is not regulated by the reference accounting standards, the calculation method applied by the group may not be consistent with the one adopted by other entities and, therefore, may not be comparable.

**Total net income** increased by EUR 10.4 million compared to 2017, marking an increase of 2.72%. The aggregation of the Depuracque Group (second half of the year) contributed EUR 14 million; municipal waste management tariffs and fees are stable, with income trending towards remaining constant or declining, especially in non-touristic areas. Income from the water service, calculated according to the tariff method (Mti-2) approved by the Authority in December 2015, instead registered a negative tariff adjustment, compared to 2017, of 4.5% for the eastern (former Asi) area and of 2% for the remaining area managed by the parent company. Furthermore, since 2018 the revision of the water tariff structure has been applied, as set forth in Arera resolution 665/2017/R/idr ("Ticsi") which, with total income remaining the same, entailed a radical overall adjustment of the individual tariffs applied to users. Ecoprogetto Venezia srl and Eco-ricicli Venezia srl recorded a downturn in their income of roughly EUR 5 million, offset in part by lower costs, linked respectively to the decline in intermediated activities and the collapse in the value of pulp paper.

**Personnel costs** (EUR 160.4 million) rose by 5.09% compared to 2017 (EUR 152.6 million); the average workforce of 3,163 employees increased by 151 compared to 2017. As in the previous year, no costs were recorded relating to redundancy incentives pursuant to Italian law 92/2012 (so-called "isopensione").

The average number of employees rose due to the new subsidiaries Depuracque servizi srl and Lecher ricerche e analisi srl, which contributed 52 and 34 resources, respectively, the activation of new services, in-housing and the management of Group synergies.

| employees | 2018 | 2017 | change |
|---|---|---|---|
| senior managers | 22.75 | 21.27 | 1.48 |
| middle managers | 87.56 | 74.07 | 13.49 |
| white-collar employees | 879.55 | 842.51 | 37.04 |
| blue-collar employees | 2,173.17 | 2,074.19 | 98.98 |
| **total employees** | **3,163.03** | **3,012.04** | **150.99** |

The ratio of labour costs to total net revenues is 40.82%, a slight increase compared to 2017 (39.90%). The change is related in part to salary trends and contractual renewals, but above all 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 62.9 million, marking a decrease of 15.09% compared to EUR 74.1 million in 2017, in line with the trend recorded by the parent company.

The **operating income (EBIT)**, amounting to EUR 25.3 million, was down by 21.38% compared to EUR 32.2 million in 2017. For the Group, the application of the new IFRS 9 weighed down on the operating income by EUR -2.6 million, and the application of the new IFRS 15 by EUR -2 million. For further details, please refer to the dedicated section of the Explanatory Notes.

**Net financial charges**, amounting to EUR 13 million, rose when compared to 2017 by EUR 2.8 million. In this respect, the parent company recorded a non-recurring item relating to a provision for default interest of EUR 3.5 million; net of this item, ordinary financial management is comparable with that of 2017.

**Income before taxation** amounted to EUR 12.6 million, down compared to the EUR 22.6 million in 2017. It represents 3.2% of total net income.

**Income taxes** for the financial year amounted to a negative EUR 7.9 million (and therefore they improved the income for the year), compared to EUR 7.2 million in 2017. Indeed, the parent company recognised the deferred tax asset of EUR 11.3 million deriving from the tax recognition of assets contributed by the aggregation of Asi in the previous year, following the response from the Italian Revenue Agency to the dedicated request for a tax ruling on the matter.

**Profit (loss) pertaining to minority interests** amounted to EUR -125 thousand (EUR +1,057 thousand in 2017), relating mainly to the subsidiaries Ecoprogetto srl, Eco-ricicli Veritas srl, Asvo spa and Metalrecycling srl. The performance of Ecoprogetto Veritas srl, which closed its statutory financial statements with a loss of EUR 1,065 thousand, particularly weighed down on the result.

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

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **assets** | | |
| total non-current assets | 645,543 | 602,051 |
| current assets | 147,856 | 159,437 |
| net assets (liabilities) held for sale (non-financial) | 3,859 | 4,146 |
| **total assets** | **797,258** | **765,634** |
| | | |
| **liabilities and shareholders' equity** | | |
| total Group shareholders' equity | 255,034 | 229,978 |
| shareholders' equity pertaining to minority interest | 33,531 | 34,408 |
| non-current liabilities | 114,734 | 137,776 |
| current liabilities | 221,871 | 183,058 |
| net financial position | 172,088 | 180,414 |
| **total liabilities and shareholders' equity** | **797,258** | **765,634** |

* The net financial position, calculated according to the criteria set out in the main financial covenants in place as at 31 December 2018, 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 payable due to the Municipality of Venice amounting to EUR 33,641 thousand, previously rescheduled as long-term.

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 218.7 million (EUR 210.4 million in 2017) were reclassified by the parent company under the item 'Concession services'. Under other intangible assets, Eco-ricicli Veritas srl recorded the surface right on the 10-hectare area obtained from the parent company following an asset exchange transaction concluded in 2018 (EUR 5.1 million).

The total increase in non-current assets, amounting to EUR 43.5 million, takes into account the aggregation of the Depuracque Group.

**Current assets** declined to EUR 147.9 million compared to EUR 159.4 million at the end of 2017; in particular, trade receivables decreased by EUR 5.2 million and other receivables by EUR 5.1 million.

**Current liabilities** (EUR 221.9 million compared to EUR 183.1 million at 31 December 2017) rose by EUR 38.8 million, specifically due to the reclassification by the parent company of payables broken down into instalments for the collection of fees pursuant to Law 206/1995 and cemetery concessions to the Municipality of Venice (from non-current liabilities to current liabilities), equal to around EUR 28 million, based on the rulings of the Court of Accounts of 14 February 2019. On the other hand, trade payables rose by EUR 6 million compared to the previous year.

**Net working capital**, namely the difference between current assets and current liabilities, is negative by EUR 74 million compared to the EUR 23.6 million in 2017. The negative trend has increased (in part due to the reclassification of parent company payables to the Municipality of Venice referred to in the previous point), which in any event reduces the need for financial resources, also thanks to careful coordination activities by the parent company.

**Non-current liabilities** amounted to EUR 114.7 million (EUR 137.8 million as at 31 December 2017), marking a decrease of EUR 23 million, which takes into account the increase due to the Depuracque aggregation as well as the reclassification to short-term of long-term payables due to the Municipality of Venice.

Overall, **shareholders' equity** rose by EUR 24.2 million compared to the previous year, due in particular: to the completion of the parent company's share capital increase, approved on 1 June 2017, following the contribution of the second part of operating real estate by the Municipality of Venice (EUR 5.5 million), the adjustment of the provision for doubtful debts to the new criteria established in IFRS 9 by the parent company (EUR -2 million) and the profit for the year (EUR 20.6 million).

The **net financial position** of the Group at the end of the year, which also includes the aggregation of the Depuracque Group, decreased by EUR 8.3 million, from EUR -180.4 million to EUR -172.1 million. Therefore, levels of equilibrium are confirmed with respect to shareholders' equity and the Group's operating profitability. For a precise definition of the individual monetary changes, please refer to the cash flow statement.

The Group shows a high level of indebtedness, which however is characterised by a sustainable ratio of Nfp to Ebitda, equal to 2.74, slightly higher than 2.44 in the previous year.

The net financial position is composed as follows:

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **cash on hand** | **-98,708** | **-103,887** |
| payables due to banks and current portion of loans | 24,512 | 23,761 |
| current portion of loans from other funders | 6,102 | 10,677 |
| derivative financial instruments - liabilities | 131 | 71 |
| short-term financial payables due to partner entities | 86 | 45 |
| financial liabilities from assets held for sale | 0 | 103 |
| **current financial debt** | **30,832** | **34,657** |
| **net current financial debt** | **-67,876** | **-69,230** |
| medium/long-term loans | 127,212 | 134,343 |
| medium/long-term loans from other funders | 111,991 | 113,591 |
| medium/long-term financial payables due to associates | 0 | 900 |
| medium/long-term financial payables due to partner entities | 762 | 810 |
| **non-current financial debt** | **239,964** | **249,644** |
| **net financial debt** | **172,088** | **180,414** |

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

The parent company has drafted separate financial statements according to IFRS since 2017. Based on paragraph D17 of IFRS 1 revised, in the opening balance sheet (1 January 2016) the company valued the assets and liabilities of the separate financial statements at the same values stated in the consolidated financial statements, already drafted in accordance with IFRS, except for the adjustments due to consolidation. For further information on changes in 2018, refer to the statement of changes in shareholders' equity of the parent company in the separate financial statements:

| | profit/loss for the year 2018 | shareholders' equity 2018 | profit/loss for the year 2017 | shareholders' equity 2017 |
|---|---|---|---|---|
| **profit (loss) for the year and shareholders' equity of the parent company** | **18,304** | **247,650** | **8,100** | **219,772** |

| | | | | |
|---|---|---|---|---|
| portion of profit (loss) for the year and of shareholders' equity of subsidiaries, net of the book value of equity investments | 2,353 | 40,264 | 7,235 | 44,032 |
| consolidation adjustments, net of the tax effect due to: | | | | |
| allocation of consolidation differences, and associated amortisation | 307 | 13,525 | -349 | 14,117 |
| elimination of intercompany profits | -320 | -12,994 | -497 | -13,043 |
| other adjustments | -190 | 120 | 381 | -492 |
| **total consolidated profit (loss) for the year and shareholders' equity** | **20,454** | **288,565** | **14,870** | **264,386** |
| share capital and reserves pertaining to minority interests | 125 | -33,531 | -1,057 | -34,408 |
| **total profit (loss) for the year and shareholders' equity of the Group** | **20,579** | **255,034** | **13,813** | **229,978** |

## 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, 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 2018 was a negative figure of approximately EUR 176.3 million (EUR 180.7 million in 2017), generating net financial charges of EUR 13 million, up compared to the previous year (in line with the previous year considering the values net of the non-recurring item for default interest of EUR 3.5 million recognised in the current 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 Tarip receivables from municipal waste management services is close to 5.96%, a percentage deemed to fall within the average percentage for the sector, given the undoubted difficulty in stopping the service in case of insolvency. On the other hand, as regards the Tari, and the ruling of the Supreme Court of Cassation of 15 March 2016, regarding the tax nature of the expense for municipal waste management services, resulted in the movement of credit risk to the municipal administrations, which must take account of it when approving the tariff.

In the water sector, since it is possible to interrupt the supply, the insolvency percentages are lower, hovering at around 1.10% of the turnover. The evolution of this level will need to be monitored, as the new regulations on the social water bonus could progressively reduce this percentage.

The external economic and financial scenario in which the Group operated during 2018 was characterised by the maintenance of adequate levels of liquidity and of funding opportunities.

## Risk related to financial indebtedness

The Veritas Group showed a level of indebtedness amounting to 2.74 times the EBITDA; in the previous year the ratio was 2.44. In absolute terms, the net financial indebtedness declined by EUR 8,326 thousand compared to the previous year. The book value of EBITDA was down as well, from EUR 74,084 thousand to EUR 62,908 thousand, due to negative non-monetary adjustments regarding especially the parent company, following the application of the new standards IFRS 15 and IFRS 9 (regarding revenue and the impairment of receivables), as well as more muted business performance by Group companies, in part mitigated by the contribution of Depuracque servizi srl and Lecher ricerche e analisi srl.

The Group's indebtedness is influenced, in particular, by the significant impact of the water assets of the parent company, which are reported under intangible fixed assets, in the item 'Concession services'. The carrying amount, net of deferred income relating to government grants partially funding the works, corresponds to more than EUR 218.7 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 (the aqueduct and sewerage conduits have an estimated "useful life", according to the national principles of Arera, of 40 years), 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 | 2019 | 2020 | 2021 | 2022 | 2023 | after |
|---|---|---|---|---|---|---|
| **149,491** | 22,279 | 21,373 | 22,099 | 21,755 | 19,284 | 42,701 |

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

| | original amount | repayment | date |
|---|---|---|---|
| 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 maintain an adequate financial balance through the use of credit lines, loans and financial leasing, and the parent company has managed to guarantee financial management that did not increase the risk of financial indebtedness for the entire Group.

The policy of the Group is that no more than 20% of the loans must be due within 12 months. As at 31 December 2018, 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.

The refinancing of the Group's stock of payables resulted in new medium/long-term loans of EUR 16.2 million being taken out in 2018, against repayments on previous loans of roughly EUR 23.6 million.

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 annual results of the consolidated financial statements, the separate financial statements of the parent company and the financial statements of other Group companies.

In 2018, the Group respected the parameters set out in the respective contracts, except for Ecoricicli Veritas srl relating to a bank loan with MPS taken out in 2018, for which the covenants established were partially met. For reasons of prudence, the entire remaining debt was reclassified to short-term. In any event, the credit institution has already indicated that it does not wish to enforce the early termination clause; furthermore, the contract establishes no penalties for that situation.

### Risk related to insufficient liquidity and procurement of financial resources

The general economic situation presents contradictory elements, due to tensions on customs duties as well as the political scenario and international conflicts under way, which are combined with national economic trends in the opposite direction.

Interest rate trends remain substantially unchanged in the European and US areas, as do expectations of financial operators, which are limited and not displaying any particular movements. These facts are accompanied by a state of liquidity at Italian level that is slowing down compared to the European situation, despite the newfound expansionary action of the European Central Bank, which contributes towards keeping rates low, as well as inflation, for which expectations are impacted by uncertainty relating to a predicted contraction of the economy.

The employment situation appears to be improving slightly, despite the fact that unemployment rates remain high, especially for young people.

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 2018, the Group reported unused credit facilities amounting to EUR 111.2 million, compared to EUR 112 million as at 31 December 2017.

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 28.4 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 Arera.

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.

This risk also arises today for the municipal waste management segment, following the assignment to Arera, with the 2018 budget law, of the power to govern the waste cycle.

As regards municipal waste management services, the Group is in any event 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.

## Dispute concerning the application of VAT on the Tia

Ruling 5078/2016 of the Supreme Court of Cassation, in a joint sitting of all divisions, filed on 15 March 2016, provided the definitive interpretation on the application of VAT on the environmental hygiene tariff established by Art. 49 of Italian Legislative Decree 22/1997 ("Tia1").

The ruling, considering the absence of a synallagmatic relationship between the service and the fee received by the service provider, defines the Tia1 as a tax and as a result outside the scope of application of VAT.

The events surrounding the above-mentioned ruling are long-standing and complex.

Italian Legislative Decree 22/1997 (Ronchi decree) replaced the old municipal waste removal fee (Tarsu) with the environmental hygiene tariff (Tia or Tia1). According to an initial interpretation, also supported by specific circulars from the revenue agency, this tariff was deemed a fee for a service provided and, thus, should be subjected to VAT.

However, subsequently, case law, especially following ruling 238/2009 of the Constitutional Court which, although only incidentally, declared the tax nature of the Tia, was decidedly oriented in this sense, thus negating the propriety of applying the tax.

In the meantime, Italian Legislative Decree 152/2006 introduced the Tia2 integrated environmental tariff which, in the intention of the legislature, was to replace the Tia1.

Art. 14, paragraph 33 of Italian Decree Law 78/2010, precisely to avoid further conflicting interpretations, also established that Tia2 did not have a tax nature.

Lastly, circular 3/2010 of the Ministry of Finance, by claiming the similarity of the nature of Tia1 and the Tia2, reaffirmed that VAT should be applied to both tariffs.

Despite this clear position of the tax authorities, well-established case law, on the merits as well as before the Supreme Court of Cassation, denied what was affirmed by ministerial circular 3/2010 on the similarity between the Tia1 and the Tia2, with the result that Tia1, at least at case law level, continued to be considered a tax.

The parent company, as well as all other companies that provide municipal waste management services associated with Federambiente (now Utilitalia), had in any event continued with the policy already adopted in 2009, at the time of the ruling of the Constitutional Court, suspending reimbursements to users, pending an explicit legislative amendment in that sense (an amendment which evidently was never made), especially due to the substantial consideration that the tax requested from users was not available to it as, due to its nature as a neutral tax amount, it had always been paid to the revenue agency.

Moreover, in 2012, the Italian Revenue Agency responded directly to Veritas, after it had submitted a request for a tax ruling in which, given the numerous rulings of the Supreme Court of Cassation, it asked if it was correct to stop applying VAT on the Tia1.

The Italian Revenue Agency instead confirmed the interpretation of the contested circular 3/2010, or that VAT should be applied to the Tia1.

Therefore, a conflict emerged amongst the institutions, as on the one hand the Italian Revenue Agency recognised that VAT should be applied, while on the other hand case law affirmed precisely the contrary.

Today, with the clarity of the ruling of the Supreme Court of Cassation in a joint sitting of all divisions, it can no longer be denied that the Tia1 is outside the scope of application of VAT.

The estimated amount of VAT applied by Veritas on the Tia1 over the years amounts to roughly Euro 84 million, divided nearly equally between domestic and non-domestic users.

Lastly, it is evident that the risk profile of Veritas remains very limited with regard to this issue, as:

- the general principle continues to apply that VAT is a neutral tax for commercial operators like Veritas;
- it is unthinkable that Veritas could return the VAT on the Tia1 charged to users before the State governs the return methods (multiple years, millions of invoices, hundreds of thousands of users, strong demographic dynamics, etc.);
- it should be considered on the financial level that the amounts in question were paid by Veritas to the tax authorities and therefore they are not physically available to it;
- due to the above-mentioned mechanism of neutrality of VAT, commercial users deducted that VAT, which now could be interpreted by analogy as something that should not have been done;
- also for the VAT neutrality mechanism, there is no regulation establishing whether an effect of non-deductibility should be taken into account for VAT on purchases relating to the environmental segment, considering that this cost was supposed to be a further component to be charged back to users precisely through the Tia1.

It should be considered that for the cases that already took place and those under way, in which Veritas was called upon to return VAT to the user, the Italian Revenue Agency no longer has any grounds on which to deny the reimbursement to Veritas of the VAT already returned to the user; therefore, a limited residual risk remains linked to any legal expenses to be paid back to the counterparty as compensation (a risk already recognised in the financial statements).

In addition, the declared tax nature of the Tia1 with ex ante effects, transferring the insolvency risk to the taxing Municipality, made it possible to recover as income the amounts recognised in the provision for insolvency risk in previous years.

This arrangement was also confirmed by the note of the basin council of Venezia Ambiente no. 585 of 11 November 2016.

In any event, as things currently stand, after the ruling of the Supreme Court of Cassation, on the VAT on Tia1 issue, no specific positions were taken by the institutional bodies (government, Ministry of Economy or Italian Revenue Agency), except for a few open-ended responses to parliamentary interrogations.

As regards the subsequent forms of billing for the waste service, or the Tia2 pursuant to Italian Legislative Decree 152/2006, the tariff pursuant to Art. 14, paragraphs 29-32 of Decree Law 201/2011 (the “Tares fee”) and the tariff pursuant to Art. 1, paragraph 668 of Law 147/2013 (the “quantity-based Tari”), the parent company, given the grounds of the ruling of the Supreme

Court of Cassation in a joint sitting of all divisions supporting the tax nature of the Tia1, submitted a further request for a tax ruling to the Italian Revenue Agency in June 2016 asking about the obligation or otherwise to apply VAT for these additional tariff forms.

The Italian Revenue Agency responded in September 2016 confirming the application of VAT for these types of tariffs.

## 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.

## Financial regulations

In 2018, the parent company developed a regulation for the management of obligations for combatting market abuse and the handling of inside information, in line with European Regulations (EU Regulation 594/2014 and subsequent European implementing regulations) to which the parent company is subject, as it has issued financial instruments in regulated markets (Main Securities Market managed by the Irish Stock Exchange) and other markets (ExtraMot-Pro managed by the Italian Stock Exchange).

As set forth in the regulation, a register of people with access to inside information was therefore established.

## Assignments situation

*Integrated water service and integrated municipal waste management service*

The Parent Company manages, within the municipal territories of the partner local authorities, several public local services, some of them with a supra-municipal relevance at the level of subdivision, now an optimal and homogeneous territorial basin, pursuant to explicit legal provisions, such as the integrated water service and the management service for municipal and other similar waste.

As for the integrated water service, the Shareholders' Meeting of the relevant authority for the Venetian lagoon sub-division (now Basin Council), through additional provisions, has recognised that Veritas spa is a company compliant with the in-house management model, according to the characteristics identified by EU laws, a recognition confirmed also by the authority of Venezia Ambiente for the waste integrated management service, with resolution n. 6 of 30 June 2008.

The authority of the Venetian lagoon sub-division, with resolution of 30 July 2008, n. 806, stated "a confirmation that the duration of the assignment of the integrated water service to Veritas spa is set at 31 December 2018".

Conversely, as regards the integrated waste management service, it must be noted that, among the partner local authorities, the Municipality of Venice, with resolution n. 121 of 1999, indicated the duration of the assignment of the service to be 20 years (to the end of 2019).

With the merger of Acm spa, Vesta spa and Asp spa in 2007 the Partner Municipalities, while confirming the continuation of the services previously assigned to the merging companies with the new company Veritas spa, did not identify different deadlines for the expiration of such assignments. On that date, aside from the water service and the integrated waste management service, the merged companies carried out additional services for the Partner Municipalities, such as cemetery, market and public areas cleaning services on the basis of specific agreements entered into with each local authority.

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 Venice lagoon, registration no. 1276 of 12 July 2016, modifying the previous agreement signed on 19 October 2004, registration no. 976/2004, whose duration was maintained until 31 December 2018.

On 16 July 2018, the Venice lagoon Basin Council asked for the registration of Veritas spa in the Anac list of in-house assigning entities pursuant to Art. 192 of Italian Legislative Decree no. 50 of 18 April 2016.

On 20 December 2018, the Venice lagoon Basin Council and Veritas spa signed the agreement governing the provision of the integrated water service in the Venice lagoon optimal territorial subdivision, file no. 44421, index no. 141026, notary Francesco Candiani of Venice, with a duration until 31 December 2038, without prejudice to the right to extension exercised by the Basin Council for a period of six months under the same conditions, unless other terms are permitted or imposed by legal provisions.

As regards waste, the majority of the partner Municipalities of Veritas spa endorsed the resolution pursuant to Art. 34 of the Italian Decree Law 179/2012 confirming, amongst other things, again pursuant to and in accordance with Art. 34 of Italian Decree Law 179/2012, that services currently managed through Veritas spa and Group companies will continue until 26 June 2038, unless different durations should apply as a result of regulations, in particular those being issued and without prejudice to any separation measures that may be imposed by future regulations and the application of current regulations.

On 24 November 2014, the Venezia Ambiente Basin Council was established, due to the signing of the “Agreement for the establishment and functioning of the Venezia Ambiente Basin Council regarding the integrated municipal waste management service in the Venice territorial basin”, by the representatives of all 44 Municipalities in the Venice metropolitan area and in the Municipality of Mogliano Veneto. The Basin Council’s takeover of the activities and legal relationships of the Venezia ambiente Ato in liquidation was completed with resolution of the Basin Committee no. 3 of 27 April 2015.

With resolution of the Basin Assembly no. 11 of 17 December 2015, the Venezia Ambiente Basin Council expressed its intention to align the various expiries of the assignments of the municipal waste management service approved by the Municipalities served by the operator Veritas, referring the decision to a subsequent meeting to be called by April 2016 in which two criteria could have been adopted:

- “alignment of all municipalities to the assignment duration predominant in most municipalities of the basin, therefore until June 2038, aligning to this date even those assignments having a shorter expiry;
- alignment of all municipalities to the average duration, weighted for the operator’s turnover, of the existing assignments pertaining to each municipality, calculated in the range of 10 years and thus expiring on 31 December 2025, without prejudice to compensation paid by the new operator for municipalities where the expiry is shortened, in relation to the residual value of the investments not yet depreciated at the new date of expiry of the assignment.”

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 Group 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 would have expired before 2038, as well as for the Municipality of Mira, which with resolution no. 115 of 23 December 2013, established the duration of the assignment until 31 December 2038.

On 2 July 2018, the Venice Ambiente Basin Council asked for the registration of Veritas spa in the Anac list of in-house assigning entities pursuant to Art. 192 of Italian Legislative Decree no. 50 of 18 April 2016.

Please also note that the great majority of the partner local authorities of Veritas adopted resolutions in 2015 approving the rationalisation plans concerning the investee companies and company shareholdings in implementation of Art. 1, paragraph 611 of Law 190/2014 (2015 stability law); Veritas, in line with the plan approved by the partner local authorities, with resolution of the ordinary meeting of 26 June 2015, approved the *Veritas spa 2013-2016 equity investment rationalisation and management plan*.

The Board of Directors of Veritas approved the update of that plan on 17 March 2016, previously approved by the coordination and control committee on the same date. This plan, in its updated version, made provision, inter alia, for the implementation of projects involving the aggregation in Veritas spa of the companies Asi spa (formerly manager of the integrated water service in the Municipalities of Caorle, Ceggia, Cessalto, Eraclea, Fossalta di Piave, Jesolo, Musile di Piave, Noventa di Piave, San Donà di Piave, Torre di Mosto and Zenson di Piave) and Alisea spa (at the time manager of the integrated waste cycle in the Municipalities of Ceggia, Eraclea, Fossalta di Piave, Jesolo, Musile di Piave, Noventa di Piave and Torre di Mosto).

Indeed, in line with the regulatory provisions in force and the guidelines of the competent Basin Councils, the companies Asi spa, Alisea spa and Veritas spa drafted integration projects to make the management of such services possible through a single manager for each reference area or territorial basin. The merger by incorporation of Asi spa was completed in 2017, and that of Alisea was completed in 2018.

Please note that the subsidiary Asvo spa is the in-house contractor company of municipal waste management services for the eleven partner Municipalities, which are also partners of Veritas.

As regards waste treatment, in the Fusina area, the subsidiary Ecoprogetto Venezia srl manages the reference integrated residual municipal waste treatment and enhancement hub for the Venezia Ambiente Basin, which includes the Municipalities that assigned the municipal waste pick-up, transport and treatment service to the Veritas Group.

The subsidiary Eco-ricicli Veritas srl instead handles the selection and treatment of materials deriving from sorted waste (glass, paper, plastic, metals, etc.) to be recycled. These are materials provided by the Group which separately collects from other area operators, for subsequent delivery and exploitation, primarily within the Consortia. The industrial project for the treatment of bulky waste and paper/cardboard is expanding.

### *Other services*

In 2015, the Municipality of Venice renewed the assignment to Veritas for 20 years, until 30 September 2035, of the management of cemetery services.

The parent company is also assigned cemetery services management in the Municipalities of Spinea (until 2030), Martellago (until 2022) and Mirano (until 2021).

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 2019.

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.

Following the merger involving Sls srl, from the year 2015 the public lighting and heating management service is active 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.

Since 2018, Asvo spa has also performed cemetery services, as the in-house contractor company, for the Municipality of Portogruaro.

## 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 ATO 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 confirmed by European Directive no. 23 of 26 February 2014 concerning the award of concession contracts, and European Directive no. 24 of 26 February 2014 on 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.

In particular, Art. 192 (Special system of in-house assignments) of the same Italian Legislative Decree 50/2016 as amended by Italian Legislative Decree 56/2017, in force as of 20 May 2017, envisages the following:

1. *The list of awarding administrations and entities operating through direct assignments to their in-house companies pursuant to Art. 5 is established at Anac, also in order to guarantee adequate levels of publicity and transparency in public contracts. Registration in the list takes place upon request, after the fulfilment of requirements is verified, according to the methods and criteria defined by the Authority in its own deed. To collect information and verify the fulfilment of the above-mentioned requirements, the Authority uses IT procedures, including by connecting, on the basis of dedicated agreements, with the relative systems in use at other public administrations and other parties operating in the sector of public contracts. The request for registration enables awarding administrations and entities to carry out direct assignments under their own responsibility of contracts to the operating entity. The obligation of publishing the deeds connected to such direct assignment remains in force according to the provisions of paragraph 3.*

2. *For the purpose of the in-house assignment of a contract for services available in the free market, the commissioning bodies preventively evaluate the economic consistency of the offer of in-house entities, with regard to the subject as well as the value of the service, providing an account in the grounds of the assignment measure of the reasons for which recourse was not made to the market, as well as the benefits for the general public of the selected form of management, also with reference to the objectives of universality and sociality, efficiency, cost effectiveness and quality of the service, as well as the optimal use of public resources.*

3. *On the profile of the contracting body in the Transparent administration section, all deeds connected to the assignment of public contracts and concession agreements between entities within the public sector, when not classified pursuant to Art. 162, are published and updated in compliance with the provisions pursuant to Italian Legislative Decree no. 33 of 14 March 2013, in open data format.*

## 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, and Law no. 145 of 30 December 2018, 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, as regards the field of subjective application of Italian Legislative Decree 175/2016 and subsequent amendments and additions, Art. 1, paragraph 5 states: "*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*", while Art. 2, paragraph 1, letter p) defines 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*".

The parent company is classified as a listed company pursuant to the above-mentioned regulatory provision as, in November 2014, it issued financial instruments consisting of bonds listed in regulated markets, as a result of a procedure undertaken already at the beginning of the same year, assuming the status of EIP (public interest entity) pursuant to Art. 16 paragraph 1 of Italian Legislative Decree 39/2010, to which the provisions of Italian Legislative Decree 175/2016 and subsequent amendments and additions will therefore apply only when expressly established, and therefore when there is no express provision of applicability the consolidated law is not applicable.

In any case, the consolidated law on state-owned companies does not seem to contain in this case provisions that may directly impact the duration of current assignments.

Art. 16, paragraph 1 establishes that the in-house companies receive direct assignments of public contracts from the administrations that exercise analogous control over them, or from each of the administrations that exercise joint analogous control over them, only in the absence of an investment of private capital, with the exception of that required by legal provisions and which takes place in forms that do not result in control or veto power, or the exercise of dominant influence.

Paragraph 3 establishes that the articles of association must establish that more than eighty percent of the turnover should be earned in performing duties assigned to the company by the public authority or the partner public authorities and paragraph 3-*bis* establishes that business in addition to the prevalent business is permitted only provided that it makes it possible to achieve economies of scale or other recoveries of production efficiency in the exercise of the company's primary business.

Paragraph 7 (the last) requires observance of the *Public Contracts Code* in the acquisition of works, goods and services.

# 2.1.2 Significant events subsequent to year-end

The phase of rationalisation of investments continues, through extraordinary merger and liquidation operations, in line with the objectives of the rationalisation plan approved at the analogous control committee pursuant to law.

On 11 January 2019, the parent company acquired the business unit from Eurekambiente srl relating to the set of assets organised for the management and disposal of waste deriving from the bankruptcy of the company Raam. The purchase price was EUR 600 thousand. The business unit includes a property located in Pianiga (Ve).

In February 2019, the subsidiary Sifagest scarl was placed in liquidation, after the transfer of operational management of the Sifa plants to the parent company in August 2018.

In February 2019, Eco-ricicli Veritas srl submitted a project finance proposal to the Veritas Group concerning treatment and selection services for subsequent exploitation and/or disposal of sorted municipal waste of the Metropolitan City of Venice and the Municipality of Mogliano Veneto. The Veritas Board of Directors declared the public utility of the proposal. Now, the resulting public procedures will be carried out.

As part of the investee company rationalisation plan, the parent company is conducting a market reconnaissance survey to explore and, through a subsequent selection, evaluate, the interest of economic operators in purchasing shares of Vier, in preparation for its future strategic/operational development (development and application of renewable energies).

In May 2019, Ecoprogetto exited entirely from the shareholding structure of Steriladria srl.

## 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 2018.

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.

Veritas and Asvo are also evaluating the effects on management of the initial Arera measures.

In 2019, the transfer to the quantity-based measurement system (Tarip) began in the municipality of Dolo.

Last March, the parent company entered into a memorandum of understanding with Syndial for the creation of an industrial waste to fuel prototype for the production of fuel and methane from waste, in a reclaimed area of Petrolchimico Eni that is no longer used. Through its subsidiary Ecoprogetto, the Group will be able to provide the organic waste from which bio-oil and bio-methane will be produced.

Tensions continue in the market of materials linked to sorted waste due to the difficulties encountered in placing the materials collected, particularly glass, with an extension of this theme to the purification sludge sector as well, due to the focus placed on the issue of PFAs.

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 its efforts, in terms of 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.

With regard to the general financial management, the Group is operating in continuity with its past approach to ensure compliance with the covenants.

# 2.2 Consolidated statement of financial position

| assets (in thousands of Euro) | notes | 31.12.2018 | 31.12.2017 |
|---|---|---|---|
| **non-current assets** | | | |
| intangible assets | 6 | 22,352 | 17,674 |
| concession services | 6 | 218,684 | 210,387 |
| goodwill | 7 | 21,223 | 21,223 |
| tangible fixed assets | 8 | 296,038 | 272,292 |
| investment property | 9 | 17,495 | 12,660 |
| shareholdings in associates and jointly controlled companies | 10 | 9,051 | 12,499 |
| financial assets available for sale | 11 | 1,550 | 1,686 |
| long-term receivables due from partner entities | 16 | 3,996 | 5,186 |
| long-term receivables due from associates and jointly controlled companies | 17 | 10,426 | 16,752 |
| other financial assets | 12 | 10,635 | 10,198 |
| receivables due from subsidiaries held for sale | 5 | 0 | 19 |
| receivables due for income taxes | 19 | 5,740 | 5,779 |
| prepaid tax assets | 43 | 28,353 | 15,696 |
| **total non-current assets** | | **645,543** | **602,051** |
| | | | |
| **current assets** | | | |
| inventories | 13 | 6,785 | 7,871 |
| contract work in progress | 14 | 2,602 | 1,676 |
| trade receivables | 15 | 83,442 | 88,663 |
| receivables due from partner entities | 16 | 24,740 | 27,635 |
| receivables due from subsidiaries held for sale | 5 | 0 | 136 |
| receivables due from associates and jointly controlled companies | 17 | 5,936 | 5,434 |
| other receivables | 18 | 22,274 | 27,374 |
| receivables due for current income taxes | 19 | 2,061 | 599 |
| cash and cash equivalents | 20 | 98,708 | 103,887 |
| derivative financial instruments - assets | 30 | 16 | 49 |
| **total current assets** | | **246,564** | **263,324** |
| | | | |
| **assets held for sale** | **5** | **3,899** | **4,646** |
| | | | |
| **total assets** | | **896,006** | **870,021** |

| liabilities and shareholders' equity (in thousands of Euro) | notes | 31.12.2018 | 31.12.2017 |
|---|---|---|---|
| **shareholders' equity** | | | |
| share capital | 21 | 145,397 | 142,235 |
| own shares | 21 | -1 | -1 |
| reserves | 21 | 109,638 | 87,744 |
| **shareholders' equity pertaining to the Group** | | **255,034** | **229,978** |
| share capital and reserves pertaining to minority interests | 21 | 33,531 | 34,408 |
| **total shareholders' equity pertaining to minority interests** | | **33,531** | **34,408** |
| **total shareholders' equity** | | **288,565** | **264,386** |
| | | | |
| **non-current liabilities** | | | |
| medium/long-term loans | 22 | 127,212 | 134,343 |
| loans from other funders | 23 | 111,991 | 113,591 |
| provisions for risks and charges | 24 | 59,825 | 53,971 |
| employee severance indemnity | 25 | 26,408 | 26,562 |
| long-term payables due to subsidiaries held for sale | 5 | 0 | 332 |
| long-term payables due to partner entities | 26 | 762 | 33,973 |
| long-term payables due to associates and jointly controlled companies | 27 | 0 | 900 |
| other non-current liabilities | 28 | 19,294 | 13,905 |
| deferred tax liabilities | 43 | 9,207 | 9,033 |
| **total non-current liabilities** | | **354,699** | **386,610** |
| | | | |
| **current liabilities** | | | |
| trade payables | 29 | 99,080 | 93,049 |
| payables due to partner entities | 26 | 77,854 | 44,510 |
| payables due to subsidiaries held for sale | 5 | 0 | |
| payables due to associates and jointly controlled companies | 27 | 1,293 | 3,639 |
| payables due to banks and current portion of medium/long-term loans | 22 | 24,512 | 23,761 |
| loans from other funders | 23 | 6,102 | 10,677 |
| derivative financial instruments | 30 | 131 | 71 |
| other current liabilities | 31 | 43,698 | 40,837 |
| current tax payables | 32 | 32 | 1,878 |
| **total current liabilities** | | **252,702** | **218,422** |
| | | | |
| **liabilities held for sale** | **5** | **40** | **603** |
| | | | |
| **total liabilities** | | **607,441** | **605,635** |
| | | | |
| **total liabilities and shareholders' equity** | | **896,006** | **870,021** |

# 2.3 Consolidated statement of comprehensive income

| comprehensive income statement (in thousands of Euro) | notes | 2018 | 2017 |
|---|---|---|---|
| **continuing operations** | | | |
| revenues from sales and services | 33 | 376,564 | 361,602 |
| other income | 34 | 16,390 | 20,930 |
| **total revenues** | | **392,954** | **382,532** |
| costs for raw and ancillary materials and consumables | 35 | -26,684 | -23,690 |
| costs for services | 36 | -123,630 | -112,077 |
| costs for use of third-party assets | 37 | -10,795 | -10,415 |
| personnel costs | 38 | -160,410 | -152,636 |
| other operating costs | 39 | -9,281 | -16,324 |
| amortisation, depreciation and write-downs | 40 | -36,808 | -35,150 |
| **operating income** | | **25,346** | **32,240** |
| portion pertaining to investments valued with the equity method | 41 | 276 | 617 |
| financial charges | 42 | -15,022 | -12,160 |
| financial income | 42 | 1,976 | 1,871 |
| **income before taxes** | | **12,576** | **22,568** |
| income taxes for the year | 43 | 7,878 | -7,190 |
| **profit (loss) for the year from continuing operations** | | **20,454** | **15,378** |
| | | | |
| **assets held for sale** | | | |
| **net profit (loss) from assets held for sale** | | **0** | **-508** |
| | | | |
| **consolidated profit (loss) for the year** | | **20,454** | **14,870** |
| | | | |
| **profit (loss) pertaining to minority interests** | | **-125** | **1,057** |
| **profit (loss) pertaining to the Group** | | **20,579** | **13,813** |

| other components of the comprehensive income statement | notes | 2018 | 2017 |
|---|---|---|---|
| **consolidated profit (loss) for the year** | | **20,454** | **14,870** |
| **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 | 25 | 334 | -674 |
| income taxes pertaining to other components of the comprehensive income statement | | -80 | 162 |
| **comprehensive profit (loss) for the year net of taxes** | | **20,708** | **14,357** |
| attributable to: | | | |
| parent company shareholders: | | 20,831 | 13,313 |
| minority shareholders | | -123 | 1,044 |
| **comprehensive profit (loss) for the year net of taxes** | | **20,708** | **14,357** |

# 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 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** |
| | | | | | | | | | | | |
| **balance as at 1 January 2018** | **142,235** | **2,583** | **-1** | **71,193** | **154** | **13,813** | **229,978** | **33,351** | **1,057** | **34,408** | **264,386** |
| application of IFRS 9 | | | | -1,562 | | | -1,562 | | | | -1,562 |
| **adjusted balance as at 1 January 2018** | **142,235** | **2,583** | **-1** | **69,631** | **154** | **13,813** | **228,416** | **33,351** | **1,057** | **34,408** | **262,824** |
| share capital increase and business combination | 3,162 | | | 2,355 | | | 5,517 | | | | 5,517 |
| allocation of previous year's profit/(loss) | | 405 | | 13,408 | | -13,813 | 0 | 1,057 | -1,057 | 0 | 0 |
| own shares in portfolio | | | | | | | | | | | |
| business combinations | | | | 356 | | | 356 | -647 | | -647 | -293 |
| other transactions | | | | -86 | | | -86 | -105 | | -105 | -191 |
| dividends | | | | | | | | | | | |
| purchase of minority interests | | | | | | | | | | | |
| increase in minority interests | | | | | | | | | | | |
| other comprehensive income components | | | | 252 | | | 252 | 2 | | 2 | 254 |
| profit (loss) as at 31 December 2018 | | | | | | 20,579 | 20,579 | | -125 | -125 | 20,454 |
| **balance as at 31 December 2018** | **145,397** | **2,988** | **-1** | **85,916** | **154** | **20,579** | **255,034** | **33,656** | **-125** | **33,531** | **288,565** |

# 2.5 Cash flow statement

| **cash flow statement** (in thousands of Euro) | **2018** | **2017** |
|---|---|---|
| **cash flow generated by operating activities** | | |
| profit (loss) for the period pertaining to the Group | 20,579 | 13,813 |
| profit (loss) for the period pertaining to minority interests | -125 | 1,057 |
| **cash flows generated by operating activities** | | |
| (interest receivable)/interest payable for the year | 12,848 | 9,505 |
| income taxes for the year | -7,878 | 7,077 |
| **adjustments to reconcile net profit with cash and cash equivalents** | | |
| **generated (used) by operating activities** | | |
| amortisation, depreciation and write-downs | 36,808 | 35,150 |
| financial income (charges) from discounting | 198 | 784 |
| write-down of receivables and inventories | 3,582 | 2,860 |
| change in fair value of interest rate derivatives | -82 | -23 |
| portion pertaining to investments valued | | |
| with the equity method | -276 | -617 |
| capital gains/losses | | |
| from disposal of property, plant and equipment and investment property | -267 | -14 |
| from disposal of shareholdings | 0 | 0 |
| provision (use) | | |
| employee severance indemnity | -1,162 | -647 |
| provisions for risks and charges | 1,862 | 1,967 |
| other adjustments for non-monetary elements | -3,175 | -2,557 |
| **cash flows before changes in NWC** | **62,911** | **68,355** |
| | | |
| **changes in net working capital** | | |
| inventories | 1,319 | -2,665 |
| contract work in progress | -926 | -33 |
| trade receivables | 9,724 | 12,906 |
| other receivables | 4,377 | 27,175 |
| trade payables | 3,949 | -24,957 |
| payables due to subsidiaries held for sale | -1,429 | 0 |
| other current payables | -4,927 | -32,479 |
| **total changes in current assets and liabilities** | **12,087** | **-20,053** |
| | | |
| **other adjustments** | | |
| (interest paid) | -9,896 | -10,570 |
| interest income | 1,363 | 1,912 |
| (income taxes paid) | -9,125 | -3,955 |
| dividends received | 80 | 0 |
| (provision)/use of prepaid tax assets – provision/(use) of deferred tax | | |
| liabilities | 3,470 | 956 |
| change in other non-current payables | 2,924 | 5,722 |
| | | |
| **cash flow generated (used) by operating activities** | **63,816** | **42,367** |

| **cash flow statement** (in thousands of Euro) | **2018** | **2017** |
|---|---|---|
| **cash flows generated from investment activities** | | |
| disposal of intangible assets | 17 | 0 |
| disposal of property, plant and equipment and concession services | 1,177 | 14 |
| net assets/liabilities held for sale | -13 | 2,153 |
| transfer (acquisition) of minority interests | 0 | 0 |
| dividends from associates and joint ventures | 0 | 0 |
| investments in business combinations net of liquidity acquired | -8,149 | 12,366 |
| purchases of intangible assets | -5,528 | -3,199 |
| investments in concession services | -20,524 | -20,414 |
| purchase of property, plant and equipment and investment property | -35,730 | -14,821 |
| purchase of shareholdings in associates and joint ventures | -256 | 0 |
| government grants | 7,012 | 698 |
| sale/(purchase) of shareholdings in associates and joint ventures | 0 | 681 |
| disinvestments (investments) in financial assets available for sale | 152 | -4 |
| disinvestments/(investments) in other financial assets and receivables due from associates | 6,477 | 3,742 |
| **cash flow generated (used) by investment activities** | **-55,364** | **-18,784** |
| | | |
| **cash flows generated from financing activities** | | |
| shareholders' equity | | |
| transfer (acquisition) of own shares | 0 | 0 |
| other changes in shareholders' equity | 0 | 169 |
| dividends paid out | -233 | -8 |
| third-party financing | | |
| loans taken out | | |
| medium-long term | 16,200 | 40,000 |
| medium/long term from other financiers and factoring | 0 | 195 |
| 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 | -758 | -6,418 |
| (repayment) of | | |
| medium/long-term loans | -22,003 | -30,826 |
| medium/long-term from other financiers | -5,742 | -2,689 |
| increase/(decrease) in payables due to partner entities | -345 | -588 |
| bond (repayment) | -750 | -750 |
| **cash flow generated (used) by financing activities** | **-13,631** | **-915** |
| | | |
| **net increase/(decrease) in cash and cash equivalents** | **-5,179** | **22,668** |
| | | |
| **cash and cash equivalents at the start of the year** | **103,887** | **81,219** |
| | | |
| **cash and cash equivalents at the close of the year** | **98,708** | **103,887** |

# 2.6 Notes to the financial statements

## ACCOUNTING PRINCIPLES AND NOTES TO THE FINANCIAL STATEMENTS

## 1. Corporate information

Veritas spa, parent company of the same group, 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 45 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;
- the management of the integrated water service (captation, lifting, treatment and distribution of water for civil and industrial use, collection and purification of industrial and domestic wastewater) carried out in the territories of 36 partner Municipalities of the parent company, as the sole manager for the entire Venice lagoon basin. 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 2018, the Group billed roughly 78 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 Venice lagoon basin is 5,700 km long and, the sewerage network for the purification cycle is around 2,800 km-long channelling over 88 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, such as 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; at the end of 2018, Veritas was involved, with operational coordination objectives, in the activities of the single metropolitan call centre following the creation of the new Csrm - Citizen relationship management system, developed by the Municipality of Venice and its subsidiaries.
- the management of the heating and public lighting service for the Municipality of Chioggia, Fossalta di Portogruaro and Fiesso d’Artico, cemetery services (including cemetery green areas) in the Municipalities of Spinea, Martellago, Mirano and Portogruaro;
- 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 and cogeneration plants through the subsidiary Vier srl.

- the management of hazardous and non-hazardous waste, environmental redevelopment with mobile plants using advanced technology through the subsidiary Depuracque servizi srl.
- the development of the activity of the toxic and harmful waste treatment plant in Fusina by the subsidiary Rive srl.

Veritas was involved, with operational coordination objectives, in the activities of the single metropolitan call centre following the creation of the new Csrm - Citizen relationship management system, developed by the Municipality of Venice and its subsidiaries.

The current consolidated financial statements of the Veritas Group have been approved with a resolution issued by the Board of Directors on 27 May 2019.

## 2.1 Drafting criteria

The consolidated financial statements of the parent company 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.

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

The accounting standards adopted to draft the consolidated financial statements as at 31 December 2018 are the same as those used to draft the economic and financial data presented for comparative purposes, except for what will be described below with respect to the first time adoption of IFRS 9 and IFRS 15.

The following amendments to the standards that are in force for years starting on or after 1 January 2018 became effective in 2018. 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:

- *IFRS 9 – Financial Instruments*: on 24 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. The standard 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. Pursuant to IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, at amortised cost or at fair value through OCI. The classification is based on two criteria: the business model of the company for the management of the assets; and if the contractual cash flows of the instruments represent "solely payments of principal and interest" on the principal amount outstanding. The classification and measurement requirements of IFRS 9 did not have a significant impact on the Group, which continued to measure at fair value all financial assets previously held at fair value according to IAS 39;
  - introduce a new method for the write-down of financial assets, which takes account of the expected credit losses. The adoption of IFRS 9 substantially amended how losses are recognised due to the impairment of financial assets, replacing the incurred losses approach of IAS 39 with an expected credit loss (ECL) approach. IFRS 9 requires the Group to recognise an impairment loss equal to the ECL for all debt instruments not held at fair value through profit or loss and for contractual assets. On adoption of IFRS 9, the Group recognised additional impairment losses on trade receivables, as detailed in more detail below;
  - modify the hedge accounting provisions. In continuity with the approach adopted in the financial statements last year, in the IAS/IFRS financial statements, the Group decided not to apply hedge accounting, although all transactions were carried out for hedging purposes, in order to reduce interest rate risk.

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.

The Group therefore opted for the retrospective application of the standard, without however restating the comparative data for the first year of application.

The effects of the adoption of IFRS 9 are as follows:

| **assets** (in thousands of Euro) | notes | post IFRS 9 | pre IFRS 9 | increase / (reduction) |
|---|---|---|---|---|
| **non-current assets** | | | | |
| intangible assets | | 22,725 | 22,725 | |
| concession services | | 218,684 | 218,684 | |
| goodwill | | 21,223 | 21,223 | |
| tangible fixed assets | | 295,637 | 295,637 | |
| investment property | | 17,522 | 17,522 | |
| shareholdings in associates and jointly controlled companies | | 9,051 | 9,051 | |
| financial assets available for sale | | 1,550 | 1,550 | |
| long-term receivables due from partner entities | | 3,996 | 3,996 | |
| long-term receivables due from associates and jointly controlled companies | | 10,426 | 10,426 | |
| other financial assets | | 10,635 | 10,635 | |
| receivables due from subsidiaries held for sale | | – | – | |
| receivables due for income taxes | | 5,740 | 5,740 | |
| prepaid tax assets | (1) | 28,320 | 27,202 | 1,119 |
| **total non-current assets** | | **645,511** | **644,392** | **1,119** |
| | | | | |
| **current assets** | | | | |
| inventories | | 6,785 | 6,785 | |
| contract work in progress | | 2,602 | 2,602 | |
| trade receivables | (1) | 83,442 | 88,104 | -4,661 |
| receivables due from partner entities | | 24,740 | 24,740 | |
| receivables due from subsidiaries held for sale | | 0 | 0 | |
| receivables due from associates and jointly controlled companies | | 5,936 | 5,936 | |
| other receivables | | 22,274 | 22,274 | |
| receivables due for current income taxes | | 2,061 | 2,061 | |
| cash and cash equivalents | | 98,708 | 98,708 | |
| derivative financial instruments - assets | | 16 | 16 | |
| **total current assets** | | **246,564** | **251,225** | **-4,661** |
| | | | | |
| **assets held for sale** | | **3,899** | **3,899** | **–** |
| | | | | |
| **total assets** | | **895,974** | **899,516** | **-3,543** |

| liabilities and shareholders' equity (in thousands of Euro) | notes | 31.12.2018 post IFRS 9 | 31.12.2018 pre IFRS 9 | (increase) / reduction |
|---|---|---|---|---|
| **shareholders' equity** | | | | |
| share capital | | 145,397 | 145,397 | |
| own shares | | -1 | -1 | |
| reserves | (1) | 109,738 | 113,281 | -3,543 |
| **shareholders' equity pertaining to the Group** | | **255,135** | **255,135** | |
| share capital and reserves pertaining to minority interests | | 33,531 | 33,531 | |
| **total shareholders' equity pertaining to minority interests** | | **33,531** | **33,531** | |
| **total shareholders' equity** | | **288,667** | **292,210** | **-3,543** |
| | | | | |
| **non-current liabilities** | | | | |
| medium/long-term loans | | 127,212 | 127,212 | |
| loans from other funders | | 111,991 | 111,991 | |
| provisions for risks and charges | | 59,825 | 59,825 | |
| employee severance indemnity | | 26,274 | 26,274 | |
| long-term payables due to subsidiaries held for sale | | – | – | |
| long-term payables due to partner entities | | 762 | 762 | |
| long-term payables due to associates and jointly controlled companies | | – | – | |
| other non-current liabilities | | 19,294 | 19,294 | |
| deferred tax liabilities | | 9,208 | 9,208 | |
| **total non-current liabilities** | | **354,565** | **354,565** | **–** |
| | | | | |
| **current liabilities** | | | | |
| trade payables | | 99,080 | 99,080 | |
| payables due to partner entities | | 77,854 | 77,854 | |
| payables due to subsidiaries held for sale | | – | – | |
| payables due to associates and jointly controlled companies | | 1,293 | 1,293 | |
| due to banks and current portion of medium/long-term loans | | 24,512 | 24,512 | |
| loans from other funders | | 6,102 | 6,102 | |
| derivative financial instruments | | 131 | 131 | |
| other current liabilities | | 43,698 | 43,698 | |
| current tax payables | | 31 | 31 | |
| **total current liabilities** | | **252,702** | **252,702** | **–** |
| | | | | |
| **liabilities held for sale** | | **40** | **40** | **–** |
| | | | | |
| **total liabilities** | | **607,307** | **610,849** | **-3,543** |
| | | | | |
| **total liabilities and shareholders' equity** | | **895,974** | **899,516** | **-3,543** |

| **comprehensive income statement** (in thousands of Euro) | **notes** | **post IFRS 9** | **pre IFRS 9** | **increase / (reduction)** |
|---|---|---|---|---|
| **continuing operations** | | | | |
| revenues from sales and services | | 376,564 | 376,564 | |
| other income | | 16,390 | 16,390 | |
| **total revenues** | | **392,954** | **392,954** | |
| costs for raw and ancillary materials and consumables | | -26,684 | -26,684 | |
| costs for services | | -123,630 | -123,630 | |
| costs for use of third-party assets | | -10,795 | -10,795 | |
| personnel costs | | -160,410 | -160,410 | |
| other operating costs | (1) | -9,282 | -6,675 | -2,606 |
| amortisation, depreciation and write-downs | | -36,808 | -36,808 | |
| **operating income** | | **25,346** | **27,953** | **-2,606** |
| portion pertaining to investments valued with the equity method | | 276 | 276 | |
| financial charges | | -15,022 | -15,022 | |
| financial income | | 1,976 | 1,976 | |
| **income before taxes** | | **12,576** | **15,182** | **-2,606** |
| income taxes for the year | (1) | 7,878 | 7,253 | 626 |
| **profit (loss) for the year from continuing operations** | | **20,454** | **22,435** | **-1,981** |
| **assets held for sale** | | | **–** | |
| **net profit (loss) from assets held for sale** | | **–** | **–** | |
| **consolidated profit (loss) for the year** | | **20,454** | **22,435** | **- 1,981** |

The amendments did not have a significant impact on the Cash flow statement. The nature of the adjustments, as reported in the table, is described below:

1. the application of the new standard concerned the measurement of financial assets according to the new expected credit loss approach and entailed the recognition of impairment losses on trade receivables of EUR 3,333 thousand and the recognition of a negative item in shareholders' equity, net of the tax effect, of EUR 1,562 thousand against the lower value of such assets. The changes described above refer to the parent company. The analysis carried out on the other Group companies did not bring to light additional impacts.

- *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. IFRS 15 replaces IAS 11 Construction Contracts and IAS 18 Revenues and the relative interpretations and applies, with limited exceptions, to all revenues from contracts with customers.

  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 establishes a model consisting of the following five steps for accounting for revenues from contracts with customers:

  – 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 Group applied IFRS 15 using the modified retrospective approach and, after analysing the impacts in terms of disclosure and, therefore, on the systems, internal control, policies and procedures, worked to collect and present all information required to apply that standard.

The effects of the adoption of IFRS 15 are as follows:

| comprehensive income statement (in thousands of Euro) | notes | post IFRS 15 | pre IFRS 15 | increase / (reduction) |
|---|---|---|---|---|
| continuing operations | | | | |
| revenues from sales and services | (1),(2),(3) | 376,564 | 380,971 | -4,407 |
| other income | | 16,390 | 16,390 | |
| **total revenues** | | **392,954** | **397,361** | **-4,407** |
| costs for raw and ancillary materials and consumables | | -26,684 | -26,684 | |
| costs for services | (3) | -123,630 | -125,301 | 1,671 |
| costs for use of third-party assets | | -10,795 | -10,795 | |
| personnel costs | | -160,410 | -160,410 | |
| other operating costs | (1) | -9,282 | -9,998 | 716 |
| amortisation, depreciation and write-downs | (2) | -36,808 | -36,847 | 39 |
| **operating income** | | **25,346** | **27,327** | **-1,981** |
| portion pertaining to investments valued with the equity method | | 276 | 276 | |
| financial charges | | -15,022 | -15,022 | |
| financial income | | 1,976 | 1,976 | |
| **income before taxes** | | **12,576** | **14,557** | **-1,981** |
| income taxes for the year | (2) | 7,878 | 7,319 | 559 |
| **profit (loss) for the year from continuing operations** | | **20,454** | **21,876** | **-1,422** |
| **assets held for sale** | | – | – | – |
| **net profit (loss) from assets held for sale** | | – | – | – |
| **consolidated profit (loss) for the year** | | **20,454** | **21,876** | **-1,422** |

The amendments did not have a significant impact on the Statement of financial position or on the Cash flow statement. The nature of the adjustments in the Income statement is described below:

1. with regard to the quantity-based environmental hygiene tariff, the provisions recognised every year for future charges on financial plans and relating to the equalisation shares, deriving from the final balance of financial plans for the year or any previous years, were reclassified as an adjustment of revenues for the year; this income statement reclassification (which reduced revenues from sales and services by EUR 716 thousand) did not generate effects on shareholders' equity;

2. on water and sewerage connection fees billed to integrated water service users, considering that the relative works are fixed assets subject to depreciation, which is annually charged to the income statement, those revenues were reclassified as a reduction of fixed

assets, as grants for plants, and therefore are also subject to depreciation in correlation with the works themselves. In addition, as set forth in IAS 8, the Group applied the effects of those amendments on a prospective basis as retroactive application was not feasible, considering that the information required for that calculation was not available: indeed, this would have made it necessary to recalculate revenues for connection fees over the last 25 years, taking into account all extraordinary transactions that involved Veritas (even with reference to only the integrated water service business); in particular, the IT systems of the companies merged over ten years ago (Acm, Asp and Spim) were no longer usable.

3. with respect to revenues for the sale of scrap/waste of the subsidiary Eco-ricicli Veritas srl, the costs that the customer charges back in the case of waste non-compliance were reclassified as an adjustment of revenue for the year; this income statement reclassification (which reduced revenues from sales and services by EUR 1,671 thousand) had no effects on shareholders' equity.

- 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 (already 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.

- *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 adoption of these amendments had no effects on the Group.

- *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 adoption of these amendments had no effects on these financial statements.

- *Interpretation IFRIC 22 – Foreign currency transactions and advance consideration*: the interpretation, published by IASB in December 2016, clarifies which exchange rate should be used in foreign currency transactions that involve consideration paid or collected early. The adoption of this interpretation did not impact the financial statements of Veritas spa.

- *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 with IFRS 17. The amendments are applicable from 1 January 2018. The adoption of this document 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 not applicable and not adopted early by the Group

Starting 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 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.

  The standard includes two exceptions to this recognition for lessees:

  – leases for "low-value" assets (such as personal computers);

  – short-term lease agreements (i.e., lease agreements for a term of 12 months or less).

  At the effective date, the lessee must recognise the asset consisting of the right to use the underlying asset during the duration of the lease (i.e., the right of use) and the leasing liability relating to the lease payments. 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. Lessees must also separately recognise interest expense on the lease liability and amortisation on the right of use.

  Lessees will also be asked to reconsider the amount of the lease liability when specific events take place (for example, a change in the duration of the lease, a change in the future payments deriving from a change in an index or rate used to determine those payments). The lessee will typically recognise the difference from the remeasurement of the amount of the lease liability as an adjustment of the right of use.

  The accounting method for the lessor in compliance with IFRS 16 remains basically unchanged compared to the current accounting policy according to IAS 17.

  The new standard will be applicable for financial years starting on or after 1 January 2019 and requires lessors and lessees to provide a more extensive disclosure than that required under IAS 17.

  In 2018, the Group completed the project for the preliminary assessment of the potential impacts of the application of the new standard at the date of first-time adoption (1 January 2019). The analysis was performed by first mapping all contracts concerned by the new standard and then by individual contract the relevant clauses for the purposes of IFRS 16 were checked, particularly with reference to the expiry of the contracts, renewal options and in the case of an option, the reasonable likelihood of that renewal.

  The process of implementing the standard is in the completion phase, and requires setting up the IT infrastructure for the accounting management of the standard and aligning administrative processes and controls overseeing the critical areas impacted by the standard. This process is expected to be completed in the first half of 2019.

  The Group decided to adopt the new standard retrospectively without restating comparative data according to the modified approach, accounting for the cumulative effect of the first-time application of the standard as of 1 January 2019, recognising in the Statement of financial position the assets consisting of the right of use of the leased assets and the lease liabilities at the present value of the remaining payments due and therefore no effects will be recognised on shareholders' equity. The Group has decided to apply the standard to contracts previously identified as leases, which apply IAS 17 and IFRIC 4. Therefore, the Group will not apply the standard to contracts not previously identified as leases according to IAS 17 and IFRIC 4.

The Group will make use of the exceptions proposed by the standard on lease agreements for which the terms of the lease agreement expire within 12 months of the date of initial application and lease agreements for which the underlying asset has a low value. The contracts for which the exemptions were applied fall primarily within the following categories: electronic devices or other low-value equipment. For those contracts, the introduction of IFRS 16 will not entail the recognition of the financial liability of the lease and the relative right of use, but the lease payments will be recognised in the income statement on a straight-line basis for the duration of the respective contracts.

In summary, the expected effects of the adoption of the new standard are shown below:

| **assets** (in thousands of Euro) | **impacts at the transition date 01-Jan-2019** |
|---|---|
| **non-current assets** | |
| tangible fixed assets - Right of use | 28,511 |
| **total non-current assets** | **28,511** |
| | |
| **current assets** | |
| prepaid expenses | -617 |
| **total current assets** | **-617** |
| | |
| **total assets** | **27,894** |
| | |
| **liabilities and shareholders' equity** (in thousands of Euro) | |
| **shareholders' equity** | **-** |
| **total shareholders' equity** | **-** |
| | |
| **non-current liabilities** | |
| non-current financial liabilities for leases | 24,230 |
| **total non-current liabilities** | **24,230** |
| | |
| **current liabilities** | |
| current financial liabilities for leases | 3,664 |
| **total current liabilities** | **3,664** |
| | |
| **total liabilities** | **27,894** |
| | |
| **total liabilities and shareholders' equity** | **27,894** |

- *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 financial statements.
- *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. The directors are evaluating the possible effects of the introduction of these amendments on the financial statements.
- *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 companies 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. The directors are evaluating the possible effects of the introduction of these amendments on the 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:

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 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.

- *Amendments to References to the Conceptual Framework:* document issued by the IASB on 29 March 2018, applicable as of 1 January 2020, to update the references to the conceptual framework present in the IFRSs, as the latter was revised by the IASB in the course of 2018.
- *Amendments to IFRS 3 - Business combinations*: document issued by IASB on 22 October 2018, applicable from 1 January 2020, with early application permitted. The amendments clarify the definition of business and will help companies to determine if an acquisition regards a business or rather a group of assets. Specifically, the new definition highlights that the purpose of a business consists of providing goods and services to customers, while the previous definition concentrated on returns in the form of dividends, cost savings or other economic advantages for investors.
- *Amendments to IAS 1 and IAS 8 - Definition of material*: document issued by IASB on 31 October 2018, applicable from 1 January 2020, with early application permitted. The amendments clarify the definition of material and how it should be applied in order to help companies decide which information to include in their financial statements.
- *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.

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.

## 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 in compliance with the International financial reporting standards (IAS/IFRS) since 2017, 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*, based on resolution no. 806 of 30 July 2008, the Venice lagoon sub-division authority assigned the service to the parent company until 31 December 2018.

By means of resolution no. 20 of 13 December 2018, the sub-division assembly of the current Venice lagoon basin council approved the assignment of the integrated water service within the Venice lagoon optimal territorial sub-division to Veritas spa as of 1 January 2019 and until 31 December 2038. Thus an administrative process that began in 2007 with the founding of Veritas and which had extended over time due to the numerous reforms regarding this sector was completed. The assignment is based on the confirmation of the in-house assignment, and therefore it maintains ownership and control with the Municipalities, and is supported by an Economic-financial plan which calls for total investments over 20 years of roughly EUR 636 million for the new integrated water service works and the improvement and increased safety of existing ones.

As regards the *integrated municipal waste management service*, 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 Group 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 would have expired before 2038, as well as for the Municipality of Mira (the latter with resolution no. 115 of 23 December 2013 established the duration of the assignment of the service with an expiry of 31 December 2038).

In particular, in February 2019, the Venezia Ambiente basin council launched a preliminary analysis for the alignment of the expiry of the in-house assignment of the street sweeping, collection, transport and recycling and disposal service for municipal and similar waste in the Municipality of Venice, in order to align the expiry to June 2038.

### 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.

### Recognition of revenues

Revenues are recognised to the extent to which it is likely that financial benefits will be achieved by the group and the relative amounts can be accurately determined, irrespective of the collection date. Revenues are measured at the fair value of the consideration received or to be received, taking into account the contractually defined payment terms and excluding trade discounts and allowances.

The recognition of revenues assumes the use of estimates on the basis of the best information available that may be subject, in any event, to changes after new information unavailable when the estimate was made is obtained.

### Provision for doubtful debt

The group recognised a provision for impairment due to expected credit losses (ECL) for all financial assets, as required by IFRS 9. 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 2018, 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 2018:

| consolidated companies | head office | share capital | 31.12.2018<br>Group's shareholding | 31.12.2017 |
|---|---|---|---|---|
| Veritas spa (parent company) | Venice | 145,397,150 | | |
| **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 | 82.34% | 78.06% |
| Sifagest scarl *in liquidation* | Venice | 500,000 | 65.00% | 64.40% |
| Asvo spa | Portogruaro (Ve) | 18,969,650 | 55.75% | 55.75% |
| Consorzio bonifica Fusina *in liquidation* | Venice | 100,000 | 82.05% | 78.32% |
| Metalrecycling Venice srl | Venice | 100,000 | 82.34% | 78.06% |
| Depuracque servizi srl | Salzano (Ve) | 223,080 | 100.00% | |
| Lecher ricerche e analisi srl | Salzano (Ve) | 46,800 | 100.00% | |
| Rive srl | Venice | 100,000 | 70.00% | |
| **consolidated companies pursuant to IFRS 5** | | | | |
| Steriladria srl | Adria (Ro) | 100,000 | | 40.37% |

It should be noted that:

- Alisea spa, previously wholly-owned by the parent company, was merged by incorporation effective as of 5 November 2018, and with accounting and tax effects as of 1 January 2018;
- in February 2018, Ecoprogetto srl sold 60% of the shares held in Steriladria srl to an entity outside the Group (Saste servizi ecologici srl). The company was consolidated in 2017 in compliance with IFRS 5. In the current year, the equity investment decreased to 30% and is classified under assets held for sale.
- on 12 July 2018, the parent company acquired the remaining 80% of the share capital of the associate Depuracque servizi srl. By obtaining control over it, it also acquired indirect control over Lecher ricerche e analisi srl (of which it already held 50% of the shares) and Rive srl, in which Depuracque servizi srl holds a 70% investment. In turn, Depuracque servizi srl has a 0.6% equity investment in the subsidiary Sifagest scarl and a 1% investment in the associate Sifa scpa;
- during the year, Veritas acquired additional shares in Eco-ricicli Veritas srl (4.29% from the shareholder Demont srl in liquidation, in January 2018) and in Consorzio di bonifica e riconversione produttiva Fusina (17%, equity investment sold by Eco-Ricicli Veritas srl which therefore exited the Consortium in July 2018);
- in July 2018, Consorzio bonifica riconversione produttiva was dissolved due to the expiry of the statutory term and placed in liquidation. The urbanisation works in the former Alcoa area are currently in the completion phase.

- on 1 August 2018, Veritas acquired from Sifa scpa the business unit for the management of the Fusina industrial plants (managed by Sifagest scarl until that time). As of the above-mentioned date, all operating activities are managed by Veritas, which also took over the relative personnel; the Shareholders' Meeting approved the placement in liquidation of Sifagest scarl at the end of February 2019.
- on 27 December 2018, the parent company acquired from the subsidiary Vier srl the business unit handling the management of electricity and heat production plants meant to serve the Veritas management centres. The activities of Vier srl continue with the installation and management of plants using renewable sources (photovoltaics and cogeneration), with the associated energy management service for end users.

Please refer to Note 3 in the separate financial statements of the parent company for further details on corporate transactions regarding it.

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 | 31.12.2018 | 31.12.2017 |
|---|---|---|---|---|
| | | | Group's shareholding | |
| **associates** | | | | |
| Insula spa | Venice | 3,706,000 | 24.73% | 24.73% |
| Sifa scpa | Mestre (Ve) | 30,000,000 | 33.17% | 32.14% |
| Ecoplastiche Venezia srl | Venice | 100,000 | 32.94% | 31.22% |
| Veritas Conegliano srl | Venice | 100,000 | 48.80% | 48.80% |
| Rpm – Riconversione Porto Marghera scarl | Salzano (Ve) | 10,000 | 40.00% | |

Depuracque servizi srl and Lecher ricerche e analisi srl have been subsidiaries since July 2018; Depuracque servizi srl in turn holds a 1% equity investment in Sifa scpa, which is added to that of Veritas spa and Sifagest scarl, and a 40% investment in Rpm scarl, a new entry.

Ecoplastiche Venezia srl is an associated company of Eco-ricicli Veritas srl.

## 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:<br>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 2018, include the following:

| tangible fixed assets | category | depreciation rates % 2018 |
|---|---|---|
| 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 | 5% - 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% - 10% - 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% - 15% |
| 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 reversion | 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 ownership 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

According to IFRS 9, on initial recognition financial assets are classified at amortised cost, at fair value through other comprehensive income (OCI) or at fair value through profit or loss.

The classification of financial assets on initial recognition depends on the characteristics of the contractual cash flows of the financial assets as well as the business model that the Group uses for their management. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures financial assets at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined according to IFRS 15. Additional details are provided in the accounting standards - Revenues section.

For a financial asset to be classified and measured at amortised cost or at fair value through OCI, it needs to generate cash flows that depend solely on the payment of principal and interest on the principal amount outstanding (SPPI). This assessment is referred to as the SPPI test and is performed at instrument level.

The Group's business model for the management of financial assets refers to the manner in which it manages its financial assets in order to generate cash flows. The business model determines whether the cash flows will derive from the collection of contractual cash flows, the sale of financial assets, or both.

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.

For the purpose of subsequent measurements, financial assets are classified in four categories:

- financial assets at amortised cost (debt instruments);
- financial assets at fair value through other comprehensive income with the reclassification of cumulative gains and losses (debt instruments);
- financial assets at fair value through other comprehensive income without the reclassification of cumulative gains and losses upon derecognition (equity instruments);
- financial assets at fair value through profit or loss.

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.

### Financial assets at amortised cost

The Group measures financial assets at amortised cost if both of the following requirements are met:

- the financial asset is held within a business model the objective of which is to hold the financial asset in order to collect contractual cash flows;
- the contractual terms of the financial asset call for cash flows at specific dates represented solely by payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate approach and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or revalued.

Financial assets at amortised cost include trade receivables, assets held to maturity and loans.

### Financial assets at fair value through OCI (debt instruments)

The Group measures financial assets at fair value through other comprehensive income if both of the following requirements are met:

- the financial asset is held within a business model the objective of which is achieved by collecting the contractual cash flows and by selling the financial assets;
- the contractual terms of the financial asset call for cash flows at specific dates represented solely by payments of principal and interest calculated on the principal amount outstanding.

For assets representing debt instruments measured at fair value through OCI, interest income, changes due to exchange differences and impairment losses, as well as write-backs, are recognised in the income statement and are calculated in the same manner as for financial assets measured at amortised cost. The remaining changes in fair value are recognised in OCI. At the time of derecognition, the cumulative change in fair value recognised in OCI is reclassified to the income statement.

### Investments in equity instruments

On initial recognition, the Group may irrevocably choose to classify its equity investments as equity instruments recognised at fair value through OCI when they qualify as equity instruments pursuant to IAS 32 "Financial instruments: Presentation" and are not held for sale. The classification is determined for each individual instrument.

Gains and losses on those financial assets are never reversed to the income statement. Dividends are recognised as other revenues in the income statement when the right to payment has been approved, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case the gains are recognised in OCI. Equity instruments at fair value through OCI are not tested for impairment.

### Financial assets at fair value through profit or loss

This category includes assets held for trading and assets designated at the time of their first recognition as financial assets at fair value through profit or loss, or financial assets which are necessarily measured at fair value.

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.

### Derecognition of 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 has transferred the right to receive cash flows from the asset or has assumed the contractual obligation to pay them in full and without delay and (a) has substantially transferred all risks and benefits deriving from the ownership of the financial asset 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.

When the residual involvement of the entity is a guarantee on the transferred asset, the involvement is measured on the basis of the lower of the amount of the asset and the maximum amount of the consideration received which the entity could need to repay.

### Impairment of financial assets

The Group recognises impairment due to expected credit losses (ECL) for all financial assets represented by debt instruments not measured at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in compliance with the contract and all cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows deriving from the enforcement of collateral held or other guarantees on the receivable that are an integral part of the contractual conditions.

Expected losses are recognised in two phases. With respect to credit exposures for which there was no significant increase in credit risk since initial recognition, losses should be recognised on receivables deriving from the estimate of default events that are possible within the next 12 months (12-month ECL). For credit exposures for which there was a significant increase in credit risk since initial recognition, it is necessary to recognise all expected losses referring to the remaining lifetime of the exposure, irrespective of when the default event is expected to take place (lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach to calculate expected losses. Therefore, the Group does not monitor changes in credit risk, but recognises the entire expected loss at each reporting date. The Group has defined a matrix system based on historical information, revised to consider prospective elements with reference to the specific types of debtors and their economic environment, as a tool for determining expected losses.

For assets represented by debt instruments at fair value through OCI, the Group applies the simplified approach permitted for assets with low credit risk. At each reporting date, the Group evaluates whether it believes that the debt instrument has low credit risk using all available information that can be obtained without undue cost or effort. When a significant increase in credit risk is identified, the Group recognises all expected losses referring to the remaining lifetime of the exposure.

A financial asset is derecognised when there is no reasonable expectation of recovery of the contractual cash flows.

## 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 measured according to IFRS 15. In particular, revenues are recognised over time if it can be demonstrated that: a) the customer simultaneously receives and consumes the benefits deriving from the existing contract when the service is provided; b) the service provided improves.

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 assets and current assets represent the unconditional right to receive the consideration. Trade receivables are initially recognised at the transaction price determined according to IFRS 15 and subsequently the Group recognises impairment due to expected credit losses (ECL).

For trade receivables and contract assets, the Group applies a simplified approach to calculate expected losses. Therefore, it does not monitor changes in credit risk, but recognises the entire expected loss at each reporting date. The Group has defined a matrix system based on historical information, revised to consider prospective elements with reference to the specific types of debtors and their economic environment, as a tool for determining expected losses.

Additional details are provided in the accounting standards - Revenues and Financial assets sections.

### 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

On initial recognition, financial liabilities are classified under financial liabilities at fair value through profit or loss, mortgages and loans or derivatives designated as hedging instruments.

All financial liabilities are initially recognised at fair value plus, in the case of mortgages, loans and payables, directly attributable transaction costs.

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

The measurement of financial liabilities depends on their classification, as described below:

### 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.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation underlying with the liability is extinguished, 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 inception of a hedging transaction, the company formally designates and documents the hedge ratio on which it intends to apply hedge accounting, its main risk management objectives and the strategy pursued.

Before 1 January 2018, the documentation included the identification of the hedging instrument, the hedged item or the transaction, the nature of the risk being hedged and how the company will evaluate the effectiveness of changes in fair value of the hedging instrument in offsetting exposure to changes in fair value or cash flows of the hedged item linked to the hedged risk. These hedges are expected to be highly effective in offsetting changes in fair value or cash flows and are evaluated on an on-going basis in order to determine if they have actually turned out to be highly effective during the periods in which they were designated as hedging transactions.

As of 1 January 2018, the documentation includes the identification of the hedging instrument, the hedged item, the nature of the risk and how the company will evaluate whether the hedging relationship meets the requirements of hedge effectiveness (including an analysis of the sources of ineffectiveness of the hedge and how the hedge ratio is determined). The hedging relationship is eligible for hedge accounting if it meets all of the following hedge effectiveness requirements:

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

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 Group.

## 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

According to IFRS 15, revenues are recognised on the basis of the following five steps: (i) identification of the contract with the customer; (ii) identification of the performance obligations, represented by contractual promises to transfer goods and/or services to a customer; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations identified on the basis of the stand-alone sale price of each good or service; (v) recognition of the revenue when the associated performance obligation is satisfied, or when the promised good or service is transferred to the customer; the transfer is considered completed when the customer obtains control over the good or service, which may take place continuously over a prolonged period of time, or at a specific point in time.

Revenues from contracts with customers are recognised when (or as) the performance obligation is met, by transferring control over the promised goods and services to the customer, in an amount that reflects the consideration that the Group expects to receive in exchange for such goods or services. The Group has generally concluded that it acts in the capacity of Principal for all agreements from which revenues arise.

IFRS 15.48 states that in determining the price of the sale transaction, the Group must take into account the effects of each of the following points:

- variable consideration;
- limitation of estimates of variable consideration;
- existence in the contract of a significant financing component;
- non-monetary consideration;
- consideration to be paid to the customer.

If the consideration promised in the contract includes a variable amount, the Group has estimated the amount of the consideration to which it will be entitled in exchange for the transfer of goods to the customer. The variable consideration is estimated when the agreement is entered into and its recognition is not possible until it is highly likely that when the uncertainty associated with the variable consideration is subsequently resolved, a significant downward adjustment will not need to be recognised in the amount of cumulative revenues that were accounted for. No sale contract gives customers the right to returns and volume discounts.

The Group has recognised no cases of the existence of a significant financing component, non-monetary consideration or consideration to be paid to the customer.

The Group has considered whether there are other promises in the contract representing performance obligations to which part of the transaction consideration must be allocated (such as guarantees or customer loyalty plans), but did not identify those cases.

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 after 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.

Art. 20.1 of AEEGSI resolution 664/2015/R/IDR (MTI-2) states 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, adjusted by any future charges on financial plans and the relative equalisation shares deriving from the final balance of financial plans for the year or possibly of previous years.

### 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 control over 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. Costs are correlated with goods or services sold or consumed during the year or deriving from systematic allotment, or when their future useful life cannot be identified, they are recognised and charged directly in the Income statement.

## 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 2018

### Acquisition of control of Depuracque servizi srl

On 12 July 2018, the acquisition of 80% of the share capital of Depuracque servizi srl was completed, thus full control over the company was acquired. Since July 2013 Veritas already held 20% of the shares of Depuracque servizi srl, a company measured with the equity method and recognised at a value of EUR 3,354 thousand as at 31 December 2017.

The equity investment, previously classified as an associate, was consolidated line-by-line as of 1 July 2018. Indeed, this transaction become effective for statutory and accounting and tax purposes on 1 July 2018.

The total cost of the acquisition was EUR 15,661 thousand, an amount deriving from the discounting of the transaction cost of EUR 15,900 thousand as EUR 11,130 thousand was paid on the transaction date, while the remaining EUR 4,770 thousand will be paid in two equal instalments by 12 July 2019 and 12 July 2020, respectively.

The fair value of the assets and liabilities of Depuracque servizi srl at the acquisition date is shown below.

| (thousands of Euro) | carrying amount 30.06.2018 | IFRS adjustments for measurement at fair value | fair value recognised on acquisition |
|---|---|---|---|
| **assets** | **21,088** | **6,719** | **27,807** |
| **non-current assets** | **10,588** | **6,719** | **17,307** |
| tangible assets, intangible assets and concession services | 9,089 | 6,193 | 15,282 |
| shareholdings in associates and jointly controlled companies | 312 | 487 | 798 |
| financial assets available for sale | 158 | | 158 |
| receivables from entities group companies | 471 | | 471 |
| other financial assets | 328 | | 328 |
| prepaid tax assets | 230 | 39 | 269 |
| **current assets** | **10,500** | **–** | **10,500** |
| inventories and contract work in progress | 366 | | 366 |
| trade receivables | 5,766 | | 5,766 |
| receivables from entities group companies | 1,691 | | 1,691 |
| other receivables | 544 | | 544 |
| current tax credits | 23 | | 23 |
| cash and cash equivalents | 2,109 | | 2,109 |
| | | | |
| **liabilities** | **-6,446** | **-1,898** | **-8,345** |
| **non-current liabilities** | **-1,785** | **-1,898** | **-3,683** |
| provisions for risks and charges | -745 | | -745 |
| employee severance indemnity | -1,036 | 148 | -1,183 |
| deferred tax liabilities | -4 | -1,750 | -1,754 |
| **current liabilities** | **-4,662** | **–** | **-4,662** |
| current trade payables | -2,980 | | -2,980 |
| payables to group companies | -278 | | - 278 |
| payables to banks and current portion of m/l term loans | -5 | | -5 |
| other current liabilities | -793 | | -793 |
| current tax payables | -605 | | -605 |
| | | | |
| **total net assets acquired** | **-14,642** | **-4,821** | **-19,462** |
| **value of the equity investment (20%) in Depuracque as at 30.06.2018** | | | **3,590** |
| **consideration for the acquisition of 80%** | | | **15,661** |
| **difference (proceeds recognised in income statement)** | | | **-211** |

Since the acquisition date, Depuracque servizi srl contributed to the Group net profit in the amount of EUR 1,097 thousand.

| **income statement** (in thousands of Euro) | values at 30.06.2018 IFRS |
|---|---|
| **continuing operations** | |
| revenues from sales and services | 9,705 |
| other income | 208 |
| **total revenues** | **9,913** |
| costs for raw and ancillary materials and consumables | -1,585 |
| costs for services | -3,499 |
| costs for use of third-party assets | -370 |
| personnel costs | -1,871 |
| other operating costs | -534 |
| amortisation, depreciation and write-downs | -617 |
| **operating income** | **1,436** |
| portion pertaining to investments valued with the equity method | -38 |
| financial charges | -4 |
| financial income | 19 |
| **income before taxes** | **1,413** |
| income taxes for the year | -316 |
| **profit (loss) for the year** | **1,097** |

For this type of transaction, called a "step acquisition", IFRS 3 establishes that in a business combination performed in multiple steps, the purchaser must recalculate the equity investment it held previously in the acquired entity at its fair value at the date of acquisition of control and recognise any resulting gain or loss in profit/loss for the year or in other comprehensive income, as appropriate. The effect of the revaluation is EUR 589 thousand.

The measurement at fair value of the net assets acquired, performed through an appraisal estimate drafted by an independent expert, identified an increase in the value of tangible assets of EUR 6,207 thousand, gross of the tax effect.

The difference between the consideration paid and the fair value of the net assets acquired entailed the recognition in the income statement of proceeds of EUR 211 thousand.

### Acquisition of control of Lecher ricerche e analisi srl

Following the acquisition of control of Depuracque servizi srl, Lecher ricerche e servizi srl, of which Depuracque holds 50% of the shares, while the other 50% was already held by Veritas at a value of EUR 677 thousand, was also reclassified to subsidiaries.

### Acquisition of control of Rive srl

Following the acquisition of control of Depuracque servizi srl, the company Rive srl, of which Depuracque holds 70% of the shares, was also consolidated within the Veritas Group.

### Merger by incorporation of Alisea spa into Veritas spa

The merger by incorporation of Alisea into the parent company, stipulated by deed of notary Sandi index 108913 of 3 October 2018, had statutory effects as of 5 November 2018 and accounting and tax effects as of 1 January 2018.

The merger does not fall within the scope of application of IFRS 3 Business combinations as it is a "parent-subsidiary" transaction. Indeed, in 2011 Veritas obtained a 60% stake in Alisea, which increased over subsequent years through various step by step acquisition transactions, until reaching 100% of the share capital in 2017.

The transaction is described in point 3 – Corporate transactions occurred in 2018 – of the notes to the separate financial statements of the parent company, to which reference should be made.

### Acquisition of 4.29% of shares of Eco-ricicli Veritas srl

In January 2018, Veritas, by deed of notary Candiani index 139337 of 30 January 2018, acquired from Demont srl in liquidation the shareholding in Eco-ricicli Veritas srl, equal to 4.29% of the share capital; the difference between the purchase price and the carrying amount of the share of net assets acquired, equal to EUR 351 thousand, was recognised as an increase in shareholders' equity, pursuant to IFRS 3 and 10. Following this transaction, the company is a subsidiary 82.34% held by the Group.

### Sale of 17% of Consorzio per la Bonifica riconversione produttiva by Eco-ricicli Veritas srl to Veritas spa

In July 2018, Eco-ricicli Veritas srl sold by deed of notary Sandi index 108669 of 18 July 2018 the entire shareholding in Consorzio bonifica riconversione produttiva, equal to 17%, to the parent company for consideration of EUR 17 thousand (equal to the value of 17% of the share capital).

The purchase occurred at values substantially in line with the Shareholders' Equity, as recognised in the consolidated financial statements.

## Acquisitions/terminations after the reporting date

In May 2019, Ecoprogetto Venezia srl, following the Shareholders' Meeting of Steriladria srl called to approve the 2018 financial statements, cover the resulting loss and reconstitute the share capital, waived in full the option right on the approved share capital increase, thus exiting the shareholding structure, in which it still held a 30% stake.

## 4. Acquisition of investments in jointly controlled companies

No shareholdings were acquired in jointly controlled companies by the Group.

## 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:

- short-term receivables from – payables to subsidiaries held for sale;
- long-term receivables from - payables to subsidiaries held for sale;
- assets held for sale;
- liabilities held for sale.

In 2018, no company was consolidated on the basis of IFRS 5; the 2017 values in the table refer to Steriladria srl, whose transfer of 60% by Ecoprogetto Venezia srl was completed in the beginning of 2018.

The table below shows the figures for assets held for sale or discontinued for the years 2018 and 2017:

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| net profit/(loss) Steriladria srl | 0 | -508 |
| net profit from measurement at equity of companies held for sale | | |
| **total profit of discontinuing and discontinued operations** | **0** | **-508** |
| **of which pertaining to third parties** | **0** | **-303** |

## 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 2017 are also disclosed.

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **assets** | | |
| investment property | 3,839 | 3,839 |
| other assets available for sale | 60 | |
| valuation at equity of companies held for sale | | |
| **total assets held for sale** | **3,899** | **3,839** |
| | | |
| **liabilities** | 40 | |
| **total liabilities held for sale** | **40** | **0** |
| **total net assets held for sale** | **3,859** | **3,839** |

The item Investment property includes

- 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, a value that increased 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 2018 and 31 December 2017 are indicated below:

| (thousands of Euro) | start-up and expansion costs | develop-ment costs | patent rights | licences and software | public service conces-sions | other intangible assets | investments in progress | total |
|---|---|---|---|---|---|---|---|---|
| *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 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 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *net carrying amount* | | | | | | | | |
| **as at 31 December 2017** | **3** | **0** | **6** | **5,111** | **9,417** | **391** | **2,748** | **17,674** |
| *cost* | | | | | | | | |
| **as at 1 January 2018** | **21** | **32** | **202** | **36,119** | **27,871** | **412** | **3,306** | **67,962** |
| increases for business combinations and changes in scope | 6 | | 4 | 244 | | 6 | -199 | 62 |
| increases | | | | 3,516 | | 2 | 1,823 | 5,341 |
| disposals | | | | -38 | | -1 | -16 | -55 |
| reclassifications | | | | 141 | | 4,681 | -419 | 4,403 |
| impairment | | | | | | | | |
| other transactions | | | | | | -6 | | -6 |
| discontinuing operations | | | | | | | | |
| **as at 31 December 2018** | **27** | **32** | **206** | **39,982** | **27,871** | **5,094** | **4,495** | **77,707** |
| *amortisation and write-downs* | | | | | | | | |
| **as at 1 January 2018** | **-18** | **-32** | **-196** | **-31,008** | **-18,454** | **-21** | **-558** | **-50,288** |
| increases for business combinations and changes in scope | -2 | | -4 | -214 | | -6 | 376 | 150 |
| amortisation | -4 | | -2 | -3,247 | -2,011 | | | -5,264 |
| disposals | | | | 38 | | | | 38 |
| reclassifications | | | | 3 | | | | 3 |
| other transactions | | | | | | 6 | | 6 |
| **as at 31 December 2018** | **-24** | **-32** | **-202** | **-34,428** | **-20,466** | **-22** | **-182** | **-55,356** |
| residual value of contributions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *net carrying amount* | | | | | | | | |
| **as at 31 December 2018** | **3** | **0** | **4** | **5,554** | **7,405** | **5,072** | **4,313** | **22,352** |

For the year 2018, the increases reclassified as increases for business combinations relate to intangible assets deriving primarily from the aggregation of Alisea in Veritas.

The 'Licences and software' item mainly includes costs for the development and updating of SAP software modules used by the parent company.

The item Public service concessions, amounting to EUR 7,405 thousand as at 31 December 2018, refers primarily to the concession for the use of the Spinea cremation facility (duration until 2038, EUR 936 thousand) and the Jesolo landfill (EUR 5,826 thousand). Since 2011 the latter item was recognised as the current value attributed to the concession for the management of the landfill in the municipality of Jesolo, as part of the acquisition of control of Alisea spa; as of this year, it is recognised by the parent company, following the merger by incorporation.

The remaining amount of the 'Public service concessions' item, totalling EUR 643 thousand, relates to the residual value of concessions for the municipal waste management services for the territorial area of Mirese, Chioggia, Mogliano ambiente and Cavarzere ambiente, 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 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.

Within other fixed assets, Eco-ricicli Veritas srl recognised the value of the surface right on the 10 hectare area acquired from the parent company in the course of the year (EUR 4,681 thousand).

Increases for investments in progress refer, inter alia, to the outfitting of two production areas by Eco-ricicli Veritas srl, where the new bulky goods warehouse, the new VPL1 line loading segment and the inorganic waste line will be located.

## 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 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) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| 'water' concession services | 218,684 | 210,387 |
| **total concession services** | **218,684** | **210,387** |

The following table highlights changes in Concession services as at 31 December 2018 and 31 December 2017:

| (thousands of Euro) | concession services |
|---|---|
| *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** | **650,420** |
| *amortisation 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** |
| *cost* | |
| **as at 1 January 2018** | **650,420** |
| increases for business combinations | |
| increases | 19,625 |
| reclassifications | 7,771 |
| disposals | -20 |
| **as at 31 December 2018** | **677,796** |
| *amortisation and write-downs* | |
| **as at 1 January 2018** | **-290,571** |
| increases for business combinations | |
| amortisation | -17,026 |
| reclassifications | -6,308 |
| disposals | 7 |
| impairment | |
| other transactions | |
| **as at 31 December 2018** | **-313,898** |
| **residual value of 2018 contributions** | **-145,214** |
| *net carrying amount* | |
| **as at 31 December 2018** | **218,684** |

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 checks on the related impairment

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) | 31.12.2017 | increases | decrease | 31.12.2018 |
|---|---|---|---|---|
| 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** | | | **21,223** |

No changes were recorded with respect to 2017.

### 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 2019-2024 financial plan approved by the BoD, were used for the calculations.

The discounting rate applied to projected cash flows was 7.08% for the years 2019-2024, in consideration of the higher increases of expected flows in the new industrial plan. The terminal value was taken by assuming NOPAT for year 2019 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.

### Mogliano Veneto area integrated water service

The goodwill recognised in the financial statements of the parent company, arising following the acquisition of the assets of Spim spa in 2008, is tested for impairment at least every year.

To that end, goodwill was tested for impairment as part of the impairment test on assets connected to the integrated water service.

### Eco-ricicli Veritas unit

The recoverable value of this unit was determined based on the value in use. Projected cash flows, included in the 2019–2021 three-year financial plan approved by the BoD, were used for the calculations.

The discounting rate applied to projected cash flows is 7.08%, 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 srl.

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 2019–2021 three-year financial plan approved by the BoD, were used for the calculations.

The discounting rate applied to projected cash flows is 7.08%, and cash flows until 2021 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 strategic business development plan approved in 2017 and revised based on evolutions in the waste exploitation/disposal market and the long-term relationship with Enel Produzione spa is now causing the company's industrial development to focus on the waste-to-energy sector.

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

The management is now redefining the investment plan and expected margins. It decided to in-house the SSF management and placement service, which previously went abroad, and to reduce waste intermediation activities. The declining trend in Enel's SSF requirements for the Fusina thermoelectric plant is also confirmed in these initial months of 2019; the requirements will likely be at risk as of 2024, following the possible closure of the plant's coal-SSF co-combustion sections. It is therefore necessary to direct new investments towards revamping the heating plant and creating a furnace for SSF and sludges.

In 2019, Ecoprogetto's business prospects will be influenced by several variables linked to authorisations for the new plant area (a new EIA project was already submitted to the Region, the authorisation process for which is pending completion) and the resulting assessments as to the economic sustainability of flows of waste, processing and its intended destinations. The management believes that the situation may stabilise as of the subsequent period.

The assignment of waste treatment services over a four-year period agreed with the parent company expires in 2019, with the possibility of a four-year extension; the renewal should ensure a certain stability in the cash flows.

## Eco-ricicli unit

With regard to this unit, the actions implemented lead us to reasonably believe that the 2019–2021 industrial plan will be fulfilled.

During the year, the framework agreement for the glass chain signed with Ecopatè and Sgs Sibelco was fully executed, 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) and on industrial research and experimental development of processes regarding the disposal of separated waste. Within the recycling market, it launched new business partnerships to identify different output channels other than the Conai circuit. Further investments are also planned in the Marghera Ecodistrict area.

Furthermore, in early 2019, the entity submitted a project finance proposal to the Veritas Group concerning municipal waste treatment and selection services subsequent to separated waste collection in the Metropolitan City of Venice and the Municipality of Mogliano Veneto, for subsequent exploitation and/or disposal. The parent company's Board of Directors believes that project is of public utility.

The management is of the opinion that the new scenario emerging in the materials procurement market makes it necessary to accelerate plant transformation, to guarantee flexibility such so as to make possible light and heavy multi-material selection as well as mono-material flows, already present in the territories served.

The contraction in margins in the paper supply chain witnessed in 2018 was overcome by the realignment, as of 2019, between the value that can be obtained and the value recognised to the Municipalities at the origin.

Therefore, 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 2019–2021 industrial plan will be fulfilled.

The unit registered stable cash flows over time, relating to the integrated municipal waste management service in the territory of the partner municipalities, following in-house assignments. Since 2018, the company has also managed cemetery services for the Municipality of Portogruaro.

# 8. Tangible fixed assets

Changes in tangible fixed assets as at 31 December 2018 and 31 December 2017 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 2017** | **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** |
| *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 |
| depreciation | -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 | 0 | 0 | -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** |
| *cost* | | | | | | | | | |
| **as at 1 January 2018** | **188,519** | **149,830** | **56,016** | **102,703** | **18,383** | **11** | **29,469** | **11,548** | **556,479** |
| increases for business combinations and changes in scope | 2,652 | 16,239 | -392 | 4,721 | 1,554 | | -2,043 | 573 | 23,304 |
| increases | 10,545 | 12,114 | 4,664 | 11,067 | 1,865 | | 149 | 7,968 | 48,372 |
| disposals | -116 | -222 | -1,022 | -3,251 | -136 | | | -21 | -4,768 |
| Reclassifications | -15,418 | 20,115 | -649 | 3,052 | 105 | | -21,861 | -3,072 | -17,728 |
| impairment | | 21 | | | | | | -53 | -32 |
| other transactions | | -21 | | | | | 1 | -16 | -36 |
| **as at 31 December 2018** | **186,182** | **198,076** | **58,617** | **118,291** | **21,771** | **11** | **5,715** | **16,927** | **605,590** |
| *depreciation and write-downs* | | | | | | | | | |
| **as at 1 January 2018** | **-46,958** | **-93,833** | **-37,151** | **-70,655** | **-13,087** | **-11** | **-17,162** | **-1,039** | **-279,896** |
| increases for business combinations and changes in scope | -42 | -10,977 | -4 | -2,150 | -920 | | 631 | | -13,464 |
| depreciation | -3,441 | -7,590 | -3,302 | -5,696 | -1,230 | | -291 | | -21,550 |
| disposals | 17 | 105 | 928 | 2,770 | 52 | | | | 3,872 |
| reclassifications | 5,757 | -12,683 | 103 | -1,056 | 8 | | 14,703 | | 6,832 |
| impairment | | | | | | | | -160 | -160 |
| other transactions | | | | | | | | | |
| **as at 31 December 2018** | **-44,665** | **-124,979** | **-39,426** | **-76,790** | **-15,176** | **-11** | **-2,118** | **-1,200** | **-304,365** |
| residual value of contributions as at 31.12.2018 | -1,669 | -1,101 | -48 | -22 | -273 | 0 | 0 | -2,076 | -5,189 |
| *net carrying amount* | | | | | | | | | |
| **as at 31 December 2018** | **139,848** | **71,996** | **19,143** | **41,479** | **6,322** | **0** | **3,597** | **13,651** | **296,038** |

There was a net increase of EUR 23,746 thousand in tangible fixed assets, from EUR 272,292 thousand to EUR 296,038 thousand.

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 (in particular, intra-group movements following sales/disposals of assets), are also used to reallocate redeemed leased assets to the corresponding classes of fixed assets.

Following the parent company's share capital increase, subscribed in June 2017, the Municipality of Venice conferred the remainder of assets, consisting of land, in April 2018 for EUR 5,517 thousand.

Eco-ricicli srl continued to invest in glass-plastic-cans (VPL) treatment plants and relative machinery (roughly EUR 1,892 thousand) and in the Marghera 'Ecodistrict' area. It installed a new fire prevention system (EUR 1,416 thousand). Decreases on the other hand include the disposal to the parent company of two pieces of land for a total of EUR 5,022 thousand.

For Ecoprogetto srl, note that the "new biomass plant" investment project increased by EUR 977 thousand. The overall project is EUR 1,165 thousand; currently the work is operating on a provisional basis to check for the consistency of the project and compliance with authorisation requirements. Plant and equipment also increased for leased assets redeemed in 2018, and the reclassification of associated items, previously recognised under intangible assets.

The investments of Alisea spa were transferred to Veritas spa after the merger. In the period prior to the merger, the company also redeemed early all assets linked to lease agreements still active in 2018.

As regards Asvo, investments totalled EUR 2,334 thousand, of which EUR 314 thousand for the acquisition of land to be used for the new eco-centre in Portogruaro, EUR 1,940 thousand for motor vehicles and IU equipment.

Depuracque servizi srl has investments in tangible assets totalling EUR 3,751 thousand, including the acquisition at year end of two industrial depots adjacent to the Salzano site (EUR 1,830 thousand) for which redevelopment works are planned for 2019 so they can be used by the company. Investments of EUR 1,418 thousand were also made in plant and equipment.

Depreciation for the period, amounting to EUR 21,550 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 2018 and 31 December 2017, entirely composed of land and buildings:

| (thousands of Euro) | total |
|---|---|
| cost | |
| **as at 1 January 2017** | **12,716** |
| increases | |
| reclassifications | |
| **as at 31 December 2017** | **12,716** |
| | |
| *depreciation and write-downs* | |
| **as at 1 January 2017** | **-54** |
| depreciation | -2 |
| **as at 31 December 2017** | **-56** |
| | |
| *net carrying amount* | |
| **as at 31 December 2017** | **12,660** |
| | |
| cost | 12,716 |
| **as at 1 January 2018** | |
| increases | |
| reclassifications | 5,023 |
| **as at 31 December 2018** | **17,740** |
| | |
| *depreciation and write-downs* | |
| **as at 1 January 2018** | **-56** |
| depreciation | -3 |
| other transactions | **-185** |
| **as at 31 December 2018** | **-245** |
| | |
| *net carrying amount* | |
| **as at 31 December 2018** | **17,495** |

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. The increase for 2018 relates to the repurchase by the parent company of land sold to Eco-ricicli Veritas srl in 2015.

# 10. Shareholdings in associates and jointly controlled companies

As at 31 December 2018, the Group holds shareholdings in the following associates:

| (thousands of Euro) | book value 31.12.2018 | book value 31.12.2017 | Group's % shareholding 31.12.2018 | Group's % shareholding 31.12.2017 |
|---|---|---|---|---|
| Sifa scpa | 8,162 | 7,884 | 33.17 | 32.14 |
| Insula spa | 496 | 496 | 24.73 | 24.73 |
| Depuracque servizi srl | | 3,354 | | 20.00 |
| Lecher ricerche e analisi srl | | 677 | | 60.00 |
| Ecoplastiche Venezia srl | 39 | 39 | 32.94 | 31.22 |
| Veritas Conegliano srl | 349 | 49 | 48.80 | 48.80 |
| Rpm – Riconversione Porto Marghera scarl | 5 | | 40.00 | |
| **total shareholdings in associate companies** | **9,051** | **12,499** | | |
| **total shareholdings in jointly controlled companies** | | | | |
| **total shareholdings in associates and jointly controlled companies** | **9,051** | **12,499** | | |

The item 'Shareholdings in associates and jointly controlled companies' decreased from EUR 12,499 thousand to EUR 9,051 thousand. It no longer includes Depuracque servizi srl and Lecher ricerche e analisi srl, which became subsidiaries in July 2018, while Rpm scarl, a 40% investee of Depuracque servizi srl, is now included in this item.

Associated 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) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| *balance sheet of the associate* | | |
| current assets | 31,852 | 26,020 |
| non-current assets | 180,006 | 184,955 |
| current liabilities | -29,692 | -112,486 |
| non-current liabilities | -147,653 | -67,746 |
| **total net assets** | **34,512** | **30,743** |
| *revenues and profit/loss of the associate* | | |
| Revenues | 25,486 | 18,490 |
| profit (loss) | 3,769 | 81 |
| **carrying value of the shareholding** | **8,162** | **7,884** |

This project involves the construction of plants for the treatment of waste from the industrial hub of Marghera and the Mirese area and water for civil use (the manager of industrial plants currently in operation is Veritas spa, which took over for Sifagest scarl in August 2018). It is 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 with the 1st supplementary deed (2008) and the 2nd supplementary deed (2010).

The deterioration of the reference economic context caused the directors of Sifa scpa to sign a new supplementary deed in December 2016 amending the concession with the Veneto Region, which calls for once again achieving long-term economic/financial balance, also thanks to a plant grant of EUR 56 million disbursed by the same Region.

Operating performance in 2018 brought results significantly better than those forecast in the business plan, updated in March of the same year.

The subsidiary Depuracque servizi srl in turn has an equity investment of 1% in Sifa.

As at 31 December 2018, the Group recognised:

- EUR 8.2 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;
- EUR 15.6 million in financial and trade receivables relating to the parent company and Sifagest scarl.

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

## Insula spa

The company operates in the context of works financed by the special law regarding Venice for the consolidation, conservative restoration and restructuring of the city's primary and secondary urbanisation works (the Municipality of Venice is the majority shareholder) and 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) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| *balance sheet of the associate* | | |
| current assets | 41,498 | 50,057 |
| non-current assets | 29,372 | 30,538 |
| current liabilities | -34,147 | -42,415 |
| non-current liabilities | -32,337 | -33,929 |
| **total net assets** | **4,386** | **4,250** |
| *revenues and profit/loss of the associate* | | |
| revenues | 17,856 | 16,167 |
| profit (loss) | 136 | 28 |
| **carrying value of the shareholding** | **496** | **496** |

After a period of uncertainty due to the lack of planning and financing of projects, the company posted its second consecutive net profit. The reorganisation and relaunch process of recent years resulted in significant business growth in 2018, accompanied by a reduction in operating costs.

The company has good outlooks for 2019, with the continuation of assignments under way and new public works guaranteed by the Municipality.

## 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 was established to 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 2018, it was not yet operational.

A summary of the financial disclosures on the shareholding in Ecoplastiche Venezia srl resulting from the most recently approved financial statements, those of 2017, is shown in the following table:

| (thousands of Euro) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| *balance sheet of the associate* | | |
| current assets | 94 | 95 |
| non-current assets | 2 | 2 |
| current liabilities | -1 | -1 |
| non-current liabilities | 0 | 0 |
| **total net assets** | **96** | **97** |
| *revenues and profit/loss of the associate* | | |
| revenues | 0 | 0 |
| profit (loss) | -1 | -1 |
| **carrying value of the shareholding** | **39** | **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 was constructed with project financing, and the proposers are shareholders of Veritas Conegliano srl.

The company became operational from 2017, following the signing of the thirty-year concession for the management of cemetery services and the crematorium, effective from 1 January 2017. The regional authorisation process suffered from some delays and the work to construct the new plant began in the final months of 2018. The company also managed cemetery services for the Municipality of Conegliano, involving both ongoing and extraordinary maintenance. In 2018, the shareholders took out a loan for a future share capital increase.

The project company closed the second company year with a profit.

The share capital amounts to EUR 100 thousand; the value of the Group's shareholding amounts to EUR 349 thousand. The increase in the value of the equity investment refers to the conversion of a previous financial receivable of EUR 300 thousand into a payment for a future share capital increase.

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| *balance sheet of the associate* | | |
| current assets | 4,255 | 271 |
| non-current assets | 1,102 | 682 |
| current liabilities | -827 | -846 |
| non-current liabilities | -3,006 | -5 |
| **total net assets** | **1,524** | **102** |
| *revenues and profit/loss of the associate* | | |
| revenues | 1,042 | 213 |
| profit (loss) | 22 | 2 |
| **carrying value of the shareholding** | **349** | **49** |

## Rpm – Riconversione Porto Marghera scarl

Rpm is an associate of Depuracque servizi srl, which holds 40% of its share capital.

This is a special purpose operating company established by the consortium members for the chargeback of costs of an environmental reclamation project.
The Director reported that the production value is roughly EUR 803 thousand with corresponding costs of production and a break-even result.
The Director indicated that the reclamation was not extended further by the contracting entity and, therefore, the corporate purpose has been achieved, so the Shareholders will be called to take decisions concerning the dissolution and placement in liquidation of the company.

The share capital amounts to EUR 10 thousand; the value of the Group's shareholding amounts to EUR 5 thousand.

| (thousands of Euro) | 31.12.2018 |
|---|---|
| *balance sheet of the associate* | |
| current assets | 388 |
| non-current assets | 0 |
| current liabilities | -309 |
| non-current liabilities | -60 |
| **total net assets** | **19** |
| *revenues and profit/loss of the associate* | |
| revenues | 803 |
| profit (loss) | 0 |
| **carrying value of the shareholding** | **5** |

## 11. Financial assets available for sale

Available-for-sale financial assets, equal to EUR 1,550 thousand, relate to minority interests held by the parent company (EUR 243 thousand), by Ecoprogetto srl (EUR 1,004 thousand) and by Asvo spa (EUR 101 thousand). Ecoprogetto srl maintains a 2% stake in Bioman spa, with a book value of EUR 1,000 thousand.

By contrast, Eco-ricicli srl reclassified its shareholding in Ecopatè srl after the sale of 30% in 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 4 thousand.

## 12. Other financial assets

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| guarantee deposits | 568 | 713 |
| financial receivables due from other entities | 6,087 | 6,088 |
| other non-current receivables | 3,980 | 3,397 |
| **total other financial assets** | **10,635** | **10,198** |

The total for other financial assets recorded an increase of EUR 437 thousand.

Financial receivables due from other entities refer almost entirely to

- the share of the irregular pledge of EUR 2,400 thousand, equal to 16% of the bond issued by the former Asi spa for a total of EUR 15,000 thousand, in July 2014, paid to an interest-bearing term account. It may be converted to cash in favour of the parent company from the date on which the amount of capital still due is equal to 50% of the initial capital.
- the receivable of Alisea (now merged into Veritas) due from the Metropolitan city of Venice relating to the opening of a term account to guarantee the management of the Jesolo landfill site after it closes, of EUR 3,566 thousand.

Other non-current receivables consist primarily 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 (EUR 2,850 thousand).

## 13. Inventories

The following table highlights disclosures on inventories as at 31 December 2018 and 31 December 2017:

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| spare parts and consumables | 5,685 | 4,506 |
| Cdr | 3 | |
| fuels | 138 | 143 |
| inventories of work in progress and semi-finished products | 6 | 63 |
| inventories of goods for sale | 1,300 | 3,506 |
| provision for inventory depreciation | -347 | -347 |
| **total inventories** | **6,785** | **7,871** |

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 by the parent company to take account of the obsolescence of some spare parts, which were no longer usable.

Ecoprogetto srl acquired additional industrial spare parts for EUR 689 thousand based on the agreement entered into in 2018 with the former shareholder Ladurner, to settle an out-of-court dispute.

Inventories of merchandise intended for sale were subject to movements by Ecoprogetto srl in 2017 and in the current year; please note that:

- the assets recognised in 2017 for EUR 2,642 thousand (plant components and machinery for the SSF1 plant) were transferred by a sale deed formalised in January 2018;
- in 2018, the subsidiary reclassified to this item the Hypsas tug boat with the relative equipment and accessories, following a procedure for the expression of interest in purchasing it launched in December. Taking into account the purchase offer filed with the company records, for the amount of EUR 250 thousand, the net carrying amount as at 31 December 2018, of EUR 396 thousand, was written down by EUR 146 thousand.

## 14. Contract work in progress

The following table highlights disclosures on contract work in progress as at 31 December 2018 and 31 December 2017:

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| revenues from contract work recognised as revenue for the period | 1,202 | 1,351 |
| costs for contract work incurred at the reporting date | 1,202 | 1,351 |
| **profit recognised at the reporting date** | **0** | **0** |
| advances received from the Municipality of Venice | 453 | 565 |
| **gross amount due by the principal for contract works** | **2,602** | **1,676** |

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, regarding especially the integrated water and cemetery services.

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 2018 and 31 December 2017:

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| trade receivables | 28,504 | 20,735 |
| receivables due from SII and SIA users | 88,114 | 95,850 |
| receivables due from related parties | 1,610 | 1,915 |
| receivables due from entities controlled by the Municipality of Venice | 662 | 602 |
| **total nominal trade receivables** | **118,890** | **119,102** |
| provision for doubtful trade debts | -2,954 | -2,842 |
| bad debt provision related to utilities | -32,494 | -27,597 |
| **total provision for doubtful debts** | **-35,448** | **-30,439** |
| **total trade receivables** | **83,442** | **88,663** |

Trade receivables as at 31 December 2018 amounted to EUR 83,442 thousand (EUR 88,663 thousand as at 31 December 2017) and comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 31 December 2018. The values are recorded net of the provision for bad debt provision to EUR 35,448 thousand (EUR 30,439 thousand at 31 December 2017), which is deemed appropriate and prudential in relation to the presumed realisable value of such receivables.

The total decrease compared to 31 December 2017 was EUR 5,221 thousand.

For the parent company, the main changes regard the recovery, which took place with the billing of the water tariff in 2018, of previous receivables for tariff equalisations (EUR -2,520 thousand), accounting for new receivables in 2018 again for water tariff equalisations (EUR +3,414 thousand), the reduction in the receivable for bills to be issued (EUR 6,626 thousand), the contribution of receivables as at 1 January 2018 resulting from the Alisea merger, net of bad debt provision, equal to EUR 5,761 thousand (the majority from users for the Tia1), as well as the increase in the provision for doubtful debts due to the provision made for the year (EUR -3,333 thousand) as well as the adjustment of that provision to IFRS 9 (EUR -2,055 thousand).

Receivables due from SII and SIA users of the Group (regarding Veritas, former Alisea, Asvo) are broken down as follows:

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| receivables due from SII and SIA users billed | 54,420 | 55,012 |
| receivables due from users for Tia1 | 20,417 | 21,160 |
| receivables due from SII and SIA users to be billed | 10,832 | 17,509 |
| receivables due from users for water tariff equalisations | 2,445 | 2,169 |
| **total receivables due from SII and SIA users** | **88,114** | **95,850** |

Please recall that ruling no. 5078/2016 of the Supreme Court of Cassation, in a joint sitting of all divisions, definitively confirmed the fiscal nature of the environmental hygiene tariff (Tia1).

Although the ruling did not produce any effects regarding the ownership of the Tia1 credit, which therefore remained with the Group companies, the latter cannot, however, continue to bear the risk of insolvency, owing precisely 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 2018 amounted to EUR 20,417 thousand; the residual portions of allocations for losses already inserted in the old financial plans based on the Tia1 system as at 31 December 2018 came to EUR 8,283 thousand.

As at 31 December 2018, the parent company recorded receivables due from users for water tariff equalisations amounting to EUR 2,445 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 | 2014-2016 | 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 Council assembly Eastern Veneto basin 4/2012 of 24.02.2012 |
| equalisation for adjustment to VRG applied for 2014 (VRG interim tariff method - water 2 tariff method equalisation) | 4,323 | 2018 | 2014 | 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 2 tariff method equalisation) | 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 2017 (Vrg and water 2 tariff method equalisation) | -1,848 | 2019-2020 | 2017 | 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 2018 (Vrg and water 2 tariff method equalisation) | 918 | 2020 | 2018 | Basin Council resolution no. 9/2018 of 26.06.2018 Arera resolution no. 10/2019/R/IDR |
| **total receivables for water tariff equalisations** | **2,445** | | | |

The Depuracque Group contributed net trade receivables of EUR 7,039 thousand.

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 other related parties comprise receivables due from subsidiaries of partner entities.

The table below shows the changes in the provision for doubtful debts for each year under evaluation:

| (thousands of Euro) | written down individually | written down collectively | total |
|---|---|---|---|
| **as at 1 January 2017** | **2,126** | **28,818** | **30,944** |
| increases for business combinations and changes in scope | | 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** |
| increases for business combinations and changes in scope | 130 | 210 | 340 |
| accruals | 310 | 3,097 | 3,407 |
| IFRS 9 adjustment | | 2,055 | 2,055 |
| uses | -229 | -553 | -782 |
| increases, decreases and reversals | 54 | -66 | -12 |
| **as at 31 December 2018** | **2,548** | **32,900** | **35,448** |

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

| (thousands of Euro) | total | not overdue - performing | overdue but not written down <30 days | 30–60 days | 60–90 days | 90–120 days | >120 days |
|---|---|---|---|---|---|---|---|
| **2018** | **83,442** | 47,846 | 5,870 | 3,932 | 2,349 | 1,632 | 21,813 |
| **2017** | **88,663** | 45,951 | 6,140 | 4,543 | 2,540 | 1,728 | 27,760 |

The column overdue over 120 days is primarily attributable to amounts due from invoicing (Tia-Tarip-water).

## 16. Receivables due from partner entities

The following table highlights disclosures on receivables due from partner entities as at 31 December 2018 and 31 December 2017:

| (thousands of Euro) | 31.12.2018 within 12 months | 31.12.2018 beyond 12 months | 31.12.2017 within 12 months | 31.12.2017 beyond 12 months |
|---|---|---|---|---|
| receivables due from the Municipality of Venice | 8,381 | 3,996 | 9,552 | 5,186 |
| receivables due from municipalities with a shareholding of more than 10% | | | | |
| receivables due from municipalities with a shareholding of less than 10% | 16,359 | 0 | 18,083 | 0 |
| **total due from partner entities** | **24,740** | **3,996** | **27,635** | **5,186** |

Receivables due from the Municipality of Venice are shown below:

| (thousands of Euro) | 31.12.2018 within 12 months | 31.12.2018 beyond 12 months | 31.12.2017 within 12 months | 31.12.2017 beyond 12 months |
|---|---|---|---|---|
| receivables due from service contract, engineering works and other current receivables | 3,962 | | 5,975 | |
| instalment-based receivables | 1,518 | 3,996 | 1,994 | 5,186 |
| receivables due for invoices to be issued | 2,556 | | 893 | |
| receivables due from SII and SIA | 345 | | 690 | |
| receivables for plant grants due | 0 | | 0 | |
| **total receivables due from the Municipality of Venice** | **8,381** | **3,996** | **9,552** | **5,186** |

Receivables from partner municipalities decreased by a total of EUR 4,085 thousand.

Following the 2017 share capital increase, all partner Municipalities, except for Venice, have shareholdings of less than 10% in the parent company.

Receivables from the Municipality of Venice regard the parent company only. In particular, receivables due beyond the year refer to instalments expiring after 2019 for the recognition in favour of Veritas by that Municipality of accrued revenues for cemetery services and for the instalment collection activity set forth in Law 206/95, which took place following the agreement signed by the parties in December 2015, which calls for reimbursement in 10 years.

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 receivables for EUR 21,675 thousand.

## 17. Receivables due from associates and jointly controlled companies

The following table highlights disclosures on amounts due from associates as at 31 December 2018 and 31 December 2017:

| (thousands of Euro) | 31.12.2018 within 12 months | 31.12.2018 beyond 12 months | 31.12.2017 within 12 months | 31.12.2017 beyond 12 months |
|---|---|---|---|---|
| Insula spa | 571 | | 515 | |
| Sifa scpa | 5,186 | 10,426 | 4,786 | 16,452 |
| Depuracque servizi srl | | | 107 | |
| Veritas Conegliano srl | 61 | | 26 | 300 |
| Rpm Riconversione Porto Marghera scarl | 118 | | | |
| **total amounts due from associates and jointly controlled companies** | **5,936** | **10,426** | **5,434** | **16,752** |

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 shareholders' agreements in December 2016 between the shareholders of Sifa, including Sifagest and Veritas, and which make provision, among the various clauses, for the deferred payment of these receivables over a period of around 10 years. In 2018, Sifa scpa was able to maintain the commitment and to repay shareholders on the basis of the established repayment plan.

As of 1 August 2018, the management of industrial purification plants on behalf of Sifa scpa is handled directly by the parent company.

## 18. Other receivables

The following table highlights disclosures on other receivables as at 31 December 2018 and 31 December 2017:

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| receivables due from public authorities for grants related to plants | 2,759 | 1,291 |
| receivable due from tax authorities for VAT | 1,277 | 1,730 |
| receivables due from tax authorities for excise duties, additional taxes, other | 67 | 144 |
| advances to suppliers and employees | 1,742 | 5,993 |
| receivables due from social security institutes | 291 | 374 |
| receivables due from other companies | 1,573 | 816 |
| accrued income and prepaid expenses | 9,061 | 10,182 |
| receivables for disposal of investment property | 1,700 | 1,350 |
| other receivables | 3,803 | 5,495 |
| **total other receivables** | **22,274** | **27,374** |

Receivables due from the public authorities, especially the Region, refer to grants on investments resolved but not yet paid to the parent company.

The amount due for the insurance reimbursement recognised to Eco-ricicli Veritas srl for the fire at the bulky goods warehouse in June 2017, recognised in advances last year, was collected by the subsidiary (EUR 2,570 thousand).

The receivable for the sale of investment property regards a property sold in the Sant'Andrea/Venice area by the parent company. The portions of said receivable expiring after 2019, amounting to EUR 2,850 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 2018 the deferral amounted to EUR 4,398 thousand.

Receivables from other companies include the high-energy use contribution of the subsidiary Ecoprogetto srl of EUR 930 thousand pursuant to Ministry of Economic Development ministerial decree of 21 December 2017, recognised on the cost of electricity and power for the year 2018.

## 19. Receivables due from income taxes

The following table highlights disclosures on amounts due from income taxes as at 31 December 2018 and 31 December 2017:

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| IRES tax receivables within the year | 1,551 | 342 |
| IRES tax receivables beyond the year | 5,740 | 5,779 |
| IRAP tax receivables | 472 | 249 |
| other tax receivables | 38 | 7 |
| **total receivables due from income taxes** | **7,801** | **6,378** |

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 many Group 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 5,740 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 415 thousand).

## 20. Cash and cash equivalents

The following table highlights disclosures on cash and cash equivalents as at 31 December 2018 and 31 December 2017:

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| cash on hand and cheques | 37 | 39 |
| bank deposits | 98,671 | 103,848 |
| **total cash and cash equivalents** | **98,708** | **103,887** |

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 98,708 thousand (EUR 103,887 thousand as at 31 December 2017). The Depuracque Group contributed a total of EUR 3,870 thousand.

As at 31 December 2018, the Group reported unused credit facilities amounting to around EUR 111.2 million, compared to EUR 112 million as at 31 December 2017.

## 21. Share capital and reserves

The following table highlights disclosures on share capital and reserves as at 31 December 2018 and 31 December 2017:

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| share capital | 145,397 | 142,235 |
| legal reserve | 2,988 | 2,583 |
| own shares | -1 | -1 |
| other reserves | 106,650 | 85,161 |
| **total Group shareholders' equity** | **255,034** | **229,978** |
| share capital and reserves pertaining to minority interests | 33,531 | 34,408 |
| **total shareholders' equity of minority interests** | **33,531** | **34,408** |
| **total shareholders' equity** | **288,565** | **264,386** |

The share capital of the parent company as at 31 December 2018 amounted to EUR 145,397 thousand and is composed of 2,907,943 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.

The share capital rose this year by EUR 3,162 thousand following the completion of the share capital increase reserved to the Municipality of Venice, with a share premium of EUR 2,213 thousand and other reserves of EUR 141 thousand, for a total of EUR 5,516 thousand, approved by the extraordinary Shareholders' Meeting on 1 June 2017 and subscribed in April 2018 through the conferral of the second lot of the second piece of land already transferred in 1 June 2017; with this transaction, the equity investment in Veritas of the Municipality of Venice rose to 50.94%.

The Legal reserve increased by EUR 405 thousand, compared with the previous year, as a result of the allocation of 5% profit for 2017. The reserve is not distributable as has not reached the threshold set out by Art. 2430 of the Italian Civil Code.

Within other reserves, the parent company has a non-distributable reserve due to a FONI restriction in the amount of EUR 13,603 thousand. For further details, please refer to note 21 in the separate financial statements of the parent company.

The other reserves rose by a total of EUR 21,489 thousand, mainly due to the recognition of the Group profit equal to EUR 20,579 thousand.

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

Shareholders' Equity pertaining to minority interests represents the portion of the share capital, reserves and profit (loss) for the year pertaining to minority interests in subsidiaries Ecoprogetto srl, Eco-ricicli Veritas srl, Sifagest scarl, Asvo spa, Consorzio bonifica e riconversione produttiva Fusina, Metalrecycling srl and Rive srl. As at 31 December 2018 it amounts to EUR 33,531 thousand. The portion of the loss pertaining to minority interests amounts to EUR 125 thousand and is linked in particular to the loss for the year recognised by Ecoprogetto srl.

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

Payables due to banks and medium-long-term loans amounted to EUR 151,724 thousand (of which EUR 127,212 thousand expiring beyond the subsequent year and EUR 24,512 thousand within the year) and decreased compared to the previous year by EUR 6,379 thousand.

The part relating only to loans is equal to EUR 149,491 thousand and the following table highlights disclosures as at 31 December 2018:

| (thousands of Euro) | disbursement date | original amount | interest rate | expiry date | residual 31.12.2018 | of which short-term | of which medium/long-term |
|---|---|---|---|---|---|---|---|
| | 29/12/2009 | 25,000 | 6m Euribor + 1.3% | 31/12/2025 | 12,707 | 1,693 | 11,014 |
| * | 24/07/2009 | 20,000 | 6m Euribor + 1.75% | 30/06/2024 | 9,824 | 1,556 | 8,268 |
| * | 03/08/2011 | 7,000 | 3m Euribor + 2.10% | 01/07/2022 | 3,097 | 732 | 2,365 |
| * | 28/12/2011 | 1,200 | 4.40% | 30/06/2026 | 596 | 69 | 527 |
| * | 20/03/2014 | 800 | 3m Euribor + 4.00% | 20/03/2024 | 456 | 75 | 381 |
| ** | 06/05/2015 | 30,000 | 0.677% | 06/05/2030 | 30,117 | 2,634 | 27,483 |
| ** | 19/09/2016 | 20,000 | 0.612% | 19/09/2031 | 20,114 | 3 | 20,111 |
| ** | 13/01/2017 | 10,000 | 3m Euribor + 2.25% | 31/03/2024 | 7,609 | 1,369 | 6,240 |
| | 30/11/2007 | 2,280 | 6m Euribor + 0.95% | 30/11/2022 | 772 | 180 | 592 |
| | 30/06/2008 | 1,450 | 6m Euribor + 0.90% | 30/06/2023 | 566 | 114 | 452 |
| ** | 30/06/2010 | 3,000 | 6m Euribor + 1.49% | 31/12/2025 | 1,400 | 200 | 1,200 |
| | 22/11/2010 | 587 | 6m Euribor + 1.307% | 31/12/2025 | 299 | 39 | 260 |
| ** | 31/12/2012 | 4,000 | 6m Euribor + 4.35% | 30/06/2022 | 1,711 | 457 | 1,254 |
| | 13/01/2017 | 5,000 | 6m Euribor + 0.95% | 31/12/2024 | 4,303 | 695 | 3,608 |
| | 30/05/2017 | 10,000 | 3m Euribor + 2.50% | 30/06/2023 | 9,001 | 1,899 | 7,102 |
| ** | 01/06/2017 | 15,000 | 3m Euribor + 2.90% | 30/06/2024 | 12,813 | 2,168 | 10,645 |
| ** (a) | 29/01/2018 | 8,000 | 2.53% | 30/06/2025 | 7,378 | 1,129 | 6,249 |
| (c) | 03/05/2018 | 3,000 | 3m Euribor + 2.15% | 30/06/2023 | 2,703 | 576 | 2,127 |
| | 07/10/2008 | 10,000 | 6m Euribor + 0.79% | 30/06/2021 | 2,500 | 1,000 | 1,500 |
| ** | settl. | 21,333 | 6m Euribor + 4.375% | 28/01/2024 | 13,124 | 25,398 | 10,726 |
| ** | 18/07/2014 | 5,000 | 6m Euribor + 4.45% | 31/07/2024 | 3,334 | 556 | 2,778 |
| | 21/03/2014 | 1,000 | 3m Euribor + 5.00% | 31/03/2019 | 57 | 57 | 0 |
| | 07/03/2014 | 500 | 6m Euribor + 4.5% | 07/03/2019 | 28 | 28 | 0 |
| | 27/01/2014 | 1,000 | 3m Euribor + 5.5% | 23/01/2019 | 18 | 18 | 0 |
| | 24/10/2014 | 500 | 3m Euribor + 4.00% | 23/10/2019 | 90 | 90 | 0 |
| | 14/04/2014 | 1,000 | 3m Euribor + 4.25% | 15/04/2019 | 74 | 74 | 0 |
| ** (d) | 29/01/2018 | 2,000 | 2.62% | 30/06/2023 | 1,785 | 1,785 | 0 |
| (e) | 20/12/2018 | 1,000 | 3m Euribor + 3.00% | 19/12/2023 | 990 | 185 | 805 |
| (f) | 06/03/2018 | 200 | 3m Euribor + 0.90% | 06/03/2020 | 125 | 100 | 25 |
| (g) | 28/11/2018 | 2,000 | 3m Euribor + 1.20% | 29/09/2023 | 1,900 | 400 | 1,500 |
| **total medium/long-term loans** | | | | | **149,491** | **22,279** | **127,212** |
| less current portion | | | | | -22,279 | | |
| **medium/long-term loans – non-current portion** | | | | | **127,212** | | |

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 9,824 thousand as at 31 December 2018, 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 3,097 thousand as at 31 December 2018, covered by a mortgage on the property of the Centro Direzionale 2 in Mestre, via Orlanda 39;
- loan stipulated in December 2011 by Veritas spa with Banca Intesa Infrastrutture e Sviluppo, in the amount of EUR 1,200 thousand, with a residual debt of EUR 596 thousand as at 31 December 2018, 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 456 thousand as at 31 December 2018, covered by a mortgage on the areas pertaining to the Ca' Perale landfill site in Mirano.

The following unsecured loans were stipulated in 2018:

a) loan stipulated on 29 January 2018 by Veritas spa with Banca Monte dei Paschi di Siena spa, in the total amount of EUR 8,000 thousand with the aim of making structural investments and purchasing machinery; the loan, with maturity term on 30 June 2025, envisages six-monthly repayments at a fixed rate of 2.53%; the repayment started on 31 December 2018;

b) loan stipulated on 12 March 2018 by the aggregated Alisea spa with Banca della Marca Credito Cooperativo, in the total amount of EUR 2,000 thousand with the aim of lightening the impact on working capital on a temporary basis for investments during the year; the loan, with maturity term on 31 December 2018, envisages two-monthly repayments at a fixed rate of 1.90% starting from 31 October 2018;

c) loan stipulated on 3 May 2018 by Veritas spa with Banca Carige spa, in the total amount of EUR 3,000 thousand with the aim of making structural investments and purchasing machinery; the loan, with maturity term on 30 June 2023, envisages six-monthly repayments at a floating rate of the 3-month Euribor + a spread of 2.15; the repayment started on 31 December 2018;

d) loan stipulated on 29 January 2018 by Eco-ricicli Veritas srl with Banca Monte dei Paschi di Siena, in the amount of EUR 2,000 thousand with the aim of making new investments; the loan, with maturity term on 30 June 2023, envisages six-monthly repayments at the IRS rate of 2.62%; the repayment started on 31 December 2018;

e) loan stipulated on 20 December 2018 by Eco-ricicli Veritas srl with Banco delle Tre Venezie, in the amount of EUR 1,000 thousand with the aim of making new investments; the loan, with maturity term on 19 December 2023, envisages six-monthly repayments at the floating rate of the 3-month Euribor +3.0% spread; the repayment started on 20 January 2019;

f) loan stipulated on 6 March 2018 by Lecher ricerche e analisi srl with Intesa San Paolo, in the amount of EUR 200 thousand with the aim of purchasing new laboratory instruments; the loan, with maturity term on 6 March 2020, envisages quarterly repayments at the floating rate of the 3-month Euribor +0.9% spread; the repayment started on 6 June 2018;

g) loan stipulated on 28 November 2018 by Depuracque servizi srl with Mediocredito Italiano, in the amount of EUR 2,000 thousand with the aim of purchasing an industrial building; the loan, with maturity term on 29 September 2023, envisages quarterly repayments at the floating rate of the 3-month Euribor +1.2% spread; the repayment started on 31 December 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 2018, the parent company and the other companies of the Group have complied with the financial parameters underlying these medium/long-term loans, with the exception of Eco-ricicli srl for the 2018 loan described in the table under letter (d), the residual debt of which was reclassified to short-term on a prudent basis. In any event, the credit institution has already indicated that it does not wish to enforce the early termination clause; furthermore, the contract establishes no penalties for that situation.

As at 31 December 2018, the maturity dates for medium-long-term loans for the period are as follows:

| (thousands of Euro) | 31.12.2018 |
|---|---|
| 31 December 2019 | 22,279 |
| 31 December 2020 | 21,373 |
| 31 December 2021 | 22,099 |
| 31 December 2022 | 21,755 |
| 31 December 2023 | 19,284 |
| beyond 2023 | 42,701 |
| **total medium/long-term loans** | **149,491** |

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 2018 and 31 December 2017:

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| current portion of medium/long-term loans | 22,279 | 20,925 |
| payables due to banks in current account | 2,233 | 2,835 |
| other bank payables | | |
| **total payables due to banks and current portion of medium/long-term loans** | **24,512** | **23,760** |

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 118,093 thousand, of which EUR 111,991 thousand at medium/long term and EUR 6,102 thousand at short term. They decreased by EUR 6,175 thousand compared to the previous year.

The item consists of

- bonds of EUR 115,659 thousand (of which EUR 4,976 thousand short-term) regarding the parent company;
- finance lease payables of EUR 1,222 thousand (of which EUR 639 thousand short-term);
- payables for factoring with recourse assignment of EUR 375 thousand;
- other loans of EUR 837 thousand (of which EUR 112 thousand short-term), which for EUR 814 thousand refer to loans of subsidiaries from other shareholders outside the Group.

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

1. EUR 101,960 thousand for 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. EUR 13,699 thousand for the bond issued by the former 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 2018, these parameters had been fulfilled.

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 2018, 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, 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 (also see the information provided in the *Other financial assets* section);
- 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 2018, 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 31.12.2018 | of which short-term | of which medium/long-term |
|---|---|---|---|---|---|---|---|---|
| Banca Italease | 01/03/2007 | 3,468 | 3.57% | 180 | 2022 | 722 | 239 | 483 |
| Iveco Capital | 24/01/2014 | 377 | 7.19% | 60 | 2019 | 9 | 9 | 0 |
| Iveco Capital | 03/04/2014 | 742 | 7.24% | 60 | 2019 | 53 | 53 | 0 |
| Iveco Capital | 22/05/2014 | 125 | 7.24% | 60 | 2019 | 11 | 11 | 0 |
| Iveco Capital | 27/06/2014 | 189 | 7.24% | 60 | 2019 | 24 | 24 | 0 |
| Iveco Capital | 24/11/2014 | 892 | 7.16% | 61 | 2019 | 191 | 191 | 0 |
| Iveco Capital | 10/11/2014 | 200 | 7.72% | 61 | 2019 | 43 | 43 | 0 |
| Selmabipiemme | 28/01/2016 | 54 | 3.86% | 59 | 2021 | 21 | 10 | 11 |
| Selmabipiemme | 19/02/2016 | 108 | 3.86% | 59 | 2021 | 43 | 19 | 24 |
| Fraer leasing | 16/04/2018 | 146 | 2.75% | 48 | 2022 | 92 | 27 | 65 |
| Mediocredito Italiano | 27/03/2014 | 39 | 5.10% | 60 | 2019 | 2 | 2 | 0 |
| Fraer leasing | 20/10/2015 | 21 | 2.30% | 48 | 2019 | 4 | 4 | 0 |
| Fraer leasing | 16/11/2015 | 32 | 2.30% | 48 | 2019 | 7 | 7 | 0 |
| **total leasing** | | **6,393** | | | | **1,222** | **639** | **583** |

The lease agreement entered into in 2018 refers to Metalrecycling srl; the last three leases in the table above were entered into by Lecher ricerche e analisi srl and expire in 2019.

Ecoprogetto srl and Alisea spa (merged into Veritas) closed the lease agreements still active in 2018, also using early redemption if necessary.

## 24. Provisions for risks and charges

The following table shows the movements of the provisions for risks and charges as at 31 December 2018 and 31 December 2017:

| (thousands of Euro) | provision after closure of landfill site Ca' Rossa | provision after closure of landfill site Piave Nuovo | provision after closure of landfill site Centa Taglio | provision for legal disputes | provision for risks on equity investments | other provisions for risks and charges | total |
|---|---|---|---|---|---|---|---|
| **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** |
| increases for business combinations | | | | | | 254 | 254 |
| accruals | | 294 | | | | 7,337 | 7,631 |
| other transactions | | | 154 | | 1,193 | -1,326 | 20 |
| uses | -79 | | -665 | -340 | | -966 | -2,051 |
| **as at 31 December 2018** | **3,734** | **10,393** | **12,845** | **2,308** | **2,587** | **27,958** | **59,825** |

The provisions for risks and charges increased by EUR 5,854 thousand, from EUR 53,971 thousand at 31 December 2017 to EUR 59,825 thousand at 31 December 2018. In other provisions for risks, the Depuracque Group contributed EUR 310 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 parent 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 have these potential additional costs 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 was paid through a single payment as a capital grant, but without altering the total coverage of costs in the thirty-year reference period. For the 2019-2022 period, the Municipality approved the disbursement of those shares as capital grants outside the scope of the Tari financial plans.

### Landfill 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 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 5,500 thousand are envisaged for the years 2019–2021, 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 to the parent company, and includes allocations on possible disputes with employees and third parties.

## Provision for risks on equity investments

This provision includes the value of risks on equity investments held, if there is no impairment of the equity investment but simply a risk. The provisions refer to the parent company and to Sifagest scarl.

In particular, on the equity investment in Sifa scpa, the parent company has a residual allocation of EUR 1,686 thousand, while Sifagest scarl maintained EUR 152 thousand.

## Other provisions for risks and charges

The other provisions for risks and charges concern the parent company in particular.

Details on the most significant ones are provided below.

### Provision for default interest (Court of Accounts rulings)

The parent company allocated EUR 3,537 thousand in the current year. The provision refers to default interest on the basis of what is set forth in rulings no. 28 and no. 29 of 14 February 2019 of the Court of Accounts of Veneto, which deemed the receivable and payable settlement agreement entered into by Veritas and the Municipality of Venice in 2015 invalid, and therefore sentenced Veritas to pay, aside from default interest, the payable to the Municipality as at 31 December 2012 relating to the instalment collection activity set forth in Law 206/95 and cemetery concessions.

### Provision for charges for sludges stored but not disposed of

The parent company allocated EUR 2,176 thousand in the current year. The allocation to that provision refers to charges expected in the coming year to dispose of sludges produced by the purification plants this year but not yet disposed of. Pending the initiation of disposal, the sludges are held in an area managed by the associate Sifa scpa.

### Provision for future charges on waste management financial plans

The parent company allocated EUR 716 thousand in the current year. The provision represents the previous equalisation shares deriving from the final balance of old financial plans for Tia1, Tia2, Tares fees and Tarip, which can be used to reduce future financial plans.

The use of this provision increases revenues for the waste management service (revenues from the Tarip tariff or the municipal fee if the Municipality is under the Tari system).

For the purpose of the application of IFRS 15, the provision in the income statement was reclassified as a reduction of revenues.

As at 31 December 2018, the provision amounted to EUR 5,977 thousand.

### Provisions for risks on tax assessments

The provision regards the parent company and as at 31 December 2018 amounted to EUR 5,745 thousand. These provisions refer to risks relating to tax assessments being completed or already completed, including those for which a dispute has begun.

In particular, the provision recognised in 2017 for EUR 2,900 thousand regarding the 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, was reduced by EUR 565 thousand due to the elimination of the risk of the application of penalties on that request.

Prior risks include the dispute relating to the payment of the regional tax for the transfer of waste to the Ca' Rossa landfill for the 2005-2009 period, for a total of EUR 2,348 thousand, and for which an appeal has been lodged before the Supreme Court of Cassation.

### Provision for hidden water leakages

The provision includes, net of uses, the amounts charged for the voluntary participation of water service users, usable in favour of the same users if they identify an actual anomalous leakage in the internal water system after the meter.

The forms and methods for using the provision are governed by a regulation approved by the Basin Council.

As at 31 December 2018, this provision amounted to EUR 4,850 thousand.

Other provisions for risks and charges also include amounts covering:

- possible risks on the future payment of accrued concession instalments and on liability for damages in the event of accidents;
- future charges on urbanisation of the former Alcoa area in Fusina;
- future charges on the sale of the Sant'Andrea area;
- other minor risks linked to waste disposal.

## 25. Employee severance indemnity

The following table shows the movements of employee severance indemnity as at 31 December 2018 and 31 December 2017:

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| current value of the obligation at the beginning of the year | 26,562 | 25,239 |
| current value of the obligation at the acquisition date | 1,400 | 1,510 |
| current value of the obligation of discontinuing or discontinued operations | | |
| curtailment effect | | |
| cost relative to current work provided | 221 | 198 |
| financial charge | 136 | 75 |
| benefits paid out | -1,577 | -1,134 |
| actuarial loss (profit) on the obligation | -334 | 674 |
| **current value of the obligation at year-end** | **26,408** | **26,562** |

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.

According to the version of the IAS 19 standard currently in force, the recognition rules of defined-benefit plans are modified, requiring actuarial profits and losses to be recognised directly under the 'Other components' category in the comprehensive income statement, and allocated to a special reserve in the shareholders' equity net of the tax effect (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) | 2018 | 2017 |
|---|---|---|
| discount rate at the beginning of the year | 0.77% -1.77% | 0.89% – 0.98% |
| expected rate of salary increases | 3% – 4.5% | 3% – 4.5% |
| expected employee turnover rate | 4.35% | 3.97% |
| expected average remaining working lives of employees | 13 | 13 |

In elaborating the employee severance provision as at 31 December 2018, the independent actuary took account of the updating of the technical basis of Group information available from 2003 to date. In continuity with past years, the "EU Corporate AA Iboxx type (only ZCB)" rate curve was applied, relating to the end of 2018. In addition, Depuracque servizi srl was also considered as of the current year.

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. The values recognised at the end of 2018 are higher than as at 31 December 2017, with a resulting decline in the value of commitments for all companies (profit).

## 26. Payables due to partner entities

The following table highlights disclosures on amounts due to partner entities as at 31 December 2018 and 31 December 2017:

| (thousands of Euro) | 31.12.2018 within 12 months | 31.12.2018 beyond 12 months | 31.12.2017 within 12 months | 31.12.2017 beyond 12 months |
|---|---|---|---|---|
| payables due to the Municipality of Venice | 55,348 | | 15,521 | 33,641 |
| payables due to municipalities with shareholding exceeding 10% | | | | |
| payables due to municipalities with shareholding below 10% | 22,506 | 762 | 28,989 | 332 |
| **total payables due to partner entities** | **77,854** | **762** | **44,510** | **33,973** |

The increase in payables to the partner Municipalities within the year (EUR +33,344 thousand) is offset by the decline in the payables beyond the year (EUR -33,211 thousand) and regards primarily the parent company. Following rulings no. 28 and no. 29 of 14 February 2019 of the Veneto Court of Accounts, already referred to in note 16, to which reference should be made, the payables rescheduled by the 2015 agreement between the parent company and the Municipality of Venice, with payments in instalments over 10 years until 2024 (also including payables for instalment collection activity set forth in Law 206/95 and cemetery concessions subject to the rulings), were reclassified to short-term on a prudent basis, pending future developments in that dispute.

In that sense, please note that the payables for instalment collection activity set forth in Law 206/95 and cemetery concessions subject to the agreement amounted to EUR 31,079 thousand as at 31 December 2018, of which EUR 5,180 thousand paid in February 2019.

On the whole, Group payables due to partner entities within the following financial year relate to amounts collected for the TARI and TARES taxes (if accrued in 2013) inclusive of additional provincial taxes and other ancillary items, but not yet paid to the municipalities, for EUR 35,494 thousand.

Payables due to the Municipality of Venice are shown below:

| (thousands of Euro) | 31.12.2018 within 12 months | 31.12.2018 beyond 12 months | 31.12.2017 within 12 months | 31.12.2017 beyond 12 months |
|---|---|---|---|---|
| payables for cemetery concessions | 654 | | 668 | |
| amounts due to the Municipality of Venice for contract work in progress | 453 | | 565 | |
| payables pursuant to Italian Law 206/95 | 2,710 | | 1,446 | |
| payables for collection of TARI/TARES tax | 16,715 | | 6,112 | |
| payables for recognitions of 2015 agreement * | 33,641 | | 5,607 | 33,641 |
| other payables | 1,175 | | 1,123 | |
| **total payables due to the Municipality of Venice** | **55,348** | **0** | **15,521** | **33,641** |

* Inclusive of the residual payable for instalments Law 206/95 and cemetery concessions as at 31 December 2014 of EUR 31,079 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 2018 and 31 December 2017:

| (thousands of Euro) | 31.12.2018 within 12 months | 31.12.2018 beyond 12 months | 31.12.2017 within 12 months | 31.12.2017 beyond 12 months |
|---|---|---|---|---|
| payables due to Sifa scpa | 869 | | 1,505 | |
| payables due to Insula spa | 331 | | 1,125 | |
| payables due to Depuracque Servizi srl | | | 770 | 900 |
| payables due to Lecher ricerche analisi srl | | | 238 | |
| payables due to Rpm scarl | 93 | | | |
| **total payables due to associates and jointly controlled companies** | **1,293** | **0** | **3,639** | **900** |

This item decreased by EUR 3,246 thousand, due to the decrease in payables due to Sifa scpa and Insula spa, as well as the reclassification of Depuracque servizi srl and Lecher ricerche e analisi srl as subsidiaries.

## 28. Other non-current liabilities

The following table highlights disclosures on other current liabilities as at 31 December 2017 and 31 December 2018:

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| guarantee deposits from customers - SII | 12,511 | 12,991 |
| advance payments on consumption | 202 | 202 |
| payables due to social security institutes - long-term portion | 0 | 0 |
| other long-term payables | 6,581 | 712 |
| **total other non-current liabilities** | **19,294** | **13,905** |

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 legal interest during the agreement termination phase or when the deposit is returned.

In other long-term payables, equal to EUR 6,581 thousand, the parent company recognised the residual debt beyond the year for the acquisition of shares of Depuracque servizi (EUR 2,342 thousand) and grants for plants already collected early but relating to works not yet carried out (EUR 3,615 thousand).

## 29. Trade payables

The following table highlights disclosures on trade payables as at 31 December 2018 and 31 December 2017:

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| trade payables | 94,206 | 90,233 |
| payables due to related parties | 4,690 | 2,478 |
| payables due to entities controlled by the Municipality of Venice | 184 | 338 |
| **total trade payables** | **99,080** | **93,049** |

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

Trade payables contributed by the Depuracque Group amounted to EUR 4,477 thousand.

## 30. Derivative financial instruments

The following table highlights disclosures on derivative financial instruments as at 31 December 2018 and 31 December 2017:

| (thousands of Euro) | | | | 31.12.2018 | | 31.12.2017 | |
|---|---|---|---|---|---|---|---|
| type | bank | notes | residual notional | fair value assets | fair value liabilities | fair value assets | fair value liabilities |
| IRS | Unicredit 2013 loan | | | | 0 | | -2 |
| IRS | Unicredit loan 2017 | a) | 12,851 | | -117 | | -69 |
| Interest rate | BPM financing option | b) | 9,058 | 16 | | 49 | |
| IRS | Intesa San Paolo loan 2018 | c) | 1,900 | | -14 | | |
| **total derivative financial instruments** | | | **23,809** | **16** | **-131** | **49** | **-71** |

As at 31 December 2018, the Group had:

a. an interest rate swap contract, stipulated on 1 June 2017 by the parent company 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 2018, amounted to EUR 12,851 thousand, equal to 0.29% on a quarterly basis. This interest rate swap contract had a negative fair value of EUR -117 thousand as at 31 December 2018.

b. an interest rate option contract, stipulated on 30 May 2017 by the parent company 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 2018, the contract had a market value of EUR 16 thousand. The underlying loan expires on 30 June 2023.

c. an interest rate swap contract, stipulated on 28 November 2018 by Depuracque servizi srl with Intesa Sanpaolo, to hedge risks connected with changes in interest rates related to a mortgage loan stipulated with Mediocredito Italiano on the same date and amounting to EUR 2,000 thousand. The contract envisages the payment of a premium on the residual notional value, which, as at 31 December 2018, amounted to EUR 1,900 thousand. As at 31 December 2018, the contract had a market value of EUR 14 thousand. The underlying loan expires on 30 June 2023.

In 2018, two contracts expired, one option cap and one interest rate swap:

- on 30 January 2018 the option cap contract expired, which had been stipulated by the parent company 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;
- on 28 February 2018, the interest rate swap contract expired, which had been stipulated by the parent company 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.

## 31. Other current liabilities

The following table highlights disclosures on other current liabilities as at 31 December 2017 and 31 December 2018:

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| advances from customers | 1,881 | 791 |
| payables due to personnel | 14,747 | 15,702 |
| payables due to social security institutes | 7,303 | 7,345 |
| payables due for excise duties and additional taxes | 3,152 | 2,915 |
| payables due to tax authorities for IRPEF (personal income tax) withholding tax | 4,727 | 3,691 |
| payables due to tax authorities for VAT | 1,777 | 466 |
| accrued liabilities and deferred income | 193 | 812 |
| other payables | 9,917 | 9,114 |
| **total other current liabilities** | **43,698** | **40,837** |

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 for excise duties and additional taxes include the payable to the Metropolitan city of Venice and the Province of Treviso for the collection of the additional provincial tax ("Tefa") on environmental hygiene tariffs (Tia1, Tia2, Tares fees and Tarip); they regard the parent company, including Alisea, and Asvo spa.

The payable due to the tax authorities for VAT rose by EUR 1,311 thousand; the Group companies are subject to the application of the *split payment on purchases* VAT regime, which requires VAT collected by provider to be paid directly to the tax authorities by the customer.

## 32. Current tax payables

The following table highlights disclosures on current tax payables as at 31 December 2018 and 31 December 2017:

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| IRES payables | -17 | 1,238 |
| IRAP payables | 39 | 128 |
| other tax payables | 10 | 512 |
| **total current tax payables** | **32** | **1,878** |

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.

This year, the parent company contributed negative differences and therefore recognised only current tax credits.

## 33. Revenues from sales and services

| (thousands of Euro) | 2018 | 2017 |
|---|---|---|
| revenues from water service and sewerage tariff | 114,477 | 111,002 |
| revenues from environmental hygiene tariff | 26,084 | 21,650 |
| institutional service revenues | 164,712 | 174,002 |
| revenues from third-party services | 63,954 | 49,204 |
| revenues from the sale of electricity/photovoltaic energy | 341 | 339 |
| sale of raw and ancillary materials, semi-finished goods and movable assets | 4,739 | 4,068 |
| changes to contract work in progress | 2,126 | 1,354 |
| changes to inventories of work in progress | 131 | -17 |
| **total revenues from sales and services** | **376,564** | **361,602** |

Note that the 2018 income statement includes the economic values of the second half of 2018 of the new subsidiaries Depuracque servizi srl, Lecher ricerche e analisi srl and Rive srl.

Revenues resulting from sales and services amounted to EUR 376,564 thousand, up by EUR 14,962 thousand compared with the previous financial year, EUR 13,415 thousand of which attributable to the Depuracque Group.

The revenues relating to the water tariff amounted to EUR 114,477 thousand, marking an increase of EUR 3,475 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.

The water tariff for the 2018 financial year was applied based on the VRG approved by the Basin Council on 26 June 2018, then ratified by Arera on 15 January 2019, which envisaged, on a 2017 basis:

- a 4.5% tariff decrease for the eastern (former Asi) area.
- a 2% tariff decrease for the western (remaining Veritas territory) area.

With the definition of the Vrg relating to 2018, it was necessary to account for positive equalisations of EUR 918 thousand.

Additional negative equalisations of EUR 619 thousand were also accounted for, in addition to what was already calculated in previous years.

Revenues from the environmental hygiene tariff, amounting to EUR 26,084 thousand, refer to the application of the quantity-based TARIP tariff by the parent company, and increased by EUR 4,434 thousand compared to the previous year.

Revenues for institutional services in 2018 amounted to EUR 164,712 thousand, down EUR 9,290 thousand compared to 2017.

This item also includes municipal environmental hygiene fees for Municipalities subject to the tax; therefore, revenues for the waste management service (revenues from the tariff and municipal fees added together) amount to EUR 190,796 thousand.

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

| (thousands of Euro) | 2018 | 2017 |
|---|---|---|
| revenues from services and works on green areas | 1 | 11 |
| revenues from consortia (Conai) | 244 | 226 |
| revenues from leases | 1,611 | 646 |
| revenues from purification activities and waste water management | 6,531 | 2,174 |
| revenues from waste disposal service | 5,802 | 3,440 |
| revenues from differentiated waste disposal service | 16,888 | 19,821 |
| revenues from sludge disposal service | 0 | 21 |
| revenues from cleaning and hygienic services | 950 | 1,048 |
| revenues from consultancy | 1,932 | 627 |
| revenues from management of plants on behalf of third-parties | 10,060 | 2,218 |
| revenues from reclamation of land | 376 | 186 |
| revenues from cemetery services | 4,419 | 4,327 |
| revenues from maintenance and water service connections | 1,525 | 3,306 |
| revenues from heat management | 4,953 | 4,479 |
| revenues from sale of electricity | 67 | 179 |
| other revenues from third-parties services | 8,400 | 6,301 |
| minor revenues | 196 | 196 |
| **total revenues from third-party services** | **63,954** | **49,204** |

The increase of EUR 14,750 thousand in 'Other revenues from third-party services' takes into account EUR 12,888 thousand from the Depuracque Group.

The decrease in Revenues from water service maintenance and connections derives primarily from the reclassification, from this year, of revenues from connections to plant grants (and therefore decreasing the value of fixed assets); in 2018, the reclassified amount is EUR 2,020 thousand.

On the other hand, Revenues for the management of plants for third parties rose by EUR 7,842 thousand, referring to Veritas for EUR 4,081 thousand and to Depuracque servizi srl for EUR 3,352 thousand. The revenue of the parent company derives from the management, as of August 2018, of industrial wastewater purification plants on behalf of Sifa scpa, an activity previously carried out by the subsidiary Sifagest scarl.

## 34. Other income

| (thousands of Euro) | 2018 | 2017 |
|---|---|---|
| leases and concessions | 1,069 | 1,056 |
| capital gains on disposal of assets | 460 | 59 |
| insurance reimbursements | 774 | 3,169 |
| cost reimbursement | 1,963 | 1,914 |
| seconded staff | 393 | 220 |
| other revenues and income | 8,863 | 12,770 |
| capital grants | 2,057 | 1,211 |
| gains on extraordinary disposals | 1 | 20 |
| ordinary contingent assets | 810 | 511 |
| **total other income** | **16,390** | **20,930** |

Other income recorded an overall decline of EUR 4,540 thousand.

The Depuracque Group contributed EUR 612 thousand, especially posted to Other revenues and income. The same account also includes negative changes deriving from lower revenues recorded by Sifagest following the interruption of the management, as of August, of the purification plants of Sifa scpa, which was assigned to the parent company on the same date.

Insurance reimbursements refer to compensation of EUR 515 thousand recognised to the subsidiary Ecoprogetto srl. Eco-ricicli instead collected EUR 2,570 thousand for the compensation recognised in 2017 following the fire in its bulky goods warehouse.

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

| (thousands of Euro) | 2018 | 2017 |
|---|---|---|
| drinking water | 11 | 45 |
| purchase of materials | 4,579 | 6,493 |
| combustibles, fuels and lubricants | 7,636 | 6,345 |
| consumables and materials for maintenance and ordinary repairs | 15,262 | 10,840 |
| change in inventories | -804 | -33 |
| **total costs for raw and ancillary materials and consumables** | **26,684** | **23,690** |

The costs for raw materials and consumables rose by EUR 2,994 thousand compared to the previous year. EUR 2,086 thousand is attributable to the new subsidiaries Depuracque servizi srl and Lecher ricerche e analisi srl.

## 36. Costs for services

| (thousands of Euro) | 2018 | 2017 |
|---|---|---|
| works and maintenance | 18,474 | 14,125 |
| industrial services | 9,389 | 8,517 |
| utilities | 25,356 | 22,704 |
| operating services | 48,311 | 45,828 |
| general services | 21,295 | 20,115 |
| corporate bodies | 804 | 789 |
| **total costs for services** | **123,630** | **112,077** |

Costs for services reported a total increase of EUR 11,553 thousand compared to the previous year; the new subsidiaries accounted for EUR 4,509 thousand.

Under Operating costs, the parent company recognised a provision for future charges for stored sludges (EUR 2,176 thousand).

Works and maintenance refers to ongoing maintenance on assets and activities of the engineering division; for the parent company, they rose by EUR 2,903 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 252 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) | 2018 | 2017 |
|---|---|---|
| lease instalments | 4,276 | 4,724 |
| rental and lease payments | 1,710 | 1,239 |
| concession payments | 1,481 | 1,337 |
| other | 3,328 | 3,115 |
| **total costs for use of third-party assets** | **10,795** | **10,415** |

The total increase of EUR 380 thousand compared to the previous year takes into account the Depuracque Group, which contributed EUR 628 thousand.

## 38. Personnel costs

| (thousands of Euro) | 2018 | 2017 |
|---|---|---|
| wages and salaries | 112,983 | 107,334 |
| social security charges | 39,046 | 37,449 |
| employee severance indemnity | 7,229 | 7,155 |
| provisions for pension liabilities and similar | 45 | 33 |
| other costs | 1,107 | 665 |
| **total personnel costs** | **160,410** | **152,636** |

There was a total increase of EUR 7,774 thousand, EUR 2,702 thousand of which attributable to the aggregation of Depuracque servizi srl and Lecher ricerche e analisi srl, which contributed 52 and 34 resources, respectively.

The remainder of the increase can be attributed to the activation of new services, in-housing, additional Group synergies achieved during the year and, to a residual extent, salary dynamics and contract renewals.

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

| (thousands of Euro) | 31.12.2018 | 31.12.2017 | change |
|---|---|---|---|
| senior managers | 22.75 | 21.27 | 1.48 |
| middle managers | 87.56 | 74.07 | 13.49 |
| white-collar employees | 879.55 | 842.51 | 37.04 |
| blue-collar employees | 2,173.17 | 2,074.19 | 98.98 |
| **total employees** | **3,163.03** | **3,012.04** | **150.99** |

## 39. Other operating costs

Other operating costs amounted to EUR 9,282 thousand, marking a decrease of EUR 7,042 thousand compared to the previous year.

| (thousands of Euro) | 2018 | 2017 |
|---|---|---|
| provisions for write-down of receivables | 3,574 | 2,860 |
| provisions for default interest | 8 | 19 |
| provisions for risks and charges | 754 | 6,694 |
| other provisions | 0 | 20 |
| membership fees and other contributions | 640 | 592 |
| ATO operating expenses | 596 | 599 |
| special tariff for landfill sites | 222 | 76 |
| taxes, duties and local taxation | 2,722 | 2,553 |
| credit losses | 0 | 1 |
| capital losses on disposal of assets | 193 | 1,911 |
| other minor charges | 206 | 914 |
| ordinary contingent liabilities | 290 | 31 |
| fines and compensation for damages | 76 | 54 |
| **total other operating costs** | **9,281** | **16,324** |

With respect to Provisions for write-down of receivables, please refer to section 2.1 of these notes on the accounting standards applied as of 1 January 2018, particularly with reference to IFRS 9.

The decrease in Provisions for risks and charges of EUR 5,940 thousand was caused mainly by non-recurring provisions of the parent company recognised last year and not repeated this year. Also in this case, please refer to section 2.1 of these notes on the accounting standards applied as of 1 January 2018, particularly with reference to IFRS 15.

Capital losses on disposal of assets returned to normal values, after EUR 1,752 thousand was recognised in 2017 by Eco-ricicli Veritas srl for capital losses on assets of the bulky goods warehouse after the fire.

## 40. Amortisation, depreciation and write-downs

The value of amortisation, depreciation and write-downs amounted to EUR 36,808 thousand, compared to EUR 35,150 thousand in 2017, up by a total of EUR 1,658 thousand, EUR 823 thousand of which relating to the Depuracque Group.

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) | 2018 | 2017 |
|---|---|---|
| amortisation of intangible assets | 5,263 | 4,697 |
| amortisation of concession services | 17,026 | 16,454 |
| depreciation of tangible fixed assets | 21,550 | 20,176 |
| depreciation of investment property | 3 | 3 |
| other write-downs of fixed assets | -21 | -22 |
| impairment of tangible fixed assets | 359 | 171 |
| impairment of concession services | 0 | 606 |
| **grants for plants** | **-7,372** | **-6,935** |
| **total amortisation, depreciation and write-downs** | **36,808** | **35,150** |

# 41. Portion pertaining to shareholding valued with the equity method

The portion of profit (loss) from shareholdings valued with the equity method totalled a positive EUR 276 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 Steriladria srl, and Depuracque servizi and Lecher ricerche e analisi srl, measured at equity and adjusted to fair value for the period prior to the date of acquisition of control by the parent company.

## 42. Financial charges and income

### Financial charges

Financial charges totalled EUR 15,022 thousand (of which EUR 107 thousand relating to the new subsidiaries) compared to EUR 12,160 thousand in 2017.

Financial charges payable to banks, leasing institutes and on other financial instruments used amounted to EUR 4,123 thousand, compared to EUR 4,784 in the previous year, while the interest expense on bonds remains basically unchanged.

They include EUR 983 thousand for discounting charges, calculated on employee severance indemnity (EUR 133 thousand), on financial payables to controlling entities (EUR 13 thousand), on financial payables to Sifagest scarl and Depuracque servizi srl (totalling EUR 95 thousand), on payables for the purchase of equity investments (EUR 74 thousand), on the after closure provision on the Jesolo landfill of Alisea, now Veritas (EUR 294 thousand) and the Centa Taglio landfill site managed by Asvo (EUR 374 thousand).

The parent company made value adjustments of EUR 141 thousand to several equity investments in other companies, in order to align the carrying amount with the shareholders' equity in the last approved financial investments of Porto Marghera servizi scarl (EUR 13 thousand) and Vega scarl (EUR 128 thousand).

The parent company also recognised a provision for risks for default interest (EUR 3,537 thousand); this provision was made due to two rulings of the Court of Accounts which require the payment of legal interest on payables relating to Law 206/95 and payables for cemetery concession charges, both to the Municipality of Venice.

The summary table is provided below:

| (thousands of Euro) | 2018 | 2017 |
|---|---|---|
| interest payable to banks for current account overdrafts | 260 | 328 |
| interest payable to banks for medium/long-term loans | 3,240 | 3,537 |
| financial charges for financial leasing and rental contracts | 99 | 278 |
| charges for fair value measurement of derivatives | 177 | 256 |
| financial charges from other discounting | 837 | 833 |
| financial charges from discounting from parent companies | 13 | 0 |
| financial charges from discounting of employee severance indemnity | 133 | 75 |
| financial charges for factoring transactions | 347 | 385 |
| interest payable on bonds | 4,917 | 4,955 |
| write-down of shareholdings | 141 | |
| other financial charges | 1,322 | 1,512 |
| provision for risks for default interest | 3,537 | 0 |
| **total financial charges** | **15,022** | **12,160** |

### Financial income

Financial income totalled EUR 1,976 thousand compared to EUR 1,871 thousand in the previous year, marking a total increase of EUR 105 thousand, of which EUR 18 thousand relating to the new subsidiaries.

Interest income from banks decreased (EUR 322 thousand), while financial income from associates, deriving from financial receivables arising during the year 2016 from Sifa (regarding the parent company and Sifagest) were revised on the basis of the repayment plan guaranteed by the associate.

Income from equity investments of EUR 211 thousand came from valuations resulting from the acquisition of control of Depuracque servizi srl. This transaction is described in Note 3.

The summary table is provided below:

| (thousands of Euro) | 2018 | 2017 |
|---|---|---|
| interest income from banks | 168 | 490 |
| measurement at fair value of derivatives | 3 | 42 |
| default interest and payment extension | 402 | 360 |
| financial income from associates | 368 | 438 |
| financial income from discounting vs Sifa | 682 | 254 |
| financial income from other discounting | 102 | 130 |
| other financial income | 40 | 147 |
| income from other equity investments (revaluations) | 211 | 11 |
| **total financial income** | **1,976** | **1,871** |

## 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 2018:

| (thousands of Euro) | 2018 | 2017 |
|---|---|---|
| **applicable ordinary rate** | **24.00%** | **24.00%** |
| **income before taxes** | **12,576** | **22,568** |
| **theoretical tax charge (income)** | **3,018** | **5,416** |
| effect of the rate change to 24% as from 2017 | 0 | 6 |
| adjustments compared to income taxes of the previous year | -695 | 164 |
| write-down and adjustments of prepaid taxes recorded in the previous financial year | 17 | 459 |
| recognition of prepaid taxes on temporary differences related to previous financial years | -9,664 | 0 |
| non-recognition of prepaid taxes on tax losses for the year on temporary differences | 6 | 0 |
| non-recognition of prepaid/deferred taxes for the year on temporary differences | 1 | 0 |
| (income)/expenses from tax consolidation | 0 | -8 |
| exempt income/tax incentives/non-taxable income | -1,074 | -888 |
| non-deductible costs | 738 | 853 |
| other permanent differences | -217 | 38 |
| **actual IRES tax charge** | **-7,870** | **6,040** |
| current taxes | 4,585 | 5,882 |
| deferred taxes (prepaid) | -11,760 | 2 |
| taxes related to previous financial years | -695 | 164 |
| (income)/expenses from tax consolidation | 0 | -8 |
| **actual IRES tax charge (income)** | **-7,870** | **6,040** |
| current local taxes (Irap) | 1,569 | 1,543 |
| local deferred (prepaid) taxes | -1,804 | -268 |
| local taxes for previous financial years | 227 | -125 |
| **actual local tax charge (income)** | **-8** | **1,150** |
| **total actual tax charge (income)** | **-7,878** | **7,190** |

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

This year, taxes are *negative* as the parent company recognised the income deriving from the recognition of the tax credit, of EUR 11,314 thousand, following the response of September 2018 to the request for a tax ruling submitted to the Italian Revenue Agency, relating to the higher values recognised for tax purposes of the net assets contributed by the 2017 aggregation of Asi, but redetermined for accounting purposes pursuant to IAS 8.

This receivable, linked to the amortisation/depreciation of the fixed assets of Asi, will be recovered in decreasing annual instalments until 2049.

Prepaid and deferred taxes, relative to the two financial years ended 31 December 2018 and 2017, are as follows:

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| provision for doubtful debts | 5,143 | 4,096 |
| provision for risks and charges | 9,995 | 8,268 |
| provision for inventory depreciation | 104 | 104 |
| depreciation of fixed assets | 780 | 688 |
| maintenance expenses | 382 | 398 |
| civil amortisation/depreciation difference | 10,743 | 722 |
| other costs deductible in subsequent financial years | 103 | 128 |
| fair value adjustment of derivatives | 0 | 1 |
| business combination bonus | 470 | 548 |
| reversal of capital gains on intragroup transactions | 132 | 38 |
| other minor | 86 | 63 |
| tax losses | 31 | 19 |
| discounting of employee severance indemnity | 383 | 623 |
| **total prepaid tax assets** | **28,352** | **15,696** |

| (thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| non-taxable default interest | 328 | 459 |
| non-taxable revenues | 2,061 | 2,180 |
| equity capital gains | 5 | 0 |
| landfill asset | 1,836 | 210 |
| other temporary differences | 56 | 86 |
| higher value allocated to fixed assets | 2,365 | 808 |
| concessions at market value | 181 | 2,278 |
| leased assets | 2,256 | 2,894 |
| separation of land | 120 | 118 |
| **total deferred tax liabilities** | **9,208** | **9,033** |

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.

Civil amortisation/depreciation difference includes the tax credit described above, relating to the recognition for tax purposes of higher values of the fixed assets of the former Asi.

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

## 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 residual useful life between 5 and 10 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 2018 and 2017, include the following:

| (thousands of Euro) | 2018 | 2017 |
|---|---|---|
| within 1 year | 2,244 | 1,175 |
| beyond 1 year but within 5 years | 6,613 | 3,228 |
| beyond 5 years | 5,480 | 2,256 |
| **total commitments for leases and rentals** | **14,337** | **6,659** |

### 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 2018 and 2017, include the following:

| (thousands of Euro) | 2018 | 2017 |
|---|---|---|
| within 1 year | 391 | 389 |
| beyond 1 year but within 5 years | 922 | 789 |
| beyond 5 years | 23 | 65 |
| **total commitments for leases and rentals** | **1,336** | **1,243** |

The amount of commitments from operating leases referring to related parties as at 31 December 2018 is EUR 531 thousand.

## Commitments for investments

The Mti-2 water tariff method 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 2018 VRG is EUR 9.2 million 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 part of the profit for the year 2018.

In addition, the directors reasonably believe that the water investments subject to the allocation constraint will be made; therefore, in the next financial year the 2018 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 2018 and 2017 in favour of the subjects indicated hereunder:

| (thousands of Euro) | 2018 | 2017 |
|---|---|---|
| Metropolitan city of Venice | 23,336 | 26,359 |
| Ministry of the Environment | 4,073 | 9,461 |
| Port Authority - former Water Authority - Venice Harbour Office | 2,682 | 1,675 |
| banks and insurance companies | 0 | 90 |
| Italian Revenue Agency | 620 | 628 |
| other entities | 2,209 | 576 |
| ULSS and other local entities | 214 | 5,925 |
| **total** | **33,134** | **44,714** |

In turn, the parent company issued *guarantees* totalling EUR 32,768 thousand to the subsidiaries and EUR 353 thousand to partner municipalities.
Eco-ricicli Veritas srl issued a guarantee policy in favour of the subsidiary Metalrecycling Venice srl amounting to EUR 264 thousand, to guarantee obligations deriving from the temporary single authorisation for waste and product recovery (issued by the Municipality of Venice).
Depuracque servizi srl issued an EUR 867 thousand co-guarantee with the shareholders of the associate Rpm scarl participating in a temporary consortium for a reclamation project (already included in the table above), and an EUR 810 thousand co-guarantee with the other shareholder of the subsidiary Rive srl for the benefit of Veritas spa.

The parent company provided letters of patronage to subsidiaries for EUR 15,740 thousand and to associates for EUR 13,000 thousand.

The details are provided below of parties in favour of which the parent company issued guarantees:

| guarantees given (in thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Ecoprogetto Venezia srl | 26,868 | 26,868 |
| Eco-ricicli Veritas srl | 4,700 | 4,700 |
| Sifagest scarl | 1,200 | 1,200 |
| **guarantees to subsidiaries** | **32,768** | **32,768** |
| Sifa scpa | 0 | 0 |
| **guarantees to associates** | **0** | **0** |
| Municipality of Venice | 2 | 2 |
| Municipality of Meolo | 171 | 171 |
| Municipality of Marcon | 24 | 24 |
| Municipality of Mira | 0 | 0 |
| other Municipalities | 156 | 156 |
| **guarantees to parent companies** | **353** | **353** |
| Port Authority - former Water Authority | 1,815 | 1,598 |
| Metropolitan city of Venice | 7,722 | 8,088 |
| Ministry of the Environment | 2,439 | 2,935 |
| Ulss | 117 | 258 |
| Inps | 81 | 3,990 |
| Ecopiave srl | 50 | 50 |
| other entities | 2,121 | 263 |
| **guarantees to others** | **14,346** | **17,182** |
| **total guarantees given** | **47,466** | **50,303** |

| letters of patronage (in thousands of Euro) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Ecoprogetto Venezia srl | 3,100 | 3,100 |
| Eco-ricicli Veritas srl | 12,640 | 10,640 |
| **letters of patronage to subsidiaries** | **15,740** | **13,740** |
| to Sifa | 10,000 | 0 |
| Veritas Conegliano srl | 3,000 | 0 |
| **letters of patronage to associates** | **13,000** | **0** |
| **total letters of patronage** | **28,740** | **13,740** |

The Group also reserved tangible assets to guarantee certain mortgage loans. For further details please refer to Note 22.

## Other risks and uncertainties

Please refer to the information provided in the Report on operations.

## 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 | 31.12.2018 Group's shareholding | 31.12.2017 |
|---|---|---|---|---|
| Veritas spa (parent company) | Venice | 145,397,150 | | |
| 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 | 82.34% | 78.06% |
| Sifagest scarl *in liquidation* | Venice | 500,000 | 65.00% | 64.40% |
| Asvo spa | Portogruaro (Ve) | 18,969,650 | 55.75% | 55.75% |
| Consorzio bonifica Fusina *in liquidation* | Venice | 100,000 | 82.05% | 78.32% |
| Metalrecycling Venice srl | Venice | 100,000 | 82.34% | 78.06% |
| Depuracque servizi srl | Salzano (Ve) | 223,080 | 100.00% | |
| Lecher ricerche e analisi srl | Salzano (Ve) | 46,800 | 100.00% | |
| Rive srl | Venice | 100,000 | 70.00% | |
| **consolidated companies pursuant to IFRS 5** | | | | |
| Steriladria srl | Adria (Ro) | 100,000 | | 40.37% |

Movements for the year are described in point 2.1.1 of the report on operations.

## Partner entities

The following table shows the total values of transactions which occurred during the financial year with other partner entities:

| (thousands of Euro) | 2018 sales to partner municipalities | 2017 | 2018 purchases from partner municipalities | 2017 | 2018 receivables due from partner municipalities | 2017 | 2018 payables due to partner municipalities | 2017 |
|---|---|---|---|---|---|---|---|---|
| Municipality of Annone Veneto | 378 | 377 | | | 92 | 90 | 1 | 6 |
| Municipality of Campagna Lupia | 14 | 12 | 3 | 5 | 3 | 4 | 3 | 57 |
| Municipality of Campolongo Maggiore | 39 | 17 | 21 | 22 | 13 | 10 | 233 | 238 |
| Municipality of Camponogara | 24 | 22 | 7 | 9 | 9 | 8 | 4 | 47 |
| Municipality of Caorle | 6,347 | 6,423 | 154 | 165 | 2,310 | 1,632 | 356 | 267 |
| Municipality of Cavallino-Treporti | 4,452 | 4,368 | 5 | 5 | 21 | 15 | 1,769 | 2,639 |
| Municipality of Cavarzere | 1,551 | 1,492 | | 97 | 1 | 5 | | |
| Municipality of Ceggia | 602 | 547 | 87 | 25 | 202 | 344 | 1,100 | 1,016 |
| Municipality of Cessalto | 6 | 2 | 27 | 459 | 1 | 2 | 75 | 50 |
| Municipality of Chioggia | 14,265 | 13,543 | 68 | | 50 | 96 | 5,691 | 6,511 |
| Municipality of Cinto Caomaggiore | 266 | 254 | | | 69 | 121 | 6 | 2 |
| Municipality of Cona | 352 | 152 | | | 217 | 149 | | |
| Municipality of Concordia Sagittaria | 1,109 | 1,087 | | | 1,103 | 1,087 | | |
| Municipality of Dolo | 2,252 | 2,134 | 21 | 27 | 372 | 535 | | |
| Municipality of Eraclea | 2,108 | 2,043 | 112 | 126 | 322 | 190 | 529 | 501 |
| Municipality of Fiesso d'Artico | 134 | 17 | 5 | 29 | 35 | 4 | 97 | 136 |
| Municipality of Fossalta di Piave | 20 | 16 | 8 | 7 | 2 | 5 | 13 | 7 |
| Municipality of Fossalta di Portogruaro | 897 | 804 | | | 516 | 431 | | |
| Municipality of Fossò | 17 | 15 | 16 | 16 | 4 | 5 | 227 | 236 |
| Municipality of Gruaro | 279 | 280 | | | 80 | 67 | 1 | 1 |
| Municipality of Jesolo | 10,044 | 10,091 | 313 | 207 | 2,390 | 2,776 | 2,520 | 3,457 |
| Municipality of Marcon | 41 | 34 | 21 | 21 | 21 | 24 | 21 | 56 |
| Municipality of Martellago | 2,688 | 2,552 | 30 | 30 | 480 | 435 | 125 | 1,841 |
| Municipality of Meolo | 125 | 792 | 7 | 3 | 900 | 882 | 888 | 712 |
| Municipality of Mira | 77 | 116 | 23 | 23 | 96 | 109 | 219 | 443 |
| Municipality of Mirano | 3,549 | 3,551 | 123 | 127 | 452 | 747 | 1,293 | 1,833 |
| Municipality of Mogliano Veneto | 3,717 | 3,692 | 14 | 13 | 617 | 620 | 2,301 | 1,391 |
| Municipality of Morgano | 5 | 1 | | | 1 | | | |
| Municipality of Musile di Piave | 1,302 | 1,287 | 94 | 107 | 797 | 1,119 | 318 | 168 |
| Municipality of Noale | 1,954 | 1,931 | 14 | 14 | 315 | 331 | 529 | 1,128 |
| Municipality of Noventa di Piave | 835 | 801 | 40 | 44 | 208 | 211 | 105 | 106 |
| Municipality of Pianiga | 1,372 | 1,400 | 6 | 6 | 284 | 500 | 423 | 1,341 |
| Municipality of Portogruaro | 3,001 | 3,070 | | | 868 | 720 | 30 | 17 |
| Municipality of Pramaggiore | 408 | 398 | | | 203 | 201 | 4 | 1 |
| Municipality of Preganziol | 122 | 126 | | | 29 | 22 | | |
| Municipality of Quarto d'Altino | 13 | 1,140 | | | 383 | 1,145 | 125 | 681 |
| Municipality of Quinto di Treviso | 16 | 12 | | | 4 | 1 | | |
| Municipality of Salzano | 34 | 37 | 72 | 72 | 9 | 8 | 62 | 62 |
| Municipality of San Donà di Piave | 1,614 | 5,039 | 259 | 284 | | 1,134 | 310 | 1,994 |
| Municipality of San Michele al Tagliamento | 5,859 | 5,824 | | | 1,391 | 1,232 | | |
| Municipality of San Stino di Livenza | 1,355 | 1,325 | | | 395 | 351 | 163 | 162 |
| Municipality of Santa Maria di Sala | 34 | 39 | 172 | 132 | 8 | 12 | 5 | 10 |
| Municipality of Scorzè | 1,976 | 1,974 | 16 | 15 | 368 | 243 | 939 | 767 |
| Municipality of Spinea | 3,342 | 3,310 | 115 | 118 | 645 | 411 | 2,469 | 1,194 |
| Municipality of Stra | 21 | 16 | 40 | 40 | 12 | 7 | | |
| Municipality of Teglio Veneto | 176 | 170 | | | 45 | 42 | | |
| Municipality of Torre di Mosto | 526 | 500 | 69 | 71 | 93 | 63 | 288 | 130 |
| Municipality of Venice | 96,907 | 99,758 | 1,773 | 1,791 | 12,377 | 14,738 | 55,348 | 49,162 |
| Municipality of Vigonovo | 35 | 41 | 4 | 4 | 11 | 27 | 92 | 189 |
| Municipality of Zenson di Piave | 3 | 1 | 29 | 31 | 1 | 1 | 28 | 31 |
| Municipality of Zero Branco | 5 | 1 | | | 2 | | | |
| **total nominal amounts** | **176,267** | **182,634** | **3,768** | **4,145** | **28,827** | **32,912** | **78,711** | **78,590** |
| **provision for doubtful debts** | | | | | **-91** | **-91** | | |
| **discounting of receivables/payables** | | | | | | | **-95** | **-107** |
| **total** | **176,267** | **182,634** | **3,768** | **4,145** | **28,736** | **32,821** | **78,616** | **78,483** |

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 95 thousand.

Service contracts with partner entities primarily concern environmental hygiene services, for the municipalities that have been applying the TARI tax since 2014.

The municipalities of Fiesso d'Artico, Stra, Salzano, Camponogara, Campolongo Maggiore, Campagna Lupia, Fossò, Vigonovo, Santa Maria di Sala, Marcon, Mira, Fossalta di Piave, San Donà di Piave, Meolo and Quarto d'Altino are excluded and, since these municipalities have decided to apply the 'quantity-based' tariff instead of the tax, so the service provider is able to directly bill end users.

In the case of the Municipality of Venice, the following services were charged besides environmental hygiene services:

- cemeteries;
- markets;
- high-tide footbridges.

Also for other Municipalities, cemetery services are managed (Spinea, Mirano, Martellago and Portogruaro); while for the Municipalities of Chioggia, Fossalta di Portogruaro and Fiesso d'Artico 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 848 thousand as at 31 December 2018.

## 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 | 31.12.2018 Group's shareholding | 31.12.2017 |
|---|---|---|---|---|
| **associates** | | | | |
| Insula spa | Venice | 3,706,000 | 24.73% | 24.73% |
| Sifa scpa | Mestre (Ve) | 30,000,000 | 33.17% | 32.14% |
| Ecoplastiche Venezia srl | Venice | 100,000 | 32.94% | 31.22% |
| Veritas Conegliano srl | Venice | 100,000 | 48.80% | 48.80% |
| Rpm – Riconversione Porto Marghera scarl | Salzano (Ve) | 10,000 | 40.00% | |

Depuracque servizi srl and Lecher ricerche e analisi srl have been reclassified as subsidiaries since July 2018.

In the current year, the Steriladria equity investment decreased to 30% and is classified under assets held for sale.

The following table shows the total values of transactions occurred during the year with associates:

| (thousands of Euro) | 2018 sales to related parties | 2017 | 2018 purchases from related parties | 2017 | 2018 receivables due from related parties | 2017 | 2018 payables due to related parties | 2017 |
|---|---|---|---|---|---|---|---|---|
| Insula spa | 986 | 873 | 898 | 1,335 | 571 | 516 | 332 | 1,125 |
| Sifa scpa | 8,975 | 11,072 | 4,982 | 2,266 | 15,612 | 21,238 | 869 | 1,505 |
| Ecoplastiche Venezia srl | | | | | | | | |
| Veritas Conegliano srl | 160 | 67 | | | 61 | 325 | | |
| Rpm – Riconversione Porto Marghera scarl | 252 | | 321 | | 117 | | 93 | |
| Depuracque servizi srl | 126 | 356 | 430 | 1,238 | | 107 | | 1,670 |
| Lecher ric.analisi srl | 15 | 4 | 256 | 898 | | | | 238 |
| Steriladria srl | 9 | | | | | | | |
| **total** | **10,523** | **12,372** | **6,201** | **5,736** | **16,361** | **22,187** | **1,293** | **4,539** |

Economic and equity relations with associates are governed at market conditions.

As regards the companies Depuracque servizi srl and Lecher ricerche e analisi srl, reclassified as subsidiaries since July 2018, purchases and sales refer to the January-June 2018 period.

Sifa scpa had commercial relations primarily with Sifagest scarl (until July 2018) and with the parent company; relations with Insula spa regard mainly the parent company.

## Other related parties

The other related parties include companies and bodies controlled by the Municipality of Venice and by other local partner entities of Veritas, companies in which the Group holds, also indirectly, a stake of under 20% and investees of 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) | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
|---|---|---|---|---|---|---|---|---|
| | sales to related parties | | purchases from related parties | | receivables due from related parties | | payables due to related parties | |
| Avm spa | 67 | 61 | 87 | 7 | 28 | 32 | 73 | 1 |
| Actv spa | 309 | 369 | 105 | 224 | 123 | 267 | 30 | 279 |
| Vela spa | 103 | 82 | 1 | 2 | 20 | 9 | | |
| Pmv spa | 12 | 10 | | | | | 18 | 12 |
| Ames spa | 69 | 30 | 9 | 4 | 21 | | 7 | 1 |
| Casinò di Venezia gioco spa | 78 | 65 | 11 | | 27 | 10 | 11 | |
| Consorzio Urban | 51 | 48 | | | 97 | 106 | | |
| Ist. centri di soggiorno | 8 | 9 | | | 1 | 1 | | |
| Ist. bosco e grandi parchi | 42 | 33 | | | 21 | 9 | | |
| Ive srl | | 1 | | | | 1 | | |
| Marco Polo System GEIE | | 87 | | | 92 | 92 | | |
| Venis spa | 8 | 14 | 77 | 48 | 1 | 6 | 35 | 11 |
| Vega scarl | 115 | 115 | 10 | 68 | 98 | 58 | 10 | 34 |
| Viveracqua scarl | 50 | | 80 | 71 | 50 | 25 | 78 | |
| Venezia spiagge spa | 99 | 77 | | | 17 | 11 | | |
| Fondazione Musei Civici di Venezia | 26 | | | | | | | |
| Fondazione Teatro La Fenice | 10 | | | | 5 | | | |
| Fondazione La Biennale | 126 | | | | 110 | | | |
| Basin council for the Venetian lagoon | | | 596 | 599 | 160 | 160 | 597 | 1,102 |
| Basin council of Venezia ambiente | | | 124 | 91 | 3 | | 152 | 243 |
| Bioman spa | 45 | 305 | 4,696 | 5,415 | 336 | 332 | 3,018 | 254 |
| Sst spa | 78 | | | | 101 | 190 | 63 | 63 |
| Ipab Felice Casson | 70 | | | | 23 | | | |
| Ecopatè | 2,398 | 2,307 | 418 | 2,260 | 937 | 1,209 | 782 | 816 |
| **total** | **3,764** | **3,614** | **6,214** | **8,790** | **2,272** | **2,518** | **4,873** | **2,816** |

Economic and equity relations with other related parties are governed at market conditions.

As regards Bioman spa, the commercial relations refer to Ecoprogetto srl, Eco-ricicli Veritas srl and the parent company.

As regards Ecopatè, the commercial relations refer to Eco-ricicli Veritas srl.

## 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) | 2018 | 2017 |
|---|---|---|
| **Board of Directors** | | |
| remuneration for office | 252 | 218 |
| other compensation | | |
| other benefits | | |
| **total costs for services** | **252** | **218** |
| | | |
| **board of statutory auditors** | | |
| remuneration for office | 133 | 117 |
| other compensation | | |
| other benefits | | |
| **total costs for services** | **133** | **117** |
| | | |
| **independent auditing firm** | | |
| remuneration for office | 110 | 107 |
| **total costs for services** | **110** | **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.

The policy of the Group does not envisage the subscription of derivative instruments for non-hedging purposes.

Indebtedness exposes the Group'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 believes it has a normal credit risk profile that is consistent with industry trends.

Billing receivables (for Veritas spa and Asvo spa) are, by nature, fragmented over a very high number of users, with limited individual amounts on average.

The percentage of insolvency relating to municipal waste management receivables is currently around 5.96%, a percentage deemed average in the sector, given the undoubted difficulty linked to the impossibility of interrupting the service in the case of insolvency; with the move from Tia to Tares/Tari the interpretation of this phenomenon has changed, indeed with the move to the 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 1.10% 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 two 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 2018, less than 20% of medium-long-term financial debts of the Group, including bonds, will mature within one year.

As at 31 December 2018, the Group reported unused credit facilities amounting to around EUR 111.2 million, compared to roughly EUR 112 million as at 31 December 2017.

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 30.6 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 regard 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 2018 amounting to EUR 16.2 million.

In 2018, the use of short-term financial management instruments, primarily factoring contracts, both direct and indirect (reverse factoring), continued to decline, and this year only the subsidiary Metalrecycling srl entered into new lease agreements for modest amounts.

### Capital management

The net indebtedness of the Group, equal to EUR 172,088 thousand as at 31 December 2018 (EUR 180,414 thousand as at 31 December 2017), was offset by a total shareholders’ equity of EUR 288,565 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 0.60 as at 31 December 2018, compared with 0.68 as at 31 December 2017.

## 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 2018 the Group held the following financial instruments measured at fair value:

| in thousands of Euro | | 31.12.2018 | | | 31.12.2017 | |
|---|---|---|---|---|---|---|
| type | bank | residual notional | fair value assets | fair value liabilities | fair value assets | fair value liabilities |
| IRS | Unicredit 2013 loan | | | | | -2 |
| IRS | Unicredit 2017 loan | 12,851 | | -117 | | -69 |
| Interest rate | BPM Financing Option | 9,058 | 16 | | 49 | |
| IRS | Banca Intesa San Paolo loan 2018 | 1,900 | | -14 | | |
| **total derivative financial instruments** | | **23,809** | **16** | **-131** | **49** | **-71** |

It is worth noting that all assets and liabilities that were measured at fair value as at 31 December 2018 can be classified under Level 2 in the fair value hierarchy.

## 47. Disclosure obligations pursuant to Art. 1, paragraph 125, Law 124/2017

As set forth in Art. 1, paragraph 125 *et seq*. of Law no. 124 of 4 August 2017, amended by Art. 35 of Decree Law 34/2019, a list of the public disbursements collected by the Group in 2018 is provided below.

Public disbursements refer to "*subsidies, grants, benefits, contributions or aid, in cash or in kind, that is not general in nature and does not qualify as consideration, compensation or payment*" (Art. 1, paragraph 125 Law 124/2017).

Amounts are reported in Euro.

| disbursing entity | beneficiary entity of the Group | Contribution type | amounts in Euro | presence in the national register of state aid |
|---|---|---|---|---|
| Fondimpresa | Veritas spa | Training plan to strengthen and improve employee skills year 2016 | 119,643 | |
| Fondimpresa | Veritas spa | Training plan to strengthen and improve employee skills year 2017 | 57,545 | |
| Ministry of Economic Development | Veritas spa | Industry Programme 2015 - energy efficiency for sustainable development | 59,167 | |
| Fondirigenti | Veritas spa | Training plan Successfully managing and optimising value in extraordinary transactions | 2,400 | |
| Conai | Veritas spa | Local communication projects | 32,500 | |
| Gestore servizi energetici spa | Veritas spa | EEB white certificate fees | 29,639 | |
| Metropolitan city of Venice | Veritas spa | Incentives for permanent contracts regional fund | 16,552 | |
| Veneto Region | Veritas spa | Modernisation of public water networks through funds deriving from public water fees adjustment of municipal sewerage-purification scheme Municipality of Fossalta di Piave | 50,000 | |
| Avepa Veneto Agency for payments in agriculture | Veritas spa | BIO-SUN advanced photosynthetic technologies for the treatment of wastewater, production of bio-fuels | 33,600 | X |
| Veneto Region | Veritas spa | Initiative to clean up pollution in the Venice lagoon - Redevelopment of the sewerage system in the historical centre of Chioggia, calli Corso del popolo Sud | 204,197 | |
| Ausir Single authority for water and waste services of Friuli Venezia Giulia | Veritas spa | Adriatic IPA - Networking for drinking water supply in Adriatic Region - Drinkadria | 133,411 | |
| Municipality of Venice | Veritas spa | Agreement with the Ministry of the Environment for the completion of projects for energy efficiency interventions and the use of renewable energy sources on the Island of Certosa and in Porto Marghera | 1,650,410 | |
| Veneto Lavoro | Veritas spa | Regional fund for the disabled | 41,260 | |
| Customs Agency | Veritas spa | Contribution on road transport diesel excise duties | 298,870 | |
| Customs Agency | Veritas spa | Contribution on power diesel excise duties | 40,840 | |
| Italian Revenue Agency | Veritas spa | Contribution on road transport NHS TPL | 10,273 | |
| Gestore servizi energetici spa | Depuracque servizi srl | Photovoltaic plant contribution | 74,833 | |
| Customs Agency | Depuracque servizi srl | Contribution on road transport diesel excise duties | 35,486 | |
| Italian Revenue Agency | Depuracque servizi srl | Contribution on road transport NHS TPL | 1,209 | |
| Fonservizi Fund | Ecoprogetto srl | Subsidy for Employee training | 5,805 | |
| Province of Treviso | Ecoprogetto srl | Subsidy for Employee training | 2,720 | |
| Gestore servizi elettrici Gse | Vier srl | Capital grants | 398,602 | |
| Gestore servizi elettrici Gse | Vier srl | Comprehensive tariff grants | 5,770 | |
| | | **total Veritas Group** | **3,304,732** | |

# 48. Subsequent events

## Water regulation and tariff

By means of resolution no. 10/2019/R/idr of 15 January 2019, Arera confirmed the application of water tariffs for the 2018-2019 period, already approved by the Basin council for the Venetian lagoon in June 2018.

Also for the 2019 tariffs, a decrease is planned compared to 2018, of 2.3%.

## Municipal waste management regulation and tariff

After the 2018 budget law (Art. 1, paragraphs 527-530, Law no. 205 of 27 December 2017) assigned specific waste cycle regulation and control functions to Arera, and after the launch in 2018 of numerous consultations with the operators, the Authority, with resolution no. 1/2019 - Drif of 28 February 2019, launched the initial data collection, limited to waste treatment and disposal facilities.

## Equity investments and business unit acquisitions

On 11 January 2019, the parent company acquired the business unit from Eurekambiente srl relating to the set of assets organised for the management and disposal of waste deriving from the bankruptcy of the company Raam. The purchase price was EUR 600 thousand. The business unit includes a property located in Pianiga (Ve).

In February 2019, the liquidation of the subsidiary Sifagest scarl was approved.

In May 2019, the subsidiary Ecoprogetto exited entirely from the shareholding structure of Steriladria srl.

## Public regulations

As of 1 January 2019, electronic invoicing between private parties became compulsory.

Already in the course of 2018, the new IT system had been created and rolled out, linked to the public Sdi platform, to meet the obligations set forth in the regulations for both receivables and payables.

## Court of Accounts rulings

The Court of Accounts of Veneto, following the assessment by the Municipality of Venice regarding administrative relations for the activity of accounting agents carried out by its investees, deemed the receivable and payable settlement agreement entered into by Veritas and the Municipality of Venice in 2015 invalid, thus ordering, with rulings no. 28 and no. 29 of 14 February 2019, the redrafting of the deals made and sentencing Veritas to pay the sums due for the assessment period relating to 2012.

The amount contested by the Court of Accounts, due to the payments made in the meantime based on the instalment plan contained in the 2015 agreement, is basically cut in half.

In that sense, the payables for instalment collection activity set forth in Law 206/95 and cemetery concessions subject to the agreement amounted to EUR 31,079 thousand as at 31 December 2018 (of which EUR 5,180 thousand paid in February 2019), and therefore they were already reclassified to short-term as at 31 December 2018 pending future developments in the dispute.

In the 2018 income statement, the parent company already recognised EUR 3,537 thousand for the potential payment of default interest.

In any event, the parent company deemed it appropriate to proceed with an appeal against the two rulings.

# 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 2018
### (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 2018.

#### Monitoring activities

In the year ended as at 31 December 2018, 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 2018 that were not in keeping with the company's interests.

In 2018, 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. the 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.

The risk management system was further implemented at the end of 2018 with the adoption of the *Market abuse regulation* on corporate disclosures and the *Internal Dealing regulation*, particularly with regard to the processing of inside information.

Indeed, please recall that Veritas - as the issuer of two bonds [1] the EUR 100 million bond issued in 2014, maturing in 2021 (bullet) and [2] the EUR 15 million Viveracqua Hydrobond issued in 2014 and maturing in 2034 (amortising) - is subject to European and domestic financial regulations on market abuse.

In compliance with such regulations, Veritas therefore:

I. adopted the *Regulation for the management of obligations concerning the fight against market abuse and the processing of inside information*;

II. appointed the manager of the "Figip – internal function for the management of inside information" (function responsible for the management and application of the Regulation);

III. appointed the manager of the "Foid – internal dealing organisational function" (function responsible for the management of internal dealing transactions).

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 internal control system, the risk management system and the organisational structure are commensurate with the dimensions and complexity of the company and, also 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, monitored the process and controlled the effectiveness of the internal control 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, 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 a Non-Financial Disclosure (“NFD”): the obligation to draft the NFS was introduced by Italian Legislative Decree 254/2016 and 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 and Reminder no. 1 issued by Consob on 28 February 2019.

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 2019 - 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, no elements therefore 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 2019, 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 2018 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 2018.

The independent auditing firm presented to us the *Additional Report* - required by Art. 11 of Regulation (EU) no. 537/2014, already presented in advance to the Board of Statutory Auditors and issued to the company on 11 June 2019 - that this Board will bring to the attention of the Board of Directors.

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.

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 2018, in addition to the engagements to audit the separate financial statements, the consolidated financial statements and the financial statements of the subsidiaries, the following audit related engagements were entrusted to EY spa, with the favourable opinion 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 annual separate accounts of Veritas spa as at 31 December 2017, 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 22,000;
- audit of the table of credit and debit balances with the partner municipalities, as at 31 December 2018, 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

The Board of Statutory Auditors acquired from the Supervisory Body, through the *Annual Report* issued on 16 May 2019, 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*.

In the course of 2018, the Supervisory Body did not make any report to the Board of Statutory Auditors of relevant events or news or gaps in the *Organisational Model 231*, as set forth in Art. 6 of the Regulation of the Supervisory Body.

In light of what was reported by the Supervisory Body in its Annual Report and in the absence of findings or gaps in the *Organisational Model 231*, there are therefore no elements that would lead us to believe that the Organisational Model 231 is not compatible with the organisational structure, size and complexity of the company.

The activities of the Supervisory Body are documented by the Annual Report and the subsequent specifications sent to the Board of Directors on 5 June 2019.

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.

No opinions were issued in 2018.

## Financial statements for the year

The Board points out that the draft financial statements for the year ended as at 31 December 2018, 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 27 May 2019.

As regards 2018, 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.

## 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 2018, 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 acquisition of the entire share capital of Depuracque servizi srl and the merger by incorporation of Alisea 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 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 2019, 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 2018, 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 2018.

## 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 2018, 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 2018, we examined their contents and have no observations to make in this regard.

Lastly, please recall that with the approval of the financial statements relating to the year 2018, our three-year term of office is coming to an end: therefore the Shareholders' Meeting will also need to appoint the Board of Statutory Auditors.

Venice, 11 June 2019

*The Board of Statutory Auditors*

Giovanna Ciriotto
Giovanni Battista Armellin
Roberto Giordani

# Veritas S.p.A.

**Consolidated financial statements as at December 31, 2018**

**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**

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

To the Shareholders of
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, 2018, 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 Group as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of 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:

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Capitale Sociale Euro 2.525.000,00 i.v.
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Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
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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, 2018 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.<br>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.<br>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.<br>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 checks on the related impairment test". | Our audit procedures in response to the key matter included, among others:<br>• assessment of the processes and key controls implemented by the Company related to the goodwill impairment test;<br>• assessment of the adequacy of the process adopted in determining the CGU, and allocating assets and liabilities to the carrying amount of each CGU;<br>• assessment of the report produced by the directors' third party specialists, as well as the assessment of their competence, capability and objectivity;<br>• assessment of the reasonableness of future cash flow assumptions, including comparison analysis between the historical forecasts and the actual figures subsequently reported;<br>• assessment of the long-term growth rates and discount rates.<br><br>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.<br><br>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:<br>• 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);<br>• testing of the design and operating effectiveness of key controls;<br>• assessment of the key assumptions used by the directors;<br>• testing on a sample basis the application of the |

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".

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.

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

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the 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 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, 2018, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Veritas Group as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on 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, 2018 and comply with the applicable laws and regulations.

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

### Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of 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 has been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information is subject to a separate compliance report signed by us.

Treviso, June 11, 2019

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.*

# 3
# Resolutions

# 3.1 Resolutions of the shareholders' meeting

The quorate ordinary Shareholders' Meeting which met on 26 June 2019 in Mestre, via Porto di Cavergnago 99, resolved to:

- approve the separate financial statements of Veritas spa as at 31 December 2018, which closed with a profit for the year of EUR 18,304,417.93, consisting of the Statement of financial position, the Statement of comprehensive income, the Statement of changes in shareholders' equity, the Cash flow statement and the Notes to the financial statements, as well as the Report on Operations, pursuant to board of directors resolution of 27 May 2019;
- allocate the profit for the year to the legal reserve to the extent of 5% (EUR 915,220.90), to the non-distributable reserve on the basis of the New Investments Fund (FONI) constraint (EUR 9,229,534.24) and to other available reserves for the residual amount (EUR 8,159,662.79);
- to release the non-distributable reserve recognised previously subject to the FONI constraint (EUR 7,598,153.96), as the investments in water services planned for 2017 were made;
- acknowledge the report of the Board of Statutory Auditors on the separate financial statements of Veritas spa as at 31 December 2018, pursuant to Art. 2429, paragraph 2 of the Italian Civil Code;
- acknowledge the report of the independent auditing firm on the separate financial statements of Veritas spa as at 31 December 2018, drafted pursuant to Art. 14 of Italian Legislative Decree 39/2010 and Art. 10 of Regulation (EU) no. 537/2014.

It also acknowledged:

- the consolidated financial statements of Veritas spa as at 31 December 2018, consisting of the Statement of financial position, the Statement of comprehensive income, the Statement of changes in shareholders' equity, the Cash flow statement and the Notes to the financial statements, as well as the Report on Operations, pursuant to board of directors resolution of 27 May 2019;
- the report of the independent auditing firm on the consolidated financial statements of Veritas spa as at 31 December 2018, drafted pursuant to Art. 14 of Italian Legislative Decree 39/2010 and Art. 10 of Regulation (EU) no. 537/2014.