



SERVIZI AMBIENTALI

CONSOLIDATED FINANCIAL STATEMENTS 2018

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Alia S.p.A.

Registered office: Florence, Via Baccio da Montelupo 52

Share Capital: € 85,376,852.00 fully paid-up

Tax Code No. 04855090488

Florence Register of Companies No. 04855090488

Florence Economic and Administrative Register (REA) No. 491894

Report on Operations

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

INTRODUCTION

The year 2018 was the first of managing the Concession of ATO Toscana Centro (Integrated Municipal Waste Management Authority) in which Alia S.p.A.'s previous in-house providing services ceased: this aspect redefined the Parent Company Alia S.p.A.'s strategic positioning in the management of waste in the regional and national scenario. After the stipulation of the Service Contract on 31 August 2017, the Parent Company has implemented the activities set out in Section 4 of the Contract which are preparatory to the Concession.

The final data for the year 2018 are the result of the actions taken to begin the transitional period of integrated waste management from 1 January 2018 for 49 Municipalities and from 1 March 2018 for another 10, for a concession perimeter that covers about 1.5 million inhabitants residing in an area of over 4,500 sq km in the Provinces of Florence, Pistoia and Prato.

In particular, the first year of Parent Company's concession was characterised by:

- the maintenance of urban hygiene and waste collection models in continuity with the previous year, with the service standards set out in the Service Contract (SC) for the intermediate period up to 31 December 2018;

- the breakdown of the concession rules with ATO Toscana Centro, which currently sees a process in progress for the regulation of the service contract: in particular, 2018 has laid the foundations for a first approach to the method of dialogue between Municipalities - ATO - Alia regarding requests for services (amendments to Section 7 of the SC) and to the activation of ancillary services, thus bridging the time gap between the invitation for tender and the first year of the SC with the need to update and adapt the models on the current needs of the territories;
- the main difficulty of placing the waste collected from the local areas, characterised by the lack of plant at the ATO Centro Toscana and in the regional and national territory where the capacity for treatment, recycling and disposal of waste was insufficient with respect to the growth of flows produced by waste sorting and by the aging/exhaustion of the plants for unsorted waste. This year saw the end of the *Case Passerini* waste-to-energy plant project and highlighted the weakness of our infrastructure dedicated to the recovery and recycling of waste, denoting a detachment with respect to the targets of waste sorting policies;
- the start, in the last months of the year, of the transformation projects of services for the municipal areas that had to adopt the "fully operational" collection model, involving about 114,000 users;
- the annual collection of 890,000 tons of municipal solid waste, of which 537,000 tons of sorted waste collection for 60.4% of the Waste Sorting (WS) target achieved;
- the definition of the Industrial Strategy of waste management, which is taking shape in the first half of 2019, and which sees the overcoming of the purely commercial waste disposal scheme with third-party industrial operators, introducing an innovative model of the industrial recycling chains to cover the treatment needs of each individual fraction.

Finally, it should be noted that the launch of a bond issue listed on financial markets (EUROBOND 50 €/Mil - on the Irish Stock Exchange in Dublin - Republic of Ireland) in 2017 qualified ha Parent Company Alia S.p.A. as a PIE (Public Interest Entity under Article 16 of Legislative Decree 39/2010, as amended and supplemented), thus submitting it to compliance with all the provisions laid down in the relevant regulatory framework for the new subjective legal status.

In accounting terms, Parent Company Alia S.p.A. has adopted, with effect from the financial statements at 31

December 2017, the International accounting standards (IFRS) and prepares the Consolidated Financial Statements since all the requirements set out in Article 25 of Legislative Decree 127/1991 are met.

CONSOLIDATION AREA AND METHODS

Below are the equity investments held directly by Parent Company Alia S.p.A.:

SUBSIDIARIES	PROGRAMMA AMBIENTE S.p.A.	100.00%
	Q.THERMO S.r.l.	60.00%
	IRMEL S.r.l.	51.00%
	REJET S.p.A.	56.48%
ASSOCIATES	AL.BE.s.r.l.	50.00%
	Q.ENERGIA S.r.l.	50.00%
	VALCOFERT S.r.l.	42.50%
	SEA RISORSE S.p.A.	24.00%
	HOLME S.p.A. (in liquidation)	49.00%
OTHER EQUITY INVESTMENTS	LESOLUZIONI SCARL	18.69%
	VALDISIEVE SCRL	12.33%
	TIFORMA SCRL	0.50%
	PROGETTO ACQUE SPA	0.42%
	VAIANO DEPUR SPA	0.34%
	C.E.T. s.c.r.l. (CONSORZIO ENERGIA TOSCANA)	1.52%
	Arzano Multiservizi Spa in Liquidation	13.00%
	HELENA PAESTUM SPA in Liquidation	10.00%
	Consorzio Italiano Compostatori	5.28%
	Cassa di Risparmio di San Miniato	0.00%
	Ente Cambiano S.p.A.	0.01%
	BANCA DI CREDITO COOPERATIVO DI MASIANO S.c.p.a	0.04%
	CHIANTI BANCA S.c. a r.l.	0.02%

The Alia Group consolidates the following operating companies on a line-by-line basis in these financial statements:

- (i) Revet S.p.A is the company that owns the industrial hub for the recycling of plastics, glass, aluminium, tinplate and poly laminate materials of the Tuscany region and its purpose is to

maximise the value of these materials to the benefit of the person transferring the waste, i.e. of the informed citizen. It is a Hub of materials ready to be reused in the industrial chains that possibly operate in the region. Following the acquisition as “treasury shares” by Revet S.p.A. of the stake held by shareholder Multieco S.r.l. (13.6%) occurred in April 2018, the shareholders' agreement that regulated corporate governance becoming statute barred, amendments to the Articles of Association and the appointment of the new Board of Directors approved by the Shareholders' Meeting of 21 September 2018, Revet S.p.A. became a subsidiary of Alia S.p.A. for all purposes and as such is subject to consolidation on a line-by-line basis beginning from 30 September 2018. It holds 53% of Revet Recycling S.r.l., which is consolidated on a line-by-line basis and 49% of Vetro Revet S.r.l. which is consolidated according to the equity method;

- (ii) Programma Ambiente S.p.A. is active in the special waste management sector and in particular the collection and disposal of waste generated from companies operating in the manufacturing sector in the district of Prato;
- (iii) Programma Ambiente Apuane S.p.A. is indirectly controlled through Programma Ambiente S.p.A., operates a landfill for non-hazardous inert waste and asbestos cement product;
- (iv) Q.THermo S.r.l., which is 60% owned and is 40% invested in by S.A.T. Gruppo HERA, is the special purpose joint venture established following the public tender launched for the selection of a technology partner for the design, construction and operation of the Waste-to-energy Plant located in Case Passerini in the Municipal district of Sesto Fiorentino;
- (v) Irmel S.r.l. operates in the sector of building demolition waste and is active in the recovery and preparation for recycling.

The associates reported below have been consolidated according to the Equity method, except for Holme S.p.A. which is at an advanced state of liquidation and has been valued at cost:

- (i) AL.BE S.r.l.: this company was established between Alia S.p.A. (50%) and Belvedere S.p.A. (50%) in 2018 for the design, construction and operation of an anaerobic digestion plant with the production of biomethane for the treatment of the organic and green fraction at the Legoli plant site in the municipal district of Peccioli;

- (ii) Q.Energia S.r.l.: operates in the energy sector. Its business concerns exclusively the production of electricity through the operation of the plant for the recovery and use for energy purposes of the biogas produced by the landfill of S. Martino a Maiano (Certaldo - Florence);
- (iii) Valcofert S.r.l.: operates in the sector of products for soil and agriculture. It is engaged in the production and sale of soil improvers, fertilizers and compost in general, deriving from organic matrices coming from waste sorting;
- (iv) SEA Risorse S.p.A.: operates in the waste sector. Its business includes the collection and transport of sorted waste, the operation of waste-to-energy plants, the recovery of industrial waste and the maintenance of public green areas;
- (v) Holme S.p.A. (in liquidation): operated in the collection and disposal of municipal waste in the Campania region and is now in the final phase of the liquidation procedure.

All the other equity investments have been are measured at cost.

For consolidation purposes, we have used the subsidiaries' financial statements at 31 December 2018 prepared by their respective Boards of Directors for approval on the part of the Shareholders' Meeting.

At the end of 2018 Revet S.p.A. transferred 47% of Revet Recycling S.r.l. to a leading industrial operator in the sector, Montello S.p.A.; at present it is preparing, together with the new shareholder, the business plan for the five-year period from 2019 to 2024, providing for the implementation of 2 new granulation lines to transform a wider range of output streams from Solid Recovered Fuel (SRF) (*CSS, Combustibile Solido Secondario*) into granulated products suitable for the recycling market on a national and even international scale. The recognised expertise of the new shareholder will boost business in this direction.

The consolidated financial statements at 31 December 2018 show a profit of € 1,900,920, after having allocated current IRES (Corporate Income) and IRAP (Regional Production Activity) tax of € 263,271 and having considered the negative effect arising from the recognition of Deferred tax assets and liabilities for an amount of € 327,644 through profit or loss, for a total amount of € 590,914.

It should be noted that the final result differs from the algebraic sum of the results reported by the companies included in the consolidation area due to the adoption of the accounting standards that regulate the measurement of equity investments in the preparation of consolidated financial statements.

For the breakdowns of the items making up the Balance Sheet and Income Statement in the Group's Consolidated Financial Statements, reference should be made to the specific schedules of the Financial Statements reported in the explanatory Notes.

LEGAL FRAMEWORK OF THE PARENT COMPANY AND CORPORATE OBLIGATIONS

The qualification of Parent Company Alia S.p.A. as a PIE (Public Interest Entity) submits it to compliance with the following standards:

- Consolidated act of the provisions on financial intermediation - Consolidated Finance Act (Legislative Decree 58/1998), with the limitations on the interim reporting obligations laid down in Article 83 of the Issuers' Regulation;
- Provisions relating to the Financial Reporting Manager under Legislative Decree 262/2005;
- Provisions governing disclosures of non-financial information under Legislative Decree 254/2016;
- Provisions of Regulation (EU) No. 596/2014 "Market Abuse Regulation (MAR) regarding insider trading;
- Compliance with the Transparency Directive (Directive 2013/50/EU) on mandatory disclosures of listed companies.

It is worth noting that the following provisions are added to the framework referred to above: (i) in accordance with Section 3 of the SC, the concession term granted to the concessionaire is equal to twenty years, with effect from 31 August 2017, date of execution of the contract; (ii) the territorial scope of the service concession - as defined in Section 9 of the SC - includes the institutional territory of Municipal Administrations that are not members of Alia S.p.A.; (iii) the articles of association of Alia S.p.A. do not provide for restrictions on holding or maintaining a public shareholding in the share capital; (iv) in accordance with Sections 19 and 20 of the SC, the Operator's fees from 2018, also for the purposes of determining the waste tax - TARI (*Tassa sui Rifiuti*) - are set in the economic and financial plan attached to the tender offer, resulting in full transfer to the Operator of the operational risk of the concession.

Due to the aforementioned circumstances, Alia S.p.A. is to be qualified as a "public service concessionaire", following a competitive tender, therefore pursuant to and for the purposes of the combined provisions of Article 1, paragraph 2.d and Article 3, paragraph 1.q, of Legislative Decree 50 of 18 April 2016, as it is subject

to public disclosure obligations only for "public works [...] that are strictly functional to the operation of the service."

The Shareholders' Meeting of 24 January 2018 approved an amendment to the Articles of Association regarding the definition of a new corporate purpose in accordance with the new legal status of Concessionaire, as well as the appointment of the Financial Reporting Manager in accordance with Legislative Decree 262/2005.

Lastly, it is specified that with Resolutions 713/714/715/2018/RIF the regulation of the waste sector by the Italian Regulatory Authority for Energy, Networks and Environment, ARERA ("*Autorità per la Regolazione per Energia Reti e Ambiente*") has actually begun. It is hoped that, through this attribution of competence to ARERA (Law 205 of 27 December 2017), a virtuous path has been embarked on which is aimed at guaranteeing a unitary and organic regulation system in the waste sector too.

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF FINANCIAL POSITION

HIGHLIGHTS

The results of operations and financial position are summarised in the operational Consolidated Income Statement and Balance Sheet reported below:

INCOME STATEMENT (€/1,000)	31/12/2017	31/12/2018	Change Actual 18 vs Actual 17	Change (%)
Revenues from sales and services	253,434	299,556	46,122	18.2%
Change in inventories of finished products, semi-finished products and work in progress	(1)	(254)	(253)	-
Other revenues and income	6,548	6,906	358	5.5%
Consumption of raw materials and consumables	(12,142)	(16,839)	(4,697)	38.7%
Costs for services	(126,595)	(158,258)	(31,663)	25.0%
Labour costs	(90,369)	(104,768)	(14,399)	15.9%
Other operating expenses	(4,337)	(3,505)	832	-19.2%
Capitalised costs	0	41	41	100.0%
EBITDA	26,538	22,877	(3,661)	-13.8%
Amortisation, depreciation, provisions and write-downs	(19,313)	(19,103)	210	-1.1%
EBIT	7,225	3,774	(3,451)	-47.8%
Write-downs and reinstatements of financial assets and liabilities	(20)	0	20	>100%
Share of profits (losses) of joint ventures and associates	667	(217)	(884)	-132.5%
Financial income	1,687	1,921	234	13.9%
Financial costs	(3,641)	(2,987)	654	-18.0%
FINANCIAL OPERATIONS	(1,307)	(1,282)	25	-1.9%
PROFIT BEFORE TAX	5,918	2,492	(3,426)	-57.9%
Taxes	(2,414)	(591)	1,823	-75.5%
NET PROFIT	3,503	1,901	(1,603)	-45.8%

STATEMENT OF FINANCIAL POSITION (€/1,000)	31/12/2017	31/12/2018	Change Actual 18 vs Actual 17	Change (%)
Fixed assets	190,045	219,086	29,041	15.3%
Property, plant and equipment	177,338	94,853	(82,484)	-46.5%
Concession assets		119,602	119,602	100.0%
Intangible assets	1,642	1,758	116	7.0%
Goodwill		250	250	100.0%
Equity investments and other financial assets	11,065	2,622	(8,443)	-76.3%
Net Working Capital	9,071	(8,265)	(17,336)	<100%
Provision for Risks and Charges	(40,052)	(34,110)	5,942	-14.8%
Provision for Employee Severance Pay (TFR)	(20,750)	(19,852)	898	-4.3%
TOTAL NET INVESTED CAPITAL	138,314	156,859	18,545	13.4%
Shareholders' equity	166,962	173,464	6,503	3.9%
Net Financial Position	(28,648)	(16,606)	12,042	-42.0%
TOTAL FUNDING	138,314	156,859	18,545	13.4%

The deviations between 2018 and 2017 are mostly attributable to the differences in the line-by-line consolidation area mainly arising from extending it to Revet S.p.A. and Revet Recycling S.r.l., as well as to what is detailed in the Report on Operations of the (separate) Financial Statements of Alia S.p.A..

Below are the economic, equity and financial ratios:

		U/M	2017	2018
Solvency ratios				
	<i>calculation method</i>			
Financial solidity ratio	Equity capital / (total liabilities - equity capital)	%	0.60	0.60
Shareholders' equity ratio	Equity/non-current assets	"	0.88	0.79
Coverage of fixed assets with equity and debt	(Equity + payables due after 12 months)/fixed assets	"	1.66	1.44
Liquidity ratios				
Current ratio	Current assets/short-term liabilities	"	1.90	1.59
Quick ratio	(Current assets-Inventories)/Short-term liabilities	"	1.89	1.57

		U/M	2017	2018
Financial ratios				
	<i>calculation method</i>			
Cash flow from operating activities	Profit (or loss) + amortisation and depreciation + provisions	€/000	22,817	21,003
Average stock turnover	(Closing inventories) * 360 / (consumption of materials)	days	54	71
Average maturity of receivables from tariff	(Trade receivables) * 360 / Revenues	"	89	102
Average maturity of payables to suppliers	Payables to suppliers * 360 / (consumption of materials + costs for services + other operating costs)	"	161	183
Working capital cycle	average stock turnover + average maturity of receivables from tariff - average maturity of payables to suppliers	"	-18	-11

		U/M	2017	2018
	13			

Profitability ratios		<i>calculation method</i>			
ROE	net profit/equity	Profit (or loss) / equity	%	2.1%	1.1%
ROI	operating income / invested capital	EBIT / total assets	"	1.6%	0.8%

		U/M	2017	2018
Productivity ratios		<i>calculation method</i>		
Core business revenues per capita	Revenues / average total employees	€/000	126.53	125.39
Value added per capita	value added / average total employees	"	58.37	53.43
Cost of labour per capita	(Personnel costs) / average total employees	"	45.12	43.85
Operating income per capita	EBIT / average total employees	"	3.61	1.58

		U/M	2017	2018
Economic ratios		<i>calculation method</i>		
Cost of sales / revenues	(consumption of materials) / Revenues	%	4.8%	5.7%
Personnel cost / revenues	Personnel costs / Revenues	"	35.7%	35.0%
Operating income / revenues	EBIT / Revenues	"	2.9%	1.3%
Financial costs / revenues	Financial costs / Revenues	"	1.4%	1.0%
Net profit / revenues	Profit (or loss) / Revenues	"	1.4%	0.6%
Average number of total employees		no.	2,003	2,389

DEVELOPMENT ACTIVITIES

The Group Companies did not carry out any development activity during the year.

TRANSACTIONS WITH SUBSIDIARIES, ASSOCIATES, PARENT COMPANIES AND ENTITIES CONTROLLED BY PARENT COMPANIES

The details of related-party transactions has been reported in the explanatory notes of the paragraph on “related-party transactions” of the report on the separate financial statements to which reference should be made.

INFORMATION REQUIRED BY ARTICLE 2428, PARAGRAPHS 2.3 AND 2.4, OF THE ITALIAN CIVIL CODE

With reference to the provisions of Article 2428, paragraphs 2.3 and 2.4, of the Italian Civil Code, it should be noted that at 31 December 2018 Revet S.p.A. held 418,023 treasury shares with a par value of € 1.00 each. All the other Group Companies do not hold any treasury shares, or shares or quotas of parent companies, not even through trust companies or third parties and had not purchased or disposed of such shares or quotas during the year. Alia S.p.A. is controlled by the local Municipality of Florence.

Information on disposals/acquisitions of treasury shares of Revet S.p.A. during 2018.

On 19 March 2018 Revet S.p.A. transferred by endorsement, before Mr Cammuso, Notary Public in Empoli (Florence), 275,285 treasury shares with a par value of € 1.00 each to Shareholder Alia S.p.A. and 19,458 treasury shares with a par value of € 1.00 each to Shareholder Sienambiente S.p.A..

On 4 June 2018 the Company transferred by endorsement, before Mr Cammuso, Notary Public in Empoli (Florence), 23,580 treasury shares with a par value of € 1.00 each to Shareholder Sienambiente S.p.A..

On 6 July 2018 the Company transferred by endorsement, before Mr Cammuso, Notary Public in Empoli (Florence), 23,580 treasury shares with a par value of € 1.00 each to Shareholder Sienambiente S.p.A..

On 6 July 2018 the Company acquired, by a deed under file 21894 before Mr Cammuso, Notary Public in Empoli (Florence), 395,819 treasury shares with a par value of € 1.00 each from Shareholder Multieco S.r.l..

On 19 December 2018 the Company transferred by endorsement, before Mr Cammuso, Notary Public in Empoli (Florence), 81,495 treasury shares with a par value of € 1.00 each to Shareholder Sienambiente S.p.A..

On 12 February 2019 the Shareholder Sienambiente S.p.A. announced that it had released 349,474 shares it held from the pledge that had been previously established by Banca Popolare dell'Etruria e del Lazio (now UBI Banca).

INFORMATION REQUIRED BY ARTICLE 2428, PARAGRAPH 2.6-BIS, OF THE ITALIAN CIVIL

CODE

With reference to the provisions of Article 2428, paragraph 2.6, of the Italian Civil Code, it should be noted that as at 31 December 2018 the Group, except for Revet S.p.A., did not hold financial instruments aimed at hedging risks arising from fluctuations in interest rates.

Revet S.p.A. holds financial instruments aimed at allowing active, prompt and informed management of the most important areas of risk. In particular, the company's risk management policy tends to minimize the exposure to fluctuations in interest rates, including through the use of derivatives that are appropriately selected.

As regards the exposure to the risk arising from fluctuations in interest rates, the company has designed an optimal composition of the debt structure between fixed- and variable-rate components and uses derivatives (interest rate swaps) in order to achieve with a good approximation the pre-established debt composition target. More specifically, these instruments have been used to change the risk profile connected with the exposure to changes in the interest rate for the following financial instruments: Intesa Mediocredito S.p.A. variable-rate loan, raised on 29 March 2007 and due 31 December 2021, amounting to €. 17,000,000. The rate has been set as equal to 3-month EURIBOR plus 1.50 percentage points. Two interest rate swaps have been entered into with reference to this financial instrument in order to convert the variable rate loan into one at fixed rate.

The Company has left the notional value of the contracts unchanged, since the same hedge is also applicable to the other indexed debt in relation to leases and other banks loans that are in place.

It is therefore noted that the abovementioned transactions are not carried out for speculative purposes.

The information concerning the features of the aforesaid contracts and in particular their fair value, amount and nature, reference should be made to the Notes to the Financial Statements.

SIGNIFICANT MANAGEMENT EVENTS DURING THE 2018 FINANCIAL YEAR

The significant facts, events, decisions for the corporate management are listed below in chronological order:

- **28 February 2018**: the executive design of basic and ancillary services, as well as of the plant operational model, was sent to ATO Toscana Centro, accompanied by the update of the 2018 Economic and Financial Plan which actually initiated the request for rebalancing for 2018 in accordance with Section 22 of the Service Contract.
- **1 March 2018**: the Single Operator took steps to take over the concession management of the 10 Municipalities outside the original scope of in-house providing services of Alia S.p.A. as required by the Service Contract: Abetone-Cutigliano, Figline V.no Incisa, Marliana, Montecatini Terme, Pescia, Pieve a Nievole, Rignano sull'Arno, Sambuca P.se, S. Marcello P.se/ Piteglio and Uzzano.
- **11 April 2018**: ALBE S.r.l., a project company between Alia S.p.A. (50%) and Belvedere S.p.A. (50%) was established for the design, construction and operation of an anaerobic digestion plant with the production of biomethane for the treatment of the organic and green fraction at the Legoli plant site in the municipal district of Peccioli.
- **30 April 2018**: the Council of State's Judgment on the Concession Tender was published, which rejected the appeal submitted by the opposing grouping against the final award of the concession confirmed by the Tuscany Regional Administrative Court (TAR, *Tribunale Amministrativo Regionale*) on 16 June 2017, thus definitively confirming the awarding of the tender to Alia S.p.A..
- **2 May 2018**: the Shareholders' Meeting of Alia S.p.A. resolved to grant a mandate to the Board of Directors to acquire from the current owners of the "ex Cava Fornace" property site, located in the municipal district of Montignoso (MS), on which the landfill operated by subsidiary Programma

Ambiente Apuane S.p.A. stands, with separate agreements with Alia S.p.A. to make it available for the operation of the plant.

- **24 May 2018**: with Judgment 3109, the 5th division of the Council of State definitively annulled the director's order 4688 of the Metropolitan City of Florence of 23 November 2015, which constituted an Integrated Environmental Authorisation (AIA, *Autorizzazione Integrata Ambientale*) under Legislative Decree 152 of 2006 and a Single Authorisation (AU, *Autorizzazione Unica*) under Legislative Decree 387 of 2003 issued to Q.tHERmo for the construction and operation of the Case Passerini Waste-to-energy Plant.
- **31 July 2018**: ALIA sent ATO TC, together with the update of the Plant Operational Model, a new update of the 2018 EFP, including an estimated cost reallocation on a municipal basis, in addition to the 2021 EFP which incorporates the effects of changes in executive design under Section 7 as requested by the Municipalities. This update modifies the request for rebalancing under Section 22 of the Service Contract sent on 28 February 2019, fixing it at a total value of around €/mil. 15.1. The rebalancing is mainly due to the present and future critical issues regarding waste disposal which were repeatedly referred to at the shareholders' meetings held during 2018 and reported to the various institutional Entities and bodies concerned by correspondence filed on the record.
- **3 August 2018**: in the performance of the mandate granted by the Shareholders' Meeting of 2 May 2018 referred to above, the contract was executed for the acquisition of the "ex Cava Fornace" site and subsequently a lease agreement was signed with subsidiary Programma Ambiente Apuane S.p.A. to allow the latter to continue operating the plant.
- **21 September 2018**: with the acquisition as "treasury shares" by Revet S.p.A. of the stake held by the shareholder Multieco S.r.l. (13.6%), the shareholders' agreement that regulated corporate governance becoming statute barred, amendments to the Articles of Association approved by the Shareholders' Meeting and appointment of the new Board of Directors, Revet S.p.A. became a subsidiary of the Alia Group for all purposes and as such is now subject to consolidation on a line-by-line basis.

- **15 and 20 October 2018**: ATO TC was sent the proposed 2019 EFP which incorporates the changes in service under Section 7 of the SC requested by the Municipalities and the estimated waste flows shared with ATO TC, as well as the assumptions on the plant operational model consistent with the 2018 EFP.
- **19 October and 13 November 2018**: the "Explanatory Report" supporting the request for rebalancing the 2018 EFP under Section 22 of the Service Contract was submitted to ATO TC in relation to the "plant operational model" and "inter-plant transport" sections.
- **29 October 2018**: ATO TC was sent the documentation reporting Alia's proposed definition of the RAB [Regulatory Asset Base] at 31 December 2017.
- **1 November 2018**: Programma Ambiente transferred to Alia the business unit relating to the municipal waste management in the province of Prato (in particular management of Lots 1 and 2 of the Via Paronese Hub in Prato and operation of waste collection stations with consequent employment of 37 workers).
- **15 November 2018**: ATO TC was sent the new version of the 2019 EFP which incorporates the instructions by the Regulatory Authority regarding the management of treatment and recycling operations. [ATO TC Memos 6704 and 6702 dated 8 November 2018].

Collection and Sweeping Services Management

During 2018, the process of unification, integration and standardisation of collection and sweeping services continued in parallel with the implementation of service transformation projects, which to date is still in progress. The subdivision of the territory into four areas directed by Local Departments, which interact with each other in order to create synergies and improve the system efficiency, has seen changes in the structure of each Department due to both the transfer of management of some municipalities from one to another, and ten new municipalities passing under the management of Alia.

The structure of responsibilities of each Local Department, for the purposes of service management, is therefore modified with respect to the previous year:

- For Local Department DT1, the Municipalities of Figline and Incisa Valdarno and Rignano sull'Arno became part of the management of the Florentine area from March, while Local Department DT3 took over collection and sweeping services for the four municipalities in the Piana Fiorentina area (Calenzano, Campi Bisenzio, Sesto Fiorentino and Signa) from October;
- From March, Local Department DT2 took over the management in the municipal districts of Montecatini Terme, Pieve a Nievole and Uzzano, while the Municipalities of Abetone Cutigliano, Marliana, Pescia, Sambuca Pistoiese and San Marcello Piteglio were joined to the management scheme of the Pistoia Area of the Local Department DT4.

Obviously the data and features of the services performed by each Local Department are affected by the differences characterising each local area depending on industrialisation, population density and the social and economic context.

Collection Service

The collection service was the object of a vast and complex redesign aimed at the full implementation of the projects covered by the collection and sweeping service Concession.

In 2018 Alia was involved in a plan to transform collection services, with the aim of improving and stabilising the performance of waste sorting operations, both in qualitative and quantitative terms. The transformations were defined in accordance with the guidelines given by the Municipal Authorities, taking into account the peculiar and specific features of the local areas concerned, being aware that the enhancement of local specificities is a key and essential element for an excellent and shared adoption of services. Many of the systems applied, regardless of the type of model adopted ("door to door" collection, as well as above-ground, underground and demountable containers, etc.), provide for the tracking of the transfers made by each user, which then follows the responsibility of the citizens/users: an essential prerequisite for the growth in quality and quantity of materials sent for recycling or composting, as well as for the expected responses in environmental and industrial terms (development of recycling chains).

WASTE COLLECTION PERFORMANCE

During 2018, the services delivered under the Concession agreement in the 59 municipalities produced a total

of 889,395 tons of waste, with sorted waste collection at just over 60%. Waste production was up compared to the previous year (+ 8.6%) as a result of ten new Municipalities being joined to the concession scheme. There was a greater increase in the Waste Sorting operations with a positive delta of 10.7% which was also due to the successful outcome of the transformations put in place from the last months of 2018.

ALIA				
	2016	2017	2018	2018 VS 2017
BULKY MUNICIPAL WASTE	378,506	333,310	351,996	5.6%.
Waste Sorting	476,547	485,376	537,399	10.7%.
TOTALS	855,053	818,686	889,395	8.6%.
WASTE SORTING %	55.7%. 59.3%. 60.4%.			

Each local area is in line with compliance requirements in terms of waste sorting performance, targeting the objectives set with the projects implemented so far, but the trends observed for each Department, in relation to total production and unsorted residual waste data, deserve clarification in consideration of each design and management operation.

	DT 1				DT 2-4				DT 3			
	2016	2017	2018	2018/2017	2016	2017	2018	2018/2017	2016	2017	2018	2018/2017
BULKY MUNICIPAL WASTE	197,364	192,899	195,628	1.4%.	89,708	81,246	102,464	26.1%.	91,434	59,165	53,904	-8.9%.
WASTE SORTING	231,684	231,696	254,274	9.7%.	127,314	126,982	150,017	18.1%.	117,549	126,698	133,108	5.1%.
TOTAL	429,048	424,595	449,902	6.0%.	217,022	208,228	252,481	21.3%.	208,983	185,863	187,012	0.6%.

54.0% 54.6% 56.5%

58.7% 61.0% 59.4%

56.2% 68.2% 71.2%

Materials entering the Revet S.p.A. system in the last three-year period (overall Light Multi-materials+ Heavy Multi-Materials +GLASS+Other materials):

Year	Kg collected/transferred	Δ +/-	Δ %
2014	149,685,499		
2015	156,537,190	6,851,691	+4.58%
2016	162,865,893	6,328,703	+4.04%
2017	179,403,904	16,538,011	+10.15%
2018	200,031,407	20,627,503	+11.50%

2018 saw the completion of the transition from heavy multi-material waste collection in bell-shaped containers to light multi-material (bell-shaped container, Nord Engineering container or Door-to-Door collection) and mono-material glass (bell-shaped or Nord Engineering containers) collection.

REMOVALS

REKET	2018	2017	Change '18/'17	% changes
Light multi-materials [n]	160,976	149,037	11,939	8.01%
Heavy multi-materials [n]	7,823	4,747	3,076	64.80%
Mono-material glass [n]	127,617	87,233	40,384	46.29%
TOTAL	298,434	243,034	55,400	22.80%
% of TOTAL	42.60%	33.42%		9.18%

THIRD-PARTY CARRIERS	2018	2017	Change '17/'16	% change
Light multi-material [n]	80,764	63,813	16,951	26.56%
Heavy multi-material [n]	275,115	351,227	-76,112	-21.67%
Mono-material glass [n]	46,256	69,197	-22,941	-33.15%
TOTAL	404,153	486,254	-82,101	-16.88%
% of TOTAL	57.69%	66.86%		-9.17%

TOTAL	2018	2017	Change	% change

			'17/'16	
Light multi-material [n]	241,740	212,850	28,890	13.57%
Heavy multi-material [n]	282,938	355,974	-73,036	-20.52%
Mono-material glass [n]	173,873	156,430	17,443	11.15%
TOTAL	700,569	727,271	-26,702	-3.67%

The year just ended saw the Revet staff members carrying out almost 8 thousand removals of heavy multi-material (against 5 thousand in 2017), about 161 thousand removals of light multi-material (against 149 thousand of 2017) and more than 127 thousand removals of mono-material glass (against 87 thousand in 2017) waste, as well as collection services delivered by the sites spread through the territory.

The differences were mainly due to:

- Higher removals carried out directly by Revet, as a result of an increase in staff members and above all of summer staff replacements which allowed the company to retain those services that had been outsourced in previous years;
- The transition from heavy multi-material to road mono-material glass and door-to-door light multi-material waste collection in the districts of Valdinievole and Mugello at the end of 2018;
- Insourcing all the Glass collection services in the Geofor area;
- Insourcing all the glass collection services in the Empoli area of Alia DT2 Local Department (ex Publiambiente);
- Completing the activation of the North service in the district of Novoli Firenze of Alia DT1 Local department.

In 2018, 313 new containers were acquired from Revet in order to meet the operators' requests. Furthermore, it was decided to concentrate ownership of containers in the area under management by Alia: for this reason we will transfer ownership of the containers in 2019 which are the property of Revet but are located in the area managed by Alia. Maintenance work has been outsourced and this has resulted in faster response time and lower costs. The washing of containers positioned throughout the territory has been carried out for each operator, except in the provincial districts of Arezzo and Grosseto for the operator Sei Toscana (since they are

not provided for in the ESP [Economic Service Plan; PSE, *Piano di Servizio Economico*]) and of the Geofor area since it is not provided for in the contract.

The Sorting Centre (CSS, *Centro di Selezione*) worked 4,598 hours (substantially in line with 4,541 hours in 2017) to process the materials entering the Pontedera site.

The multi-material waste sorting plant - District Centre (*Centro Comprensoriale*, CC) worked 5,194 hours against 5,087 hours in 2017.

The Sorting Centre's productivity was 9.96 actual tons a hour with an average efficiency of 83%.

The multi-material waste sorting plant - District Centre's productivity was 10.44 actual tons a hour with an average efficiency of 81%.

Despite the efforts made to ensure improved and prompt communication to shareholders and customers about the importance of the quality of incoming materials, there was a deterioration in the quality of the transferred materials, especially due to the presence of organic fraction, in 2018.

INCOMING MATERIALS

	2018	2017	Change '18/'17	% change
Waste Sorting	200,031,407	179,403,904	20,627,503	11.5%
Special and similar waste	25,417,339	20,018,865	5,398,474	27.0%
TOTAL	225,448,746	199,422,769	26,025,977	13.1%

There was a considerable increase in waste and a decline in outgoing glass waste for the operations of the District Centre operations.

Materials processed at third-party plants

PLANTS	2018	2017	Change '18/'17	% change
REJET Plants	80,364,783	84,022,326	3,657,543	-4.35%
Third-party plants (*)	79,855,731	53,116,376	26,739,355	50.34%
Other plants	1,250,610	617,581	633,029	102.50%
TOTAL OUTGOING WASTE	161,471,124	137,756,283	23,714,841	17.22%

(*) the item does not take account of mono-material glass waste collection

MATERIALS SORTED AT THE PONTEDERA SITE

	2018	%	2017	%	Change '18/'17	% change
Products	14,105,469	33.21 %	16,005,518	36.65 %	1,900,049	-11.87%
By-products	28,370,508	66.79 %	27,669,041	63.35 %	701,467	2.54%
TOTAL SORTED PLASTIC MATERIALS	42,475,977	100%	43,674,559	100%	1,198,582	-2.74%
Polylaminate materials	1,480,727	1.84%	1,712,723	2.04%	231,996	-13.55%
Tinplate	4,225,933	5.26%	4,548,731	5.41%	322,798	-7.10%
Aluminium	869,247	1.08%	851,438	1.01%	17,809	2.09%
Metals	362,230	0.45%	391,360	0.47%	29,130	-7.44%
Glass	19,758,323	24.59 %	25,320,665	30.14 %	5,562,342	-21.97%
Miscellaneous waste	11,192,346	13.93 %	7,522,850	8.95%	3,669,496	48.78%
TOTAL other products	37,888,806	47.15 %	40,347,767	48.02 %	2,458,961	-6.09%
General output - Pontedera	80,364,783	100%	84,022,326	100%	3,657,543	-4.35%

As it can be inferred from the table above, an even greater change was reported in the type of packaging collected in 2018, with a consequent decline in Plastic Liquid Containers (CPL, *Contentori in Plastica per Liquidi*) and then in the products sorted and an increase in by-products.

During 2018 Programma Ambiente S.p.A. had to face considerable difficulties from outside, independent of its own organisation, such as the continuing suspension of the transfers of asbestos cement waste to the Montignoso landfill (operated by subsidiary Programma Ambiente Apuane S.p.A.), as well as continuing difficulties in procuring spaces at disposal plants to whom waste must be delivered, with consequent adverse impacts both in terms of revenues and in terms of operating profit margins.

Waste treatment plants: recycling, recovery and disposal

In delivering the services under the concession agreement, the operations of the Alia plants were made conditional on the application of the *management model* offered which was - in turn - required to be adapted to the changed overall conditions.

The plants - which were, so to speak, *transferred* by the granting authority ATO Toscana Centro - are:

- ◆ the plant complex at Casa Sartori (composting and landfill), Montespertoli;
- ◆ the plant complex at Case Passerini (composting, mechanical biological treatment and landfill), Sesto Fiorentino;
- ◆ the plant complex at Paronese (mechanical treatment and sorted waste recycling), Prato;
- ◆ the composting plant at Faltona, Borgo San Lorenzo;
- ◆ the DANO mechanical biological treatment (MBT) plant in Pistoia;
- ◆ the San Donnino plant complex (sorted waste recycling and transfer of unsorted municipal waste), Florence.

The quantities of waste produced, the product characteristics, the consequent collection methods, the comprehensive logistical organisation, the available engineering system - in relation to both the plants that have been *transferred*, operated under agreements, and the plants available on the market - are all factors that have proved to be substantially different from what was initially planned by ATO Toscana Centro.

The organisation and delivery methods of collection services in the municipal districts served by the scheme - in addition to also being extended during the year to those municipal districts that were not served by the management entities that have established Alia - have undergone a process of gradual rationalisation, with consequent modifications or implementations of the collection networks, which has given shape to the work performed by Alia at the *transferred* plants, and consequently to the overall organisation of the structure.

Transferred waste was treated according to the permits, as well as to in-house and process procedures, with particular attention to environmental improvement and cost reduction.

As regards unsorted municipal waste (Code EER 20 03 01), the major plants are those of mechanical treatment at Case Passerini (Sesto Fiorentino) and Via Paronese (Prato).

The company planning has therefore been set by favouring these plants dedicated to producing Solid Recovered Fuel (SRF), and then the direct transfer to the Montale incineration plant, and finally to the DANO *off-specification compost* production plant (Pistoia) and to the transfer station operations at the San Donnino hub (Florence) from where waste is destined to the mechanical biological treatment plants of Peccioli (PI) and Terranuova Bracciolini (AR) and of Pietrasanta (LU) and Massa.

In addition to managing almost all the waste produced by the composting plant, the Casa Sartori landfill was also used to receive waste coming from the Faltona composting plant and the waste leaving the DANO plant in

Pistoia, as well as some streams coming from the via Paronese and Case Passerini hub, reaching the limit set out for permitted volumes.

Finally, the *active* management of the Case Passerini landfill was retained subject however to accepting only the streams of mixed construction and demolition waste - produced by constructing and/or maintaining Alia's infrastructure - and of the sludge produced by its purification plants.

Finally, we took steps to have sworn expert's reports prepared to estimate provisioning charges for post-operational management, to be intended as the phase following the completion of direct transfers to the landfill site (for more information reference should be made to the Notes to the Financial Statements) during this year too.

Direct manufacturing costs for the disposal of unsorted waste amounted to €/mil. 49.8, of which €/mil. 4.5 on account of various indemnities: €/mil. 2.3 for environmental hardship allowance and €/mil. 2.2 for the *Regional Special Tax* (Ecotax).

Therefore, the plants also carried out the treatment of other sorted waste, such as:

- organic fraction;
- greenery cutting and pruning;
- paper and cardboard;
- bulky waste;
- multi-material waste (*both light and heavy*) coming from door-to-door collection or from stations with underground containers;
- WEEE (waste of electric and electronic equipment);
- various types of hazardous municipal waste;
- tyres.

These streams were sent for:

- treatment at the three composting plants, regarding more than 197,000 tons of organic and green waste for the production of mixed composted soil improver, green compost soil improver and simple green non-compost soil improver, having - however - to also rely on third-party plants, outside the region, given the quantities collected, exceeding the present internal plant capacity;

- selection, within the network of COMIECO (*Consorzio nazionale recupero e riciclo degli imballaggi a base cellulosica*, Italian Consortium for recovery and recycling of cellulose-based packaging) platforms, involving approximately 4,000 tons of paper and cardboard at the San Donnino hub, which was stopped in the first four-month period, in addition to 10,500 tons of stored waste;
- storage - mainly at the Paronese and San Donnino hubs - and subsequently for recovery/disposal involving other waste coming from waste sorting (bulky waste, WEEE, wood, iron, tyres, etc.) for about 88,000 tons;
- storage, at the same hubs, and subsequently for recovery/disposal involving about 200 tons of HMW (Hazardous Municipal Waste).

Unsorted waste treated at the mechanical biological treatment plant in Case Passerini was approximately 96,000 tons and was used to produce SRF, dry fuel fraction, stabilized organic fraction (FOS, *Frazione Organica Stabilizzata*), under-sieve fraction and ferromagnetic waste, in addition to various waste products, to be sent for recovery on a priority basis.

Unsorted waste treated at the mechanical treatment plant at Paronese was about 86,000 tons and was used to produce dry fuel fraction, under-sieve fraction and ferromagnetic waste, in addition to various waste products, to be sent for recovery on a priority basis.

On the other hand, about 93,000 tons of unsorted waste was treated at the San Donnino hub, mainly through a transfer station, while outflows were sent to third-party mechanical biological treatment and incineration plants.

Furthermore, over 5,700 tons of waste products were mostly sent for recovery to the MBT plant in Case Passerini, while the remaining part was sent for disposal.

All the plant engineering activities were supported by the customary services provided by the in-house functions working side by side with the plant management staff.

The Chemical Laboratory directly carried out over 4,900 analytical determinations and provided consultancy services to interact with external laboratories, both for feedback determinations - so as to also ensure the impartiality and objectivity of results - and for those types of analysis that cannot be conducted with available equipment.

In addition to the management of transferred plants, the Concession agreement provides for a number of further activities at sites that are not directly concerned with the treatment of collected municipal waste.

These include both sites *inherited* from the firms that established Alia, and those that some Municipalities have indicated to ATO Toscana Centro. As regards those that are already known, work continued on monitoring and management, while the remaining sites are being assessed with ATO Toscana Centro in order to define the details of specific activities.

Information, communication and relations with users

In 2018 work continued on communication activities dedicated to building the corporate identity and strengthening relations with the users and with the institutions operating in the areas served under the concession agreement.

As occurred in the previous year for the latter areas, an institutional communication campaign was planned in the 10 additional municipalities joined to the scheme in order to make the population familiar with the new manager, services and contact channels.

In 2018 the communication activity had among its main objectives the implementation of the various tools, with the aim of enhancing and facilitating access to information and therefore the participation in the services on the part of the various users.

At the beginning of the year (January 2018), a company Twitter account was opened, which grew over the months in terms of followers and visibility, while on 13 March (one year after Alia was established) the first issue of the information Newsletter was sent, which keeps the subscribers updated on news, services and company strategies on a monthly basis. Furthermore work continued on the development of the corporate portal with the implementation of new and innovative functions. Among these was the access to an interactive map dedicated to Eco-centres and to a multilingual map (RifiuMappa) dedicated to the city of Florence, which is capable of providing information on the services delivered in each street. The RifiuMappa map was released within the scope of a broader communication project, which also saw the diffusion of new paper materials, the installation of 'talking' stickers on the containers, equipped with QR-codes in multiple languages and the personalisation of Tramways with slogans on waste sorting, even in English, so as to attract foreign audiences, as well as citizens and city users.

A campaign on illegal waste disposal was conducted in Pistoia, which subsequently involved the other two Provincial capitals, Prato and Florence. The project was delivered through radio commercials transmitted by the major Tuscan broadcasters, a plan for billboards and "viral" videos disseminated through social media.

In the municipal districts affected by the transformation of services, the reorganisation projects were also accompanied by specific information campaigns and contacts with users, so as to facilitate the implementation of the new developments through the planning of various tools (staff providing information to general public, public meetings, flyers etc.)

During the course of the year, the press office continued its work which was firstly targeted at the Municipalities joined to the scheme and at the local areas involved in the transformations. Similarly, media relations concerned the dissemination of inside information with the circulation and storage of price-sensitive press releases, as well as press conferences and specific radio and television services.

Our commitment to environmental education was also significant, which involved more than 8,800 students through specific projects for schools of different levels and grades. Among the most important projects was CapitanEco, a pirate champion of the environment who met more than 1,000 boys and girls from primary school.

Of particular importance was the management of relations with users, which was carried out through the correspondence system and the Call Center service. During the year 19,800 incoming messages were received and the Call Center was confirmed as the most popular channel for users to contact the company, for a total of 561,414 incoming calls processed.

In 2018 Alia also continued and increased its participation in initiatives and events in the area served by the scheme, often in collaboration with the organising Municipal Authorities. Among the projects were Autumnia in the Municipal district of Figline Incisa Valdarno, FirenzeBio at Fortezza da Basso and KissMe Mugello on the occasion of the World Motorcycle Championship.

Technical Resources (Fleet and Property) Management, Procurement and Logistics

2018, which was the first year of operation of the Concession, was in any case a year of transition in which the various executive projects were started for the municipalities concerned and in which Alia took over, from 1 March, the management of the 10 municipal districts from third-party companies outside Alia, with the consequent absorption of personnel, means and resources of the companies leaving the scheme (Ecology & Services, COSEA, AER). In particular, the Technical Resources, Procurement and Logistics Department continued the process of combining the technical and administrative management of the vehicle fleet, as well as of property assets, materials and equipment logistics throughout Alia, including the new areas mentioned above. At the same time the procurement process management became fully operational according to the new private-sector guidelines provided by the Organisational, Management and Control Model and all the necessary relations were established with ATO (subcontract applications), which involved a patient and meticulous development work. The organisational effort for the start-up of ATO subcontracts in this area was considerable and, during the year, over 100 subcontracts were signed for a total of almost €/mil. 130; instead, as regards the entire procurement process, including capital supplies and other services and works, a total of over 800 long-term contracts were signed for a total of approximately €/mil. 400.

Following the inclusion of additional municipalities from 1 March and with some areas passing from Road Collection to Door-to-Door Collection, the fleet has increased from around 1,200 to about 1,300 vehicles and operating machines, deployed at logistics offices and treatment plants; it has been kept efficient and safe through scheduled and routine maintenance on the part of in-house and authorised third-party workshops distributed throughout the territory.

With regard to investments in vehicles and equipment, we continued the renewal with a view to bringing the fleet of vehicles and equipment into line with the provisions laid down in the Concession Plan and the Service Contract, in particular:

- 30 old Side Loader Compactors were replaced with 20 new EURO 6 gaseous methane (CNG, Compressed Natural Gas) fuelled vehicles, half of which were registered in early 2019; the adoption of these measures marked the transformation of the heavy fleet into CNG-fuelled vehicles, which should lead to savings of about €/mil. 1 a year on the fuel entered into full service (within 4 years) and reduce emissions in a considerable manner;

- We commenced an almost full replacement of the fleet of light tanker trucks (Porters) for light Door-to-Door collection and sweeping with new EURO 6 Porters (54 in 2017 and as many in 2018), half of which are equipped with bin loaders and added 7 vehicles to the fleet of 7 cu. m. tanker trucks of the Local Department 3;
- We completely renewed the fleet of medium vehicles for the Florence snow emergency, purchasing 10 special vehicles;
- We purchased 2 electric sweepers, one for the historic centre of Florence (which is added to the 2 ones that are already in service) and one for the historic centre of Pistoia.

The medium-term rental of some vehicles was also used to meet the requirements arising from an early implementation of the transformation projects for services and changes under Section 7.

From 2018, as was expected, a process was started to reduce the average age of the fleet and gradually reduce environmental impact, so that the average age of the fleet went from approximately 7.4 years of the Alia fleet in 2017 to 6.8 years in 2018. The 2019-2020 Investment Plan provides for a great renewal of the fleet, the aim being to bring the average age to around 5 years as required in the tender offer, an excellent compromise between investments and a guarantee of good reliability.

In 2018, the 10-year renewable contract for the supply of gaseous methane (CNG) for transport was finally signed with Trident, in alliance with SNAM and Gazprom Italia; the first CNG distributor to be built at the San Donnino Hub in Florence was therefore designed and presented to the Municipal Authorities for the issuing of the relevant permits at the beginning of 2019.

The project providing for underground containers in the Historic Centre of Florence in 2018 was definitely resumed compared to the previous three years and as many as 8 stations with 6 bell-shaped containers each were built. At the same time, with regard to the Municipality of Pistoia, ATO TC approved amendments to Section 7 for the construction of 13 UWC (Urban Waste Collection) stations in the Historic Centre, to which must be added above-ground stations to complete the layout of the area; the designs were drawn up to be approved and implemented in 2019.

Among the actions taken were routine and non-routine maintenance of the company offices and of the installations other than plant engineering systems of the treatment plants, which are now very numerous (68 at the end of 2017). In particular:

- Work continued on the non-routine maintenance of the headquarters of Ferrale (formerly Ecofirenze) (Florence) in 2018; in November new offices were opened, to which about 25 employees were seconded from the Technical Resources Department (DRT, *Direzione Risorse Tecniche*) (Property and Fleet Management Technical Offices and Administrative Procurement Offices) and the central warehouse system entered into service for the storage of waste containers and thawing salt;
- in Pistoia the new TARI waste tax office was opened in the same location with Publicacqua and Publiccontrolli.

As regards the Collection Sites (33 planned by ATO TC in the first 3 years) there were several contacts with the municipal authorities and the foundations were laid for their authorisation procedure through ATO TC; however, only towards the end of 2018 some issues were clarified which led to authorising the Feasibility Projects of the Collection Sites at Barberino del Mugello, Greve and Fiesole in early 2019.

Prevention, Health and Safety at Work, Integrated Quality Management System - Safety

- Environment

During 2018, the Safety, Environment and Quality Department (DSA, *Direzione Sicurezza, Ambiente e Qualità*) was committed to two specific objectives:

- gradually completing, sharing a single strategic vision, the standardisation of waste management and environmental hygiene services delivered in the areas of competence;
- identifying some issues of particular significance and of more obvious criticality which require significant improvements to be made immediately as things stand currently.

With this in mind, the Integrated Management System staff were committed to checking and updating any and all documents, with any necessary amendment and addition, including operating and system procedures, required to carry out this transition. The opportunity provided by the obligation to migrate existing certifications according to the ISO 9001 and ISO 14001 standards to the new 2015 editions was taken in doing so. This made it possible to guide the strategic vision of the new company with a view to preventing risks and evaluating any possible opportunity provided by the context in which the new company operates, while always keeping in mind expectations of the parties concerned in making decisions.

The Certification Body, which carried out the audit of compliance with the ISO 9001 and ISO 14001 standards, as well as with the OHSAS 18001 in June 2018, also verified whether the system met the requirements laid down in the 2015 editions and had the capacity to achieve the objectives set out in the relevant policy.

The first report on the scenario analysis and risk assessment that the management system produced in May 2018 was set according to the criteria required by the general PG 27 procedure regarding the "*Scenario analysis and risk management*." Based on these criteria, interviews were conducted with the Managers responsible for each company organisational unit at meetings held for this purpose, so that each of them could share the key issues proposed by the Integrated Management System, derived both from direct corporate governance experience and from literature topics which are regarded as consistent with the context in which Alia operates.

As regards 2018, further information is provided below which gives an account of the work performed by the management system:

- Audits

As per the Internal audit plan (MOD.01 PG.03 INTERNAL AUDIT PLAN), issued annually by the Safety, Environment and Quality Department (DSA, *Direzione Sicurezza, Ambiente e Qualità*) and approved in March, audits were carried out at 38 Alia sites, for a total of 106.81 days/man.

- Non-conformities/observations with respect to the total of those reported

Following internal audits and on-site inspections carried out by the DSA Department, minor non-conformities and observations were reported which the Departments concerned promptly took in charge, according to the relevant procedure, to resolve and improve any critical issue found.

- Certification Body's audits for standards 9001, 14001 and 18001

The audits carried out by the Certification Body "SGS" highlight that Alia's Integrated Management System continues to be an effective, well-structured and continuously improving business management tool.

Objectives for 2019

During 2019 the overriding commitment will therefore be:

1. To support the Departments to complete, as an objective already set in 2018, the structuring of a monitoring system checking for compliance with all contractual obligations with ATO TC, both in administrative and technical terms in relation to service and plant management standards;
2. To complete the transition to the new editions of the standards, also including the transition from OHSAS 18001 to ISO 45001 governing safety and health at work;
3. To help each Department in adopting a management vision that takes account of the overall context of Alia, as well as of the stakeholders involved, the objectives aimed at avoiding the impact of any possible risk and considering any possible opportunity that may play a fundamental role on the path to continuous improvement;
4. To continue monitoring the Company's compliance with the technical regulations in the field of environment and safety applicable to its own processes, implementing additional specific procedures, while promptly ensuring support and guidance to the various Departments, as well as a control and surveillance system operating on an ongoing basis.

Billing, Collection, Economic and Financial Plans of TARI waste tax

In 2018, as regards those municipalities that had requested the activation of the ancillary service 18 under the ATO TC Service Contract, the “*Tax assessment, collection and litigation service*” was delivered in the implementation of the provisions of Article 1, paragraphs 639-731, of Law 147/2013, governing waste tax (TARI); the municipalities involved were: Capraia e Limite, Castelfiorentino, Cerreto Guidi, Certaldo, Empoli, Figline-Incisa, Fucecchio, Gambassi Terme, Montaione, Montelupo Fiorentino, Montespertoli, Vinci, Lamporecchio, Larciano, Lastra a Signa, Monsummano Terme, Pistoia, Serravalle Pistoiese, Bagno a Ripoli, Calenzano, Campi Bisenzio, Fiesole, Florence, Greve in Chianti, Impruneta, San Casciano Val di Pesa, Scandicci, Signa, Tavarnelle Val di Pesa, Carmignano, Montemurlo, Poggio a Caiano, Prato, Vaiano, Agliana, Montale, Quarrata. As regards the Municipality of Lamporecchio, the TARI Quantity-based Fee waste tax was handled through ALIA directly issuing a tax document (invoice), while the TARI waste tax LEVY was applied for the other municipalities. The issuance of adjustments, payment orders and taxpayer’s rolls for TIA tariff users also continued in relation to previous years.

All the municipalities applied the same collection methods as in the previous year: Form F24 (Capraia e Limite, Castelfiorentino, Cerreto Guidi, Certaldo, Empoli, Fucecchio, Gambassi Terme, Montaione, Montelupo Fiorentino, Montespertoli, Vinci, Larciano, Lastra a Signa, Monsummano Terme, Pistoia, Serravalle Pistoiese, Carmignano, Montemurlo, Poggio a Caiano, Prato, Vaiano, Agliana, Montale, Quarrata), mail order form (Prato, Lamporecchio), current account form and debit (Figline-Incisa, Bagno a Ripoli, Calenzano, Campi Bisenzio, Fiesole, Florence, Greve in Chianti, Impruneta , San Casciano Val di Pesa, Scandicci, Signa, Tavarnelle Val di Pesa).

In 2018:

- approximately 1,300,000 notices and invoices were issued for an amount of about € 280,000,000;
- a total of approximately 60,000 payments were managed via current account direct debit (SEPA).

In 2018, we attempted to standardise our business management activities and combined the main outsourced services, such as: printing and enveloping, mailing and process serving management.

As regards debt collection, a total of 58,271 payment orders were served, 2,038 of which were sent by Certified Email.

In 2018 actions were taken to issue the following:

- 28,657 notices of assessment for non-payment, 155 of which were sent by certified email;
- 7,618 notices of assessment for failure to report;
- 4,562 notices of presumptive assessment.

As regards the trend of tax collection, this affects the ALIA financial statements only for the residual amount of TIA tariff as revenue receipts of the company. We confirm that there is a gradual and now chronic lengthening in the time required to collect these residual amounts.

The litigation with users remained very limited and was managed in agreement with the Municipal Authorities for the TARES (*Tassa Rifiuti e Servizi*, Waste and Services)/TARI tax portion.

The Billing and Collection Unit entered 426,446 records in the user database as regards front-office operations in 2018. Work was completed on obtaining land registry data from the Municipality of Florence. Reports were prepared in response to 20,505 letters/emails/Certified Emails.

In 2018 investigations were conducted to find total tax evaders, both domestic and non-domestic, through a massive cross-referencing of databases. Requests for information were sent to 15,468 potential tax evaders,

443 of which were sent by Certified Email, with significant savings in mailing costs. This work reported a total amount of concerning about 44,495 sq. m. for "domestic users" and 391,088 sq. m. for "non-domestic users". We worked in collaboration with the municipal offices to design and verify the operating methods to be used in setting the parameters required for assessments in the event that the users contacted do not proceed with the settlement of their position.

With regard to the Digital TARI waste tax system, which allows users to check their TARI position on-line and make any changes to their utility accounts; at present as 20,774 users are registered with the Digital TARI waste tax portal and 1,182 users have subscribed to the on-line alert service.

Personnel, recruitment and training policy

The table below shows the consolidated statement of workforce in service, broken down for each of the Companies consolidated on a line-by-line basis:

Workforce

The average headcount in the Alia Group during the year was **2,389 units** as detailed below:

	ALIA S.p.A.	Revet S.p.A.	Revet Recycling S.p.A.	IRMEL S.r.l.	Qthermo S.r.l.	Programma Ambiente S.p.A.	Programma Ambiente Apuane S.p.A.	Alia Consolidated Financial Statements
Executives	13	2						15
Middle managers / office workers	507	50	5			12		574
Manual workers	1,283	133	18	2		25	4	1,465
Agency staff	332	3						335
Total	2,135	188	23	2	0	37	4	2,389

During the year, employment relationships were terminated with 96 employees (3 of which due to the expiry of their fixed-term contracts) at the Parent Company. In the same period 310 employees were hired on permanent employment contracts, 106 of which came from AER, COSEA AMBIENTE, ECOLOGIA E SERVIZI, in relation to taking over service management for the Municipalities of Incisa-Figline, Rignano sull'Arno, Montecatini Terme, Pescia, Marliana, Uzzano, Pieve a Nievole and Borgo a Buggiano and 37 of which in relation to taking over the operation of the business unit of PROGRAMMA AMBIENTE S.p.A., which provided operational support to the Waste Mechanical Treatment Plant located in Prato at the via Paronese Hub.

In 2018 a total of 663 employment contracts were signed, 310 of which regarding subordinate employment and 353 relating to temporary employment.

The use of temporary workers has been necessary to meet the needs required to replace staff who are absent on holiday as per the annual schedule, for long periods or during the periods of high tourist season, as well as for other temporary requirements and non-recurring operations.

Industrial relations

As regards Industrial Relations, in 2018 the most important results achieved were the signing of the agreement for the application of the 2018 performance bonus, with the introduction of a welfare system linked for the first time to the payment of a portion of the Incentive Bonus in the form of shopping vouchers and/or petrol vouchers, which will allow contribution savings both for employees and for the Company and the signing of the agreement for the regulation of transfers of administrative staff.

A trade union agreement was also signed for setting up the on-call service in the Local Departments 2 and 4 (Empoli and Pistoia area).

Recruitment and Selection

A significant recruitment and selection activity was carried out in 2018, which led to hiring 16 people from inside and 23 from outside the Company.

In particular, given the considerable effort required of the HR Department function and of the engineers sitting in appraisal committees, it is worth noting the selection process for drivers and operators of the Local Departments.

Training

28,898 training hours were delivered at Alia in 2018 as shown below:

TOTAL TRAINING HOURS	28,898
IN SAFETY	13,360
IN OMCM	134
IN OPERATIONAL TRAINING	7,730
IN CONTINUOUS TRAINING	7,674

TRAINED WORKERS BY GENDER AND POSITION	No.	hours	hours per person
	1,985	28,898	14.56
MEN	1,517	23,561	15.53

WOMEN	468	5,337	11.4
EXECUTIVES	11	322	29.27
MIDDLE MANAGERS	32	699	21.84
OFFICE WORKERS	509	7,022	13.80
MANUAL WORKERS	1,433	20,855	14.55

It is therefore confirmed that training work at Alia is a fundamental tool to improve efficiency, service quality and the professional development of workers. Moreover, the objective pursued in 2018 through training activities helped guide the construction of a culture and a shared identity language at Alia. In fact, in addition to the performance of traditional training activities (safety, operational training, etc.), there was a considerable amount of work in planning and structuring training courses needed to enrich the work expertise possessed by human resources appointed to coordinate groups of persons; this was achieved by refreshing and acquiring soft skills, which are at present regarded as a distinctive competence of modern and competitive companies.

To this end, one of the most interesting experiences made in this field is the project targeted at tutor-trainers, a role which, according to our procedures, is covered by human resources coordinators. In particular, these professionals are helped, with the support of a psychologist and a communicator, to design a common and shared method to effectively transfer their knowledge to staff under their coordination and therefore push them towards a path of professional development and motivation of working in a safe manner and independently from each other. The 16-hour course has dealt with topics such as the difference between classroom lessons and training approach, as well as with training methods, techniques and schedules, learning checks, feedback, observation of staff, handling objections and real cases. At the end of the course the trainees were required to prepare a *Vademecum for ALIA Trainers*, a smart report to be used as a guide for the construction of the training setting. 13,000 training hours were dedicated to safety, in relation to which we can mention the “Safety & Wellness - *tools for workers’ well-being in the field of safety and health at work*” project implemented to deliver refresher courses to workers. It was structured into two distinct modules, the first focusing on the stress-related risk which had the purpose of providing the worker with tools for recognising this risk and adopting self-help behaviour for its management; the second module instead allowed

the workers to gain greater awareness of the importance of proper nutrition and its correlation with well-being at work. Both modules have enabled the company to introduce an innovative training method, i.e. experiential training that makes learning easier.

In 2018 we also used e-learning training for the first time. In December, we in fact delivered general training courses on the GDPR in accordance with Regulation (EU) 2016/679 to 790 employees based on this method, accompanied by learning assessment tests and by the issue of an assessment test pass certificate.

IT systems and infrastructures

A set of combined application systems and architectures was implemented throughout 2018.

Among these were:

- In the field of SAP R3 - commissioning of the combined ERP SAP System with the FI-CO-AA-MM-SD modules, as well as of the Plant Maintenance and Workshop - PM Module, the B2B electronic billing module and interfaces with the various legacy systems;
- In the field of Anthea: commissioning of databases dedicated to plants and collection sites in a unified environment;
- In the field of HR - INAZ Management Software: commissioning of the combined INAZ Presenze - INAZ HR - INAZ Budget system.

The following projects and activities were also successfully completed:

- Finance and Control: commissioning of the Piteco Treasury System;
- Services Management: implementation of current service management software for transfer of entire sites between Local Departments;
- Services Management: various modules were implemented in AliaNetwork including CRM, Vehicle Reporting, Equipment Delivery, etc.;
- Document Management - using Arxivar to manage B2B Electronic Billing;

- TARI waste tax management: the three systems that are currently in use for TARI waste tax management were implemented to support compliance with new requirements such as B2B electronic billing.

As regards applications, projects were kicked off during 2018 which will lead to the implementation of the single Services Management, TARI waste tax Management and SIT (*Sistemi Informativi Territoriali*, Local Information Systems)-GIS (Geographical Information System) systems over the coming months and years.

In 2018, at the IT infrastructure level, the projects and activities carried out concerned the following areas:

- Centralized Computing - migration of data centres of ex ASM, ex Publiambiente and ex CIS to the centralized server farm of the Florence office;
- Distributed Computing - migration of the Workstations of all the sites to the aliaspa.it domain;

Control Systems, Transparency, Code of Ethics and Litigation

Organisational, Management and Control under Legislative Decree 231

During 2018, despite a highly dynamic situation, work continued on updating the procedures required by the Organisational, Management and Control Model on an ongoing basis and complying with the Code of Ethics, adopted in the application of Legislative Decree 231/2001, as amended and supplemented.

The Supervisory Board members were provided with any requested information and were given any such notice as was required for them to be informed of the Company's events.

During 2018, in particular, the Company updated the Model as follows:

- at the meeting held on 16 February, the Board of Directors updated the model with reference to the offences of: i) illicit brokering and labour exploitation; ii) racism and xenophobia; iii) commercial fraud;
- at the meeting held on 6 December, the Board of Directors definitively approved the comprehensive review of the Organisational, Management and Control Model, even in relation to the adoption of whistleblowing regulations under Article 6, paragraph 2-*bis*, of Legislative Decree 231/2001, as well as the new Code of Ethics, the new disciplinary System and the New Rules of the Supervisory Board.

It is a Company's long-established practice to prepare quarterly audits on the flows sent to the Supervisory Board. During the year, after updating the mapping of the business processes carried out by the Quality, Safety and Environment Department, the Supervisory Board took steps to review and make additions to the information flows in order to highlight, throughout all the business processes, all such activities and decisions that could fall within the scope of "sensitive areas" as provided for in the Organisational, Management and Control Model. The new flow system has been operating since June 2018. During the 2018 financial year, the Supervisory Board performed 12 audits whose summary result is reported in the annual Report sent to the Board of Directors and to the Board of Statutory Auditors. During the year or in the Annual Report the Supervisory Board never reported significant critical issues.

The governing body and all the Departments promptly satisfied any request for information, audits and hearing submitted by the Granting Authority ATO Toscana Centro, the Member Municipalities, any other Body and the Authorities competent in matters of local supervision and safety, as well as by the Supervisory Board. All the inspection and control activities carried out by the competent Bodies were carried out with our utmost cooperation, in full compliance with the company procedures adopted. We always paid the utmost attention to behaviours, attitudes, feelings and listening, depending on the application of the Company's Code of Ethics and the Organisational, Management and Control Model under Legislative Decree 231.

During the first quarter, training was provided on Legislative Decree 231/2001 and the Organisational, Management and Control Model to all the company Departments. Furthermore, in the second quarter, courses were delivered with reference to predicate offences provided for in the environmental code, in particular on the issues of bulky waste and disposal, as well as on waste lying on the banks of rivers and streams.

Litigation.

Public Prosecutor Office's investigations into the operation of the Company's plants: in 2018 the Florence Public Prosecutor's Office continued its investigations, which had begun in May 2017, into the operation of many plants used by Alia and substantially took into consideration many of the activities carried out (from production of soil conditioner and biogas to waste management, as well as the operation of a site subject to reclamation), thus producing a vast "catalogue" of the alleged offences in separate papers (all of which falling

within the scope of the same proceedings). Seizure orders were issued, while Alia took measures to appeal against them. Mr. Megli, who is the lawyer assisting some of the defendants, submitted his opinion on the litigation to the independent auditors, to which reference should be made in full.

By a judgment handed down by the Court of Florence, 1st Criminal Division, and filed on 29 October 2018, the former Chairman, the former Chief Executive Officer and the Plant Manager were acquitted on the grounds of no case to answer, who had been referred for trial for various environmental offences relating to the operation of the San Donnino Plant.

Q.tHERmo: on 24 May 2018, with Judgment 3109, the 5th Division of the Council of State annulled the director's order 4688 of the Metropolitan City of Florence of 23 November 2015, which constituted an Integrated Environmental Authorisation (AIA, *Autorizzazione Integrata Ambientale*) under Legislative Decree 152 of 2006 and a Single Authorisation (AU, *Autorizzazione Unica*) under Legislative Decree 387 of 2003 issued to Q.tHERmo for the construction and operation of the Case Passerini Waste-to-energy Plant. The Judgement annulled the order since no irregularities were reported which were attributable to Q.tHERmo; accordingly, the subsidiary submitted a request for Authorisation once again, which the Tuscany Regional Government has not yet granted at present. It should be also noted that the plant still remains in the regional planning process.

Appeals against the ATO tender: on 30 April, the Council of State's Judgment on the Concession Tender was published, which rejected the appeal submitted by the opposing grouping against the final award of the concession confirmed by the Tuscany Regional Administrative Court (TAR, *Tribunale Amministrativo Regionale*) on 16 June 2017, thus definitively confirming the awarding of the tender to Alia S.p.A..

Maciste fatal accident: by Judgement handed on 13 November 2018 the Court of Pistoia, within the criminal proceedings relating to the fatal accident occurred to Mr. Salvatore Bennardo on 13 September 2011 at the Maciste Collection Site, which is operated by ex CIS S.r.l. in the Municipal district of Montale, sentenced each of the three defendants (executives and employees of ex CIS S.r.l.) to three years in prison. Furthermore it sentenced them, jointly with Alia S.p.A. (subject to civil liability since it is the company into which CIS S.r.l. was merged), to pay € 100,000 in favour of each of the three heirs for a total of € 300,000 as an immediately enforceable advance payment.

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

According to Article 123-*bis* of the Consolidated Finance Act (Legislative Decree 48 of 2008), the companies issuing transferrable securities admitted to trading on regulated markets must provide, in a specific section headed "Report on corporate governance and ownership structure" of the report on operations, the detailed information required by paragraphs 1 and 2. According to Paragraph 5 of the aforementioned Article, "the companies that do not issue shares admitted to trading on regulated markets or in multilateral trading systems are not obliged to publish the information referred to in paragraphs 1 and 2, except for that required by paragraph 2.(b)."

The information required by Article 123-*bis*, paragraph 2.(b), of the Consolidated Finance Act is therefore provided below, concerning the existing risk management and internal control systems in relation to the financial reporting process with reference to the Organisational, Management and Control Model under Legislative Decree 231/2001 and the application of Legislative Decree 262/2005.

The Organisational, Management and Control Model under Legislative Decree 231 forms an integral part of the risk management and internal control system in relation to the financial reporting of Alia, due to the type of the model itself. According to Article 6, paragraph 2, of Legislative Decree 231/2001, in fact, the Model must "identify the areas in which offences may be committed."

Alia has analysed the types of offences and identified the company processes or areas in which there is a risk of the offences provided for in the Decree being committed, including the offences of false corporate communications (Articles 2621 and 2621-*bis* of the Italian Civil Code) and false corporate communications of listed companies (Article 2622 of the Italian Civil Code).

For each of these processes/areas the individual sensitive activities have been identified and the rules of control and conduct have been laid down, which all those operating therein must comply with.

It should be noted that in 2018 the Company updated the Model with reference to all company processes as already reported in the section relating to the Organisational, Management and Control Model.

The second part of the risk management and internal control system in relation to financial reporting is being prepared in order to comply with Legislative Decree 262/2005, laying down provisions on the appointment of the Financial Reporting Manager.

Given the regulatory obligation described, an amendment to the Articles of Association was approved in relation to the appointment of the Financial Reporting Manager at the Board of Directors' meeting held on 23

October 2017. The Extraordinary Shareholders' Meeting of 24 January 2018 approved the new Articles of Association, while on 16 February 2018 the Board of Directors appointed Mr Gustavo Giani as Financial Reporting Manager. The Financial Reporting Manager, assisted by an external consultant, continued the implementation of the internal control system that attests to the truthfulness and correctness of the financial reporting (financial position and results of operations for the financial year) produced by the Company. Furthermore, the Board of Directors approved the Rules for the Financial Reporting Manager by a resolution dated 17 April 2018.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

14 February 2019: the General Meeting of ATO Toscana Centro approved the "2019 Concession EFP" by resolution 4.

6 March 2019: the "*Update of the industrial policies of Alia S.p.A.*" which redesigns the strategic role of Alia within Circular Economy was submitted to the Board of Directors.

22 March 2019 and 05 April 2019: the Tuscany Regional Government published the Decrees of environmental compatibility of projects for the production of biomethane from Organic Fraction of Municipal Solid Waste (FORSU, *Frazione Organica del Rifiuto Solido Urbano*) at the plant hubs of "Casa Sartori" and Peccioli (Albe), with exclusion from the EIA (Environmental Impact Assessment; VIA, *Valutazione di Impatto Ambientale*).

28 March 2019: a MoU (Memorandum of Understanding) was signed with ENI in order to consider the technical and economic feasibility of plant engineering projects in the field of the recovery of biofuels from plastic waste and waste products.

19 April 2019: the data collection tables required by Resolution 714/2018/R/RIF of 27 December 2018, concerning the "Treatment of municipal and similar waste" were sent to ARERA.

27 May 2019: a MoU (Memorandum of Understanding) was signed with Rea Impianti S.p.A., Belvedere S.p.A. and the Tuscany Regional Government in order to establish strategic partnerships aimed at optimising the plant capacity available on a regional basis.

OUTLOOK

The 2019 financial year, the second of concession management, will be the year that the reference contractual framework and its operational application are defined for Alia, including the structural rebalancing of the Economic and Financial Plan. The regulatory matters will increasingly have a bearing on operations, both in relation to the local regulator (EGATO Toscana Centro) and with regard to the national regulator (ARERA).

Because the waste sector is affected by a considerably complex regulatory framework on a national scale, together with the lack of certain planning and authorisation measures, it is an area of risk that can hardly be mitigated by operators. The recently issued legislation that gives ARERA the power to regulate environmental matters hopefully means the authorities will be able to outline a virtuous path aimed at ensuring a unitary and structured regulatory system in the waste sector too.

The second year of concession management is also the one in which "full operation" begins for all transformations of services that started in 2018 and the transformation begins for the collection models that will be adopted by the Municipal Authorities for over 200,000 users, aimed at maximising waste sorting and its quality.

The year 2019 is also a year of major planning projects, which will see the development of innovative waste collection systems, increasingly aimed at both tracking transfers to optimise their quality and automation to make service management more efficient, as well as at protecting workers.

But above all this year will see the inception of projects aimed at implementing the new strategic positioning of Alia as a full-fledged protagonist within circular economy, thus laying foundations for a new industrial policy for waste management.

The year 2018 was marked by considerable uncertainty in placing collected waste, thus exposing Alia to the risk of having to update and renegotiate agreements for inter-ATO transfers and consignments to non-regional plants on an ongoing basis.

To face the structural lack of plant equipment, Alia put in place authorisation procedures as early as at the end of 2018, which were aimed at implementing the plant capacity for the treatment of organic and bulky waste.

In early 2019, it redesigned its industrial policy, under which the Case Passerini Waste-to-energy plant project for the treatment of unsorted waste is now regarded as being an obsolete project.

The Parent Company's industrial policy is aimed at developing recycling chains by reducing the structural gap between the environmental legislation governing waste sorting and their effective placement, thus ensuring the development of market outlets for selected and treated waste and the placement of waste products. This approach involves building up stable and sound (locally developed) chains for waste cycle, opening up to entrepreneurial partnerships and involving the industrial entities concerned in the effective use of recycled waste in the replacement of virgin materials. To this end, the strategy adopted is aimed at:

- strengthening the "*glass chain*", through the new company - Vetro Revet - in partnership with the Zignago Group, the leading national player in glass production. This has made it possible to put in place a short chain in the glass cycle and send all glass collected in Tuscany for actual recycling in the implementation of the business plan;
- creating the "*biomethane chain*" from organic waste through the project to upgrade the Casa Sartori plant (Montespertoli) with the construction of a biodigester, thus increasing organic waste recovery up to 165,000 tons a year and of Albe S.r.l.'s anaerobic digestion plant in Peccioli for the recovery of 105,000 tons a year of organic waste coming from both Alia and the rest of Tuscany; both are aimed at the production of quality compost (biofertilisers) and biomethane for transport for almost 20 million SCMs a year, strengthening the environmental footprint of Alia, which will help to convert the vehicles in its fleet to run initially on methane and then on biomethane;
- strengthening the "*plastic granule chain*", through the upgrade of the Pontedera plant of Revet S.p.A. by increasing the treatment capacity required to recover multi-materials collected throughout Tuscany, thus improving its sorting efficiency and building an industrial plant for the production of recycled mixed plastic granules to replace the production of virgin materials, which is also thanks to the partnership with the Montello S.p.A. group, a major industrial operator in the sector;
- building the "*paper chain*" by implementing two platforms for the recovery and enhanced use of paper and cardboard in partnership with the Benfante/ReLife group, a major industrial operator in the sector;
- building the "*bulky waste chain*" through the creation of a platform for sorting and recovery of bulky waste at the site located at Ferrale in the Municipal district of Florence;

- implementing the "*biofuel chain*" to complete the waste management cycle by no longer sending the waste products obtained from the treatment of sorted and unsorted waste with an "energy value" for disposal. This project is certainly the most complex of those mentioned above and envisages carrying out Biorefinery processes from waste products obtained from Waste Sorting in industrial chains and from the treatment of unsorted waste, capable of producing biofuels, such as biomethanol, for the production of petrol with a high content of renewable sources.

The ongoing industrial policy proposes to put in place a circular economy plan that involves all the major streams of collected waste, including "reservoirs" of resources in relation to which Alia may implement its waste strategy which will allow the implementation of the objectives of the Circular Economy package to be anticipated.

During 2019 Programma Ambiente S.p.A. will continue a profound reorganisation with a view to a different positioning in the perimeter of the Alia group; even after acquiring the required operating spaces, it will be gradually able to take on a set of activities mainly concerning special waste, which is currently managed in-house by the parent company, while also possibly developing adequate systems for the storage of the main waste for which management is envisaged.

With a view to providing even greater support to the group and obtaining a benefit in terms of optimisation of resources, which may also be used in market activities performed by Programma Ambiente, it is expected that it will invest in vehicles and personnel in the next months to perform new contracts concerning waste transport.

RISK MANAGEMENT

Introduction

The Alia Group has designed specific policies for each of the following types of risk with the primary aim of setting out the strategic guidelines, organisational and management principles, macro processes and techniques required for their active management (where applicable):

- 1) Financial Risks (*liquidity, exchange rate, interest rate*);
- 2) Credit Risks;
- 3) Equity Risks;
- 4) Operational Risks.

The active management methods used by the Group for each type of risk are described below.

1. FINANCIAL RISKS:

a) Liquidity risk

Liquidity risk is the risk that the financial resources available to the Group are not sufficient to meet its financial and commercial obligations according to the agreed terms and conditions and deadlines. The procurement of financial resources is managed by the Finance and Control Department to optimise the use of available resources. In particular, the centralised management of financial flows makes it possible to allocate available funds according to needs. The competent Department carefully monitors compliance with the financial covenants regulating the Bond issued by the Parent Company in 2017 and other medium- and long-term loans on a regular basis. The current and future financial position and the availability of appropriate bank credit facilities are monitored on an ongoing basis; no critical issues are reported in relation to covering short-term financial commitments. The most suitable forms of financing to meet Alia's requirements and the best market conditions are sought through the relationships the Company maintains with the major Italian Banks. The liquidity risk for Alia is therefore strongly mitigated by monitoring carried out by the Finance and Control Department on an ongoing basis.

b) Exchange rate risk

The Alia Group is not exposed to exchange rate risks since it operates at a national level.

c) Interest rate risk

The interest rate risk to which the Group is exposed mainly originates from financial debts to banks. In light of the current trend in interest rates, the Group's risk management policy does not provide for the use of derivative contracts to hedge interest rate risks.

2. CREDIT RISK

Alia's credit risk is substantially linked to the amount of trade receivables due from companies and private individuals who make use of waste disposal services under private law contracts and to unsettled items arising from the former TIA tariff management which accrued directly to general users, as well as to the amount

receivable claimed from the Municipal Authorities in relation to the urban waste management service following the adoption of the taxation scheme from 2012/2013.

In conducting its business, Alia is exposed to the risk that the debts may not be honoured at maturity, with consequent increase in their ageing or insolvency in the case of debts which are involved in insolvency proceedings or which are in any case uncollectible.

The credit management policy and the credit rating assessment tools, as well as monitoring and recovery, are differentiated according to the different types of credit mentioned above.

The terms of payment generally applied to customers are those prescribed by the legislation or regulations in force or are in line with market standards; in case of non-payment, default interest will accrued at the rate set out in the contracts.

Accruals to the provision for bad debts precisely reflect the actual credit risks.

3. EQUITY RISK

Equity risk is essentially linked to the recoverability of the value of the investments made by the Parent Company in investees; this risk is not significant as the Parent Company does not hold equity securities consisting of capitals subject to high variability and available for sale. All the investments held in subsidiaries and associates relate to companies that are not listed on the stock exchange and consist of long-term investments that are functional to the company business; the tests as to whether there is evidence of permanent impairment losses are monitored on the basis of the development plans and prospects of the companies and of available information: they are managed within the scope of the group's strategy in order to enhance and support any investment made.

Permanent impairment losses (if any) are adequately reported in the financial statements.

4. OPERATIONAL RISKS

This category includes all the risks which, in addition to those already highlighted in the previous paragraphs, can impact on the achievement of the objectives, in relation to the effectiveness and efficiency of company operations, performance levels, profitability and protecting resources from any loss.

The risk management process requires that the activities performed in each operational area are analysed and the main risk factors associated with achieving objectives are identified. Following their identification, risks

are assessed qualitatively and quantitatively (in terms of intensity and probability of occurrence), thus allowing the most significant to be detected and selected and mitigation plans to be designed accordingly.

For the Board of Directors

**The Chairman
Paolo Regini**

Statement of Financial Position

STATEMENT OF FINANCIAL POSITION	<i>Notes</i>	2018	2017
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	1	94,853,258	177,337,599
Concession rights	2	119,601,934	
Other intangible assets	3	1,757,569	1,642,011
Goodwill	3	250,481	-
Equity investments	4	2,383,583	10,851,842
Non-current financial assets	5	238,855	213,562
Deferred tax assets	6	8,907,305	8,852,319
Other non-current assets	6	112,462	-
Total non-current assets		228,105,447	198,897,333
<i>Current Assets</i>			
Inventories	7	3,314,490	1,832,583
Trade receivables	8	84,540,589	62,785,102
Current financial assets		53,760	-
Equity investments	9	1,770	1,770
Current tax assets	10	4,389,391	3,658,544
Other current assets	11	11,601,937	26,367,634
Cash and cash equivalents	12	130,130,919	151,888,494
Total current assets		234,032,856	246,534,127
TOTAL ASSETS		462,138,303	445,431,460
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	13	85,376,852	85,376,852
Reserves	14	78,290,489	70,185,576
IFRS FTA Reserve	14	7,896,006	7,896,006
Profit (loss) for the year		1,900,920	3,503,164
of which attributable to minority interests			
- Equity attributable to minority interests	15	7,086,816	1,669,041
- Net profit (loss) attributable to minority interests	15	-47,464	48,027
Total shareholders' equity		173,464,267	166,961,598
<i>Non-current liabilities</i>			
Provisions for risks and charges	16	34,110,226	40,052,210
Employee severance pay and other benefits	17	19,851,834	20,750,031
Non-current financial liabilities	18	77,974,900	79,818,935

Deferred tax liabilities	19	1,662,491	745,971
Derivatives	20	453,751	-
Other non-current liabilities	21	7,632,721	7,430,536
Total non-current liabilities		141,685,923	148,797,683
Current liabilities			
Current financial liabilities	22	39,800,850	43,421,511
Trade payables	23	91,021,986	64,079,610
Current tax liabilities	24	36,122	143,895
Other current liabilities	25	16,129,155	22,027,163
Total current liabilities		146,988,113	129,672,179
TOTAL LIABILITIES		288,674,036	278,469,862
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		462,138,303	445,431,460

Income Statement

INCOME STATEMENT	Notes	2018	2017
Revenues	26	299,555,621	253,434,106
Construction revenues - concession rights	2	8,594,972	
Change in inventories of finished products, semi-finished products and work in progress	26	-254,480	-655
Other operating revenues	26	6,906,294	6,547,703
Consumption of raw materials and consumables	27	16,839,371	12,142,128
Costs for services	27	158,257,975	126,594,578
Personnel costs	27	104,768,012	90,369,179
Other operating expenses	27	3,505,418	4,337,418
Construction costs - concession rights	2	8,594,972	
Capitalised costs		-40,526	0
EBITDA		22,877,185	26,537,852
Amortisation, depreciation, provisions and write-downs	28	18,526,031	18,487,911
Net value write-backs (write-downs) of trade and other receivables	28	576,548	825,563
Operating income (EBIT)		3,774,606	7,224,377
Write-downs and (reinstatements) of financial assets	29	220	20,343
Share of profits (losses) of joint ventures and associates	30	-216,772	666,971
Financial income	31	1,921,170	1,686,989
Financial costs	31	2,986,950	3,640,660
Financial operations		-1,282,772	-1,307,043
Profit before tax		2,491,834	5,917,335
Tax	32	590,914	2,414,170
Net profit for the year		1,900,920	3,503,164
of which attributable to minority interests			
- Net profit (loss) attributable to minority interests	15	-47,464	48,027
Attributable to:			
shareholders of the Parent Company		1,948,384	3,455,137
minority shareholders	15	-47,464	48,027

STATEMENT OF COMPREHENSIVE INCOME	Notes	2018	2017
Net profit (loss) for the year		1,900,920	3,503,164
Components that can be reclassified to profit or loss			
Fair value of derivatives, change in the period		64,340	
Tax effect related to other comprehensive income that can be reclassified		-15,441	
Components that cannot be reclassified to profit or loss			
Actuarial gains (losses) from provisions for employee benefits	17	-92,421	62,009
Tax effect related to other comprehensive income that cannot be reclassified	17	22,181	-14,882
Total comprehensive income (loss) for the year		1,879,579	3,550,291
Attributable to:			
shareholders of the Parent Company		1,909,619	3,502,264
minority shareholders	15	-30,040	48,027

Consolidated Cash flow statement

CASH FLOW STATEMENT	<i>Notes</i>	31/12/2018	31/12/2017
OPENING NET CASH AND CASH EQUIVALENTS	12	151,888,494	83,674,389
Result for the year (A)		1,900,920	3,503,164
Depreciation of property, plant and equipment	28	3,099,475	17,157,496
Amortisation of intangible assets	28	15,093,627	997,746
Accrual to provision for bad debts	28	576,548	825,563
Accrual to provision for risks	16	2,975,204	15,069,991
Write-downs (reinstatements) of other equity investments		220	
Adjustment to investments using the equity method	30	216,772	-666,971
Effect of deferred tax assets/liabilities through profit or loss	32	327,644	772,354
Provision for current tax	32	263,271	1,641,816
Capital (Gains) / Losses from disposals	26	-41,125	-99,666
Financial (Income) / Costs	31	1,065,780	1,953,671
Accrual to the provision for Employee Severance Pay	17	4,249,526	4,456,460
Other adjustments		-232,696	
Non-monetary adjustments (B)		27,594,246	42,108,460
Cash flow from Current Operations (C) = (A) + (B)		29,495,166	45,611,624
(Increase) / Decrease In Inventories	7	-1,070,788	-235,607
(Increase) / Decrease in Trade receivables	8	7,403,984	23,883,009
(Increase) / Decrease in Current tax assets	10	5,007,503	7,124,527
Increase / (Decrease) in Current tax liabilities	24	-107,773	-2,504,117
(Increase) / Decrease in Other current assets	11	13,501,938	-11,667,091
Increase / (Decrease) in Trade payables	23	-14,478,562	-11,388,481
Increase / (Decrease) in Other current liabilities	25	-7,375,749	-10,693,074
Other changes		316,891	87,286
Change in Net Working Capital (D)		3,197,445	-5,393,548
Increase / (Decrease) in Other non-current assets		-112,462	2,315,672
(Increase) / Decrease in Other non-current liabilities	21	202,185	3,390,971
Interest collected / (paid)	31	-1,214,018	-30,000
Change in deferred tax assets / liabilities	32	604,935	2,872,413
Use of Provisions for risks / Provision for Employee severance Pay	16 + 17	-9,566,670	-7,597,617
Current tax paid		-1,203,185	-1,953,754
Other operating changes (E)		-11,289,215	-1,002,315
Cash flows from operating activities (G) = (C) + (D) + (E)		21,403,395	39,215,762
(Investments in)/Disinvestments from Property, plant and equipment	1	-8,211,969	-35,447,467
(Investments)/Disinvestments from Intangible assets	3	-9,416,077	1,516,795

(Investments)/Disinvestments from Non-current financial assets	4 + 5	-295,775	5,255,455
Acquisition for business combinations		1,319,405	
Cash flows from investing activities (H)		-16,604,416	-28,675,217
Available cash flows (I) = (G) + (H)		4,798,979	10,540,545
<i>Financing activities - Borrowed capital</i>			
Change in Non-current financial liabilities	18	-22,332,734	14,527,920
Change in Current financial liabilities	22	-4,058,502	32,899,718
<i>Financing activities - Net worth</i>			
Payments of treasury shares		-165,317	
Change in liquidity for BC transactions		0	10,245,922
Cash flows from financing activities (J)		-26,556,554	57,673,560
Net change in cash and cash equivalents (L) = (I) + (J)	12	-21,757,575	68,214,105
CLOSING NET CASH AND CASH EQUIVALENTS	12	130,130,919	151,888,494

Statement of changes in Equity

31.12.2016 - 31.12.2018

	Share capital	Share premium reserve	Extraordinary reserve and other revenue reserves	Other reserves	Profit for the year	Equity	of which attributable to minority interests
Balance at 31 December 2016	61,089,246		48,677,164		4,589,998	114,356,408	1,380,425
Profit for the year					3,503,164	3,503,164	48,027
Other comprehensive income (loss) at 31 December 2016:						0	
actuarial gains (losses) from provisions for employee benefits			47,127			47,127	0
Comprehensive income for the year			47,127	0	3,503,164	3,550,291	48,027
Capital increase serving the merger	24,287,606	16,965,073				41,252,679	
Adjustment to the business combination price				7,420,104		7,420,104	
Other changes			382,116			382,116	288,616
Allocation of 2016 profit:						0	
distribution of dividends						0	
allocation to other reserves			4,589,998		-4,589,998	0	
allocation to retained earnings						0	
Balance at 31 December 2017	85,376,852	16,965,073	53,696,405	7,420,104	3,503,164	166,961,598	1,717,068
Profit (loss) for the year					1,900,920	1,900,920	-47,464
Other comprehensive income (loss) at 31 December 2017:						0	
actuarial gains (losses) from provisions for employee benefits and fair value of derivatives			-21,341			-21,341	17,423
Comprehensive income for the year			-21,341	0	1,900,920	1,879,579	-30,041
Capital increase serving the merger						0	

Adjustment to business combination price						0	
Other changes		-	4,623,090			4,623,090	5,352,325
Allocation of 2017 profit:						0	
distribution of dividends						0	
allocation to other reserves			3,503,164		-3,503,164	0	
allocation to retained earnings						0	
Balance at 31 December 2018	85,376,852	16,965,073	61,801,318	7,420,104	1,900,920	173,464,267	7,039,352

Explanatory notes

1) GENERAL INFORMATION AND SIGNIFICANT EVENTS DURING THE YEAR

The Alia S.p.A. Group is a group of companies that manages environmental services such as the collection, treatment and disposal of municipal waste in Central Tuscany.

As of **31 December 2017**, the Alia Group was composed as follows:

Parent Company Alia S.p.A. (formerly Quadrifoglio S.p.A.)

Subsidiaries

Q.Thermo Srl, 60% owned

Irmel Srl, 51% owned

Techset Srl in liquidation, 79% owned

Programma Ambiente Spa, 100% owned

Programma Ambiente Apuane Spa, 80% owned by Programma Ambiente Spa

Associates

Revet Spa, 55.52% owned

Q.Energia Srl, 50% owned

Valcofert Srl, 42.5% owned

Sea Risorse Spa, 24% owned

At **31 December 2018**, the Alia Group showed the following composition in consideration of the business combination described below:

Parent Company Alia S.p.A. (formerly Quadrifoglio S.p.A.)

Subsidiaries

Q.Thermo Srl, 60% owned

Irmel Srl, 51% owned

Programma Ambiente Spa, 100% owned

Programma Ambiente Apuane Spa, 80% owned by Programma Ambiente Spa

Revet Spa, 56.48% owned, for a value of treasury shares equal to 14.44% upon consolidation

Revet Recycling Srl, 53% owned by Revet Spa

The parent company acquired control over Revet S.p.A. on 30 September 2018; consequently, consolidation took place in financial terms for the last quarter of the year.

Associates

Q.Energia Srl, 50% owned

Valcofert Srl, 42.5% owned

Sea Risorse Spa, 24% owned

Vetro Revet Srl, 49% owned by Revet Spa

Albe Srl, 50% owned

Techset Srl was wound up and cancelled from the register of companies accordingly in December 2018 and therefore it has left the consolidation area.

Revet S.p.A is the company that owns the industrial hub for the recycling of plastics, glass, aluminium, tinfoil and polylaminate materials of the Tuscany region and its purpose is to maximise the value of these materials for the benefit of the person transferring the waste, i.e. of the informed citizen. It is a Hub of materials ready to be reused in the industrial chains that possibly operate in the region. After the acquisition as “treasury shares”, which took place in April 2018, by Revet S.p.A. of the stake held by shareholder Multieco S.r.l. (13.6%), the shareholders' agreement that regulated corporate governance becoming statute barred, amendments to the Articles of Association and the appointment of the new Board of Directors, approved by the Shareholders' Meeting on 21 September 2018, Revet S.p.A. became a subsidiary controlled by Alia S.p.A. for all purposes and as such is now subject to consolidation on a line-by-line basis from 30 September 2018. It holds 53% of Revet Recycling S.r.l., which is consolidated on a line-by-line basis and 49% of Vetro Revet S.r.l. which is consolidated according to the equity method.

Q.Thermo is the special purpose joint venture established for the construction and operation of a waste-to-energy plant located in the Municipal district of Sesto Fiorentino; however, the procedure has suffered a setback following the Council of State's judgment, as detailed in the section on “guarantees and commitments.”

Programma Ambiente holds an 80% interest in Programma Ambiente Apuane S.p.A., the company that operates a landfill site for non-hazardous inert waste and asbestos cement products. Programma Ambiente operates in the special waste collection sector and was acquired in a business combination at a value of zero.

Other companies included in the consolidation area are located in Tuscany and operate waste management, collection, treatment and disposal services.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Alia Group at 31 December 2018 were prepared in accordance with the International Financial Reporting Standards (hereinafter IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. The term IFRS also includes all revised international accounting standards (IAS) and all the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC).

The financial statements of the Alia Group at 31 December 2018 are presented in Euro units.

These financial statements at 31 December 2018 were approved by the Board of Directors on 29 May 2019, which authorised their publication and are subject to statutory audit by PricewaterhouseCoopers S.p.A..

FINANCIAL STATEMENT SCHEDULES

The consolidated financial statements are made up of the following schedules:

- Statement of financial position
- Statement of changes in equity
- Income statement
- Statement of comprehensive income
- Cash flow statement
- Statement of changes in Equity.

The *Non-Financial Statement* (hereinafter the NFS) has been prepared in a separate document.

With reference to the Statement of financial position, a form of presentation which provides for the breakdown of assets and liabilities into current and non-current items has been adopted, as required by paragraph 60 and ff. of IAS 1.

The "Income statement" is in report form with each item ordered by type, which is deemed more consistent than presentation by expenditure allocation. The chosen form is in fact in line with international practice.

The "Statement of comprehensive income" shows the comprehensive result of income and costs through profit or loss, which, as expressly required by the IFRS, are recognised directly in equity.

The Cash flow statement is prepared using the indirect method, as permitted by IAS 7, and also includes the item of "Current tax paid" in accordance with IAS 7.

The Statement of changes in equity has been prepared in accordance with the provisions of IAS 1.

2) CONSOLIDATION PRINCIPLES

The companies are consolidated on a line-by-line basis, which consists of incorporating all the asset and liability items in their entirety. The main consolidation criteria adopted for the application of this method are shown below.

- Subsidiaries are consolidated from the date on which control was effectively transferred to the Group, and cease to be consolidated on the date on which control is transferred outside the Group.
- The assets and liabilities, costs and income of companies consolidated on a line-by-line basis are fully included in the consolidated financial statements; the book value of the investments is derecognised against the corresponding share of equity of investees by attributing their current value at the date of acquisition of control to each asset and liability item (purchase method as defined by IFRS 3 - *Business Combinations*). Any residual difference, if positive, is stated in "Goodwill" among assets; if it is negative, in the income statement.
- The mutual debt and credit, cost and revenue relationships between consolidated companies and the effects of all significant transactions between them are derecognised.
- The shares of equity and the results for the period attributable to minority shareholders are shown separately in consolidated equity and income statement: this interest is determined on the basis of the percentage held by them in the fair values of assets and liabilities recognised at the date of original acquisition and in changes in equity after that date.
- Subsequently, profits and losses are attributed to minority shareholders based on the percentage held by them and losses are attributed to the minorities even if this implies that the minority interests have a negative balance.
- Changes in the parent company's ownership interest in a subsidiary that do not result in loss of control are accounted for as capital transactions.
- If the parent company loses control over a subsidiary, it:
 - * derecognises assets (including any goodwill) and liabilities of the subsidiary,
 - * derecognises the book values of any minority interest in the former subsidiary,
 - * recognises the fair value of the consideration received,
 - * recognises the fair value of any interest held in the former subsidiary,
 - * recognises any profit or loss in the income statement,
 - * reclassifies the parent company's share of the components previously recognised through comprehensive income, profit or loss or as profits carried forward, as appropriate.

Consolidation area

The consolidated financial statements at 31 December 2018 include the financial statements of the Parent Company Alia S.p.A., as well as those of the companies over which it holds control, directly or indirectly.

Control is acquired when the parent company is exposed or has rights to variable returns from its involvement with the investee and, at the same time, has the ability to affect those returns through its own power over the investee. Specifically, the investor acquires control when it has:

- power over the investee (i.e. the investor has existing rights that give it the ability to direct the relevant activities of the investee);

- exposure, or rights, to variable returns from its involvement with the investee;
 - the ability to use its power over the investee to affect the amount of the investor's returns.
- Generally, there is a presumption that the majority of voting rights entails control. In support of this presumption and when the Group holds less than the majority of voting rights (or similar rights), the Group considers all relevant facts and circumstances to determine whether it controls the investee, including:
- Contractual arrangements with other holders of voting rights;
 - Rights arising from contractual arrangements;
 - Voting rights and potential voting rights of the Group.

The Group reconsiders whether or not it retains control over an investee if the facts and circumstances indicate that there have been changes in one or more of the three elements used to define control.

The consolidated financial statements have been prepared based on the accounts at 31 December 2018 prepared by the companies included in the consolidation area and adjusted, where necessary, for the purpose of bringing them into line with the accounting standards and classification criteria applied by the Group in accordance with IFRS.

Associates reported in point 1 above of this note are consolidated using the equity method.

3) ACCOUNTING POLICIES AND BASIS OF PREPARATION

The consolidated financial statements at 31 December 2018 were prepared according to the historical cost principle, except for the items illustrated below which must or can be measured at fair value according to IFRS.

The accounting standards, policies and estimates adopted in preparing the consolidated Financial Statements are those required by international accounting standards.

Property, plant and equipment

Immovable and movable property are stated in "Property, plant and equipment."

Tangible assets are recorded at their purchase price or production cost, including any directly-attributable additional costs necessary to make the assets available for use.

Revaluations are not permitted, even though in application of specific laws.

Tangible assets are systematically depreciated on a straight-line basis over their useful life. When the tangible asset consists of several components with different useful lives, depreciation is carried out for each component. The value to be depreciated consists of the carrying amount reduced by the presumed net transfer value at the end of its useful life, if it is significant and can be measured reliably. Land is not subject to depreciation (except for landfills, as detailed below), even if purchased together with a building.

The depreciation criteria adopted have been summarised in the paragraph on "Property, plant and equipment" to which reference should be made.

Costs for improvements that increase the value of tangible assets are charged to balance sheet assets if they meet the requirements prescribed by IAS 16.

Routine maintenance costs are charged in full to the Income Statement for the period in which they are sustained.

The presumed realisable value which is deemed to be recovered at the end of the useful life is not depreciated. The useful life of each asset is reviewed annually and any changes are made for the purpose of a correct recognition of the value of the asset, if necessary.

Landfills are depreciated on the basis of the filling percentage determined as the ratio of the volume occupied at the end of the period to the overall authorised volume.

If there is objective evidence that is such as to suggest the existence of a permanent impairment loss, property, plant and equipment are subjected to Impairment Test.

Upon disposal, or if no future economic benefits are expected from the use of the asset, it is derecognised from the financial statements and any loss or profit (calculated as the difference between the transfer value and the carrying amount) is recognised in the Income Statement in the period of the aforementioned derecognition.

Intangible assets

Intangible assets acquired or produced internally are stated in assets, in accordance with IAS 38 - *Intangible Assets*, when it is probable that the use of the assets will generate future economic benefits and when the cost of the asset can be determined reliably.

Intangible assets consist of assets without identifiable physical substance, controlled by the entity and capable of producing future economic benefits, as well as goodwill, when acquired for valuable consideration.

Identifiability is defined with reference to the possibility of distinguishing the intangible asset acquired from goodwill; this requirement is normally met when: (i) the intangible asset is attributable to a legal or contractual right, or (ii) the asset is separable, i.e. it can be sold, transferred, leased or exchanged independently or as an integral part of other fixed assets.

Control over the entity consists of the power to take advantage of the future economic benefits deriving from the asset and of the possibility of limiting its access by others.

Intangible assets are recognised at their purchase or production cost, including additional costs, determined in accordance with the provisions of IAS 38 - *Intangible Assets*.

Intangible assets with a definite useful life are stated net of accumulated amortisation and any permanent impairment loss determined according to the same methods as those described above for property, plant and equipment. The amortisation criteria adopted have been summarised in the paragraph on "Intangible assets" to which reference should be made. Changes in expected useful lives or in the ways in which the future economic benefits associated with the intangible asset are achieved by the entity are recognised by changing the amortisation period or method and are treated as changes in accounting estimates. The amortisation rates on intangible assets with a definite useful life are recorded through profit or loss in the cost category consistent with the function of the intangible asset.

If there is objective evidence of permanent impairment losses, intangible assets are subjected to Impairment Test; any write-downs may be subject to subsequent value reinstatements if the reasons that led to impairment cease to exist.

Profits or losses arising from the disposal of an intangible asset are determined as the difference between the disposal value and the carrying amount and are recognised through profit or loss at the time of the sale.

Goodwill (if any) and other intangible assets, where present, with an indefinite useful life are not amortised; the recoverability of their book value is verified at least annually and in any case whenever an event occurs that suggests that they are impaired.

Concession rights consist of the Concessionaire's right to use the asset (the "intangible asset" method) under concession in consideration of the costs incurred for the design and construction of the asset with the obligation to hand over it at the end of the concession term. Concession rights are recognised at fair value (estimated on the basis of the cost incurred) of intangible assets relating to construction and expansion of assets falling within the scope of IFRIC 12.

If the fair value of the services received cannot be measured reliably, revenue is calculated on the basis of the fair value of the services provided (fair value of the construction services performed).

Restoration or replacement are not capitalised and are included in the estimate of the provision described below. Concession rights are amortised over the term of the concession, a method that reflects the ways in which it is assumed that the future economic benefits flowing from the asset will be used by the Concessionaire.

The amortisation fund and the provision for restoration or replacement costs considered as a whole ensure adequate coverage of the following costs:

- transfer to the successor Operator at book value on the expiry of the concession term of freely transferable assets with a useful life longer than the term of the concession;
- restoration and replacement of components subject to wear and tear of the assets under concession.

If events occur that suggest an impairment of these intangible assets, the difference between the book value and the related "recoverable value" is taken to profit or loss.

Leases

The definition of a contractual agreement as a lease (or containing a lease) is based on the substance of the agreement and requires an evaluation of whether or not fulfilment of the agreement itself depends on the use of one or more specific assets or whether the agreement transfers the right to use this asset. The assessment of whether an arrangement contains a lease is to be made at the inception of the arrangement.

The Company assesses the lease agreements exclusively as a lessee.

A lease agreement is classified as a finance lease or an operating lease at the inception of the lease. A lease agreement that substantially transfers all the risks and rewards deriving from the ownership of the leased asset to the Company is classified as a finance lease.

Finance leases are capitalised at the inception date of the lease at the fair value of the leased asset or, if lower, at the present value of lease payments. These are divided between the share of capital and interest so as to obtain the application of a straight-line interest on the residual balance of the debt. Financial costs are charged to profit/(loss) for the period.

Leased assets are amortised or depreciated on the basis of the useful life of the asset. However, where there is no reasonable certainty that the entity will acquire ownership of the asset at the end of the contract term, the asset is amortised or depreciated over the shorter of its estimated useful life and the term of the lease.

An operating lease is a lease agreement that does not qualify as a finance lease. Operating lease payments are recognised as costs in the statement of profit/(loss) for the period on a straight-line basis over the term of the contract.

In measuring its leases, the Company has qualified them as finance leases when they provide for a reasonable probability of redemption and in any case with a term that approximates the useful life; the other agreements have been qualified as operating leases.

Business combinations

Business combinations are accounted for by applying the acquisition method provided for in IFRS 3 revised, as a result of which the buyer acquires the equity and takes over the assets and liabilities of the acquiree.

The Company carried out two business combinations:

- acquisition of control over Revet S.p.A.
- acquisition of a business unit of Programma Ambiente S.p.A., a business combination under common control.

Acquisition of control over Revet S.p.A.

At the Shareholders' Meeting held on 21 September 2018, Revet S.p.A. amended the Articles of Association and accordingly there was the appointment of the new Board of Directors with the majority of its members being appointed by Alia S.p.A., thus becoming, for all purposes, a subsidiary of the Alia Group and as such subject to consolidation on a line-by-line basis.

Previously, in March 2018, Alia S.p.A. had subscribed additional shares of Revet S.p.A., thus obtaining ownership of 56.48% of share capital.

On 30 September 2018 Revet S.p.A. became a subsidiary of Alia S.p.A. according to IFRS 10; accordingly, consolidated income statement values only involved the last quarter.

The transaction cost consists of the fair value, on the acquisition date, of the assets transferred, the liabilities assumed and the equity instruments issued in exchange for the control over the acquiree. Additional costs for the combination are generally recognised through profit or loss when they are incurred. Any positive difference between transaction cost and fair value when control is obtained over acquired assets and liabilities is attributed to goodwill (subject to impairment test). If the purchase price allocation process shows a negative difference, it is immediately recognised through profit or loss at the acquisition date. Any payments subject to conditions deriving from the business combination agreement are measured at fair value at the acquisition date and are considered in the value of fees transferred for the business combination for the purposes of determining goodwill.

Description of the transaction

As reported in the Introduction (in the paragraph on "GENERAL INFORMATION AND SIGNIFICANT EVENTS DURING THE YEAR"), control over Revet S.p.A. was acquired during the 2018 financial year.

In consideration of the above, the current value of the assets and liabilities acquired was determined at the acquisition date. Given that Revet completed the transition to international accounting standards from the 2018 financial year, it could reasonably be said that its assets and liabilities were already stated at fair value. Consequently:

- The properties in the financial statements are stated at fair value at the date of acquisition of control.
- Intangible assets are all compliant with the recognition requirements set out in IAS 38
- Equity investments are measured at fair value for subsidiaries, consisting of the price of a recent transaction, and at equity for associates
- Receivables have been measured at fair value taking account of future expected losses.
- The provisions for Employee Severance Pay have been adjusted based on an appropriate actuarial expert's report.

A description of the transaction is given in the report on operations in the relevant chapter.

For the purposes of determining goodwill, it should be noted that the Company has acquired control of the investee in steps, which implies the need to report the assumptions for the determination of goodwill below. The fair value of the shares held prior to the acquisition of control has been determined by preparing an appropriate expert's report involving the acquiree, which has showed a value of Euro 17,604 thousand. Against a cost value of said shareholding, the consolidated financial statements have recognised income from the adjustment to the value of the investee at fair value equal to Euro 688 thousand.

Purchase price of Revet shares upon acquisition of control	1,449,882
Fair value of shares held prior to acquisition of control	9,774,488
Third-party amount at fair value of net assets	5,104,177
Overall price	16,329,542
Fair value of shareholders' equity at 30/9	16,078,061
Goodwill	250,481

Goodwill relating to the Revet shareholding does not require any allocation on CGUs, as Alia classifies Revet as a single and unitary cash-generating unit.

Acquisition of Programma Ambiente S.p.A. business unit

As reported in the Introduction (in the paragraph on "GENERAL INFORMATION AND SIGNIFICANT EVENTS DURING THE YEAR"), the 2018 financial year saw the acquisition from Programma Ambiente S.p.A. of the business unit that performs the operation and maintenance of the Municipal Solid Waste sorting and composting plant in Prato.

The aforementioned transaction took place on 30 October 2018 and had legal effect from 1 November 2018. It can be described as a "business combination under common control", which has been accounted for in accordance with the OPI (*Orientamento Preliminare*, Preliminary Guidance) No. 1 (Revised) document issued by Assirevi (Italian Association of Auditors) at the same book values as those adopted by the transferor.

The description of the transaction and related reasons are given in the report on operations in the relevant chapter. The book values of the net assets and liabilities and of the price "paid" at the acquisition date are shown below.

	VALUES AT 31.10.2018
ASSETS	
FIXED ASSETS	
Property, plant and equipment	11,129
Non-current financial assets	700,000
CURRENT ASSETS	
Inventories	49,357
TOTAL ASSETS	760,486
LIABILITIES	
EMPLOYEE SEVERANCE PAY	-632,576
PAYABLES	-207,028
TOTAL LIABILITIES	-839,604
NET ASSETS/LIABILITIES ACQUIRED	-79,118
Total Consideration	-79,118

Environmental certificates: emission allowances, Green Certificates and White Certificates

Green certificates are valued at the average selling price in December. White certificates are valued at market price.

Equity investments in associates

Associates are those entities over which the parent company exercises significant influence in making strategic decisions, even though it does not retain control over them, while also considering potential votes, i.e. voting rights attached to convertible instruments; significant influence is presumed when the company directly holds more than 20% of the voting rights that can be exercised at the ordinary shareholders' meeting. Subsidiaries are shown under non-current assets and are valued at cost as permitted by IAS 27.

Inventories

These mainly include spare parts and are valued at the lower of weighted average cost and market value at the reporting date. Weighted average cost is determined for the reporting period in relation to each inventory code. Weighted average cost includes any additional costs accrued in the period. The value of obsolete and slow-moving stock is written down in relation to the possibility of use or realisation, setting aside a specific provision for material obsolescence.

Cash and cash equivalents

This item includes cash on hand, current bank accounts and deposits repayable on demand, as well as other short-term high-liquidity financial investments that are readily convertible into cash and are subject to a non-significant risk of change in value.

Financial instruments

On the assets side, these include trade and financial receivables and cash and cash equivalents.

On the liabilities side, these include borrowings, trade payables, other payables and other financial liabilities, as well as derivatives. Financial assets and liabilities are accounted for when the contractual rights and obligations of the instrument arise.

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

Upon initial recognition, all financial assets and liabilities are measured at fair value, as increased, in the case of assets and liabilities other than those measured at fair value through Profit or loss, by additional costs (acquisition/issue costs).

The Company holds the following financial instruments:

- Financial assets consisting of loans and receivables measured at amortised cost
- Financial liabilities measured at amortised cost.

Loans and receivables

This category includes trade and financial receivables.

They are measured at amortised cost. Transaction costs incurred during the acquisition/sale are taken as a direct adjustment to the face value of the receivable, while financial income/costs are restated according to the effective interest method.

Assessments are carried out regularly for these receivables in order to check for any objective evidence that they have suffered an impairment loss. In particular, account is taken of creditor solvency and credit risk, which is indicative of each debtor's ability to pay. Impairment losses (if any) are recognised as a cost in the Income statement for the period. They are reversed in subsequent periods if the conditions that led to the write-down cease to be satisfied.

According to IFRS 9, expected credit loss percentages have been determined for the various categories of receivables, which have been quantified differently depending on the maturity of the account receivable.

Financial liabilities

Upon initial recognition they are measured at their fair value equal to the amount received at the reporting date, to which must be added any transaction costs directly attributable to payables and loans. After initial recognition, non-derivative financial liabilities are measured at amortised cost according to the effective interest method.

The Company's financial liabilities include trade payables and other payables and loans.

Financial liabilities that fall within the scope of application of IFRS 9 are classified as payables and loans, or as derivatives designated as hedging instruments, as the case may be. The Company determines the classification of its financial liabilities upon initial recognition.

Profits and losses are accounted for through profit or loss when the liability is extinguished, as well as through the amortisation process.

Amortised cost is calculated by recording each discount or premium on the acquisition and fees or costs that are an integral part of the effective interest rate. Amortisation at the effective interest rate is stated among financial costs in the income statement.

A financial liability is derecognised when the underlying obligation is extinguished, or cancelled or fulfilled.

When an existing financial liability is replaced by another of the same lender, under substantially different conditions, or the conditions of an existing liability are substantially amended, this change or amendment is treated as a write-off of the original liability and the recognition of a new liability, taking any difference between book values to profit or loss.

Derivatives

Derivatives are stated at fair value corresponding to market value, where it exists, or at the value resulting from valuation models and techniques that ensure a reasonable approximation to market value.

The allocation of the current value is recognised among balance sheet assets, under the specific item of non-current financial assets or of current assets depending on the destination, or among liabilities under the specific item included among provisions.

Cash flow hedge derivatives are stated against an entry in a specific reserve of other components of the income statement.

Employee benefits

The employee severance pay (TFR, *Trattamento di Fine Rapporto*) is determined using an actuarial method; the amount of benefits accrued by employees during the period is charged to profit or loss under labour cost, whereas the notional financial cost that the entity would incur were it to ask the market for a loan in an amount equal to the Employee Severance Pay is recognised under net financial income (costs). Actuarial gains and losses that reflect the effects of changes in the actuarial assumptions used are recognised through profit or loss by taking account of the remaining average working life of employees.

Following the enactment of the Budget Law 296 of 27 December 2006, only the liability relating to accrued severance pay benefits left in the company was considered for the purposes of IAS 19, since the amounts accruing are paid to a separate entity (Supplementary pension funds or INPS [*Istituto Nazionale della Previdenza Sociale*, Italian Social Security Institute] Funds). As a result of these payments, the entity will no longer have obligations related to the work performed by each employee in the future.

Profits and losses arising from actuarial calculation are stated in the OCI section of the statement of comprehensive income.

Provisions for risks and charges

These concern costs and charges of a given type, and of certain or probable existence, which were undetermined in terms of amount or timing at the reporting date. The allocations are booked when there is a current obligation (legal or constructive) arising from a past event, if an outlay of resources to satisfy the obligation is probable, and the amount of the obligation can be estimated reliably.

The provisions are stated at the value consisting of the best estimate of the amount which the entity would pay to discharge the obligation or to transfer it to third parties at the reporting date. If the effect of discounting back the value of money is significant, provisions are calculated according to the discounted cash flow method at a pre-tax discount rate which reflects the market's current valuation of the cost of money in relation to time. When the discounting back is carried out, the increase in the provision due to the passage of time is recognised as a financial cost.

If the liability relates to property, plant and equipment, the provision is initially recorded against an entry under the fixed assets to which it refers; the related cost is recognised through profit or loss through the depreciation process of the tangible asset to which it refers.

Provision for restoration and replacement

According to IFRIC 12, the concessionaire does not meet the requirements to report infrastructures in its accounts as property, plant and equipment and the accounting treatment of the works executed on the infrastructure is of different importance depending on their type. In particular, there are two categories: works referable to normal infrastructure maintenance, replacement works and scheduled maintenance of the infrastructure at a future date.

The former relate to normal routine maintenance which is recognised through profit or loss when incurred, also in accordance with IFRIC 12. The latter, considering that IFRIC 12 does not provide for the recognition of a

physical infrastructure asset but only of a right, must be recognised in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; this standard requires the recognition of a provision divided into an operating component (including any effect arising from changes in the discount rate) and a financial component through profit or loss, on the one hand, and, on the other, the recognition of a provision for charges in the balance sheet.

The "Provision for restoration or replacement", in accordance with the obligations laid down in the concession agreement, therefore includes the best estimate of the present value of the costs accrued at the reporting date for maintenance scheduled for subsequent periods, aimed at ensuring the required functionality, operation and safety of the set of assets under concession based on the information available at the reporting date.

Grants

Grants from public bodies are recognised at fair value when it is reasonably certain that they will be received and the conditions for obtaining them will be satisfied.

Grants received for specific assets whose value is recorded under fixed assets are recognised in a specific liability item and credited to profit or loss in relation to the amortisation or depreciation period of the assets to which they refer.

Operating grants (paid for the purpose of providing immediate financial support to the entity or as compensation for expenses and losses incurred in a previous period) are fully recognised through profit or loss when the conditions for entering them are satisfied.

Revenues and costs

Revenues from sales of products and services are recognised when control over promised goods or services is transferred to customers. The control over the goods by the customer is normally identified with their delivery or shipment. Revenues from services are recorded in accordance with the contractual provisions and substantially when the performance obligation is fulfilled.

Revenues are stated net of returns, discounts, allowances and premiums, as well as of directly related taxes. Costs are related to goods or services sold or consumed during the period or deriving from systematic allocation, or when their future useful life cannot be identified, are recorded and charged directly to profit or loss.

Financial income and costs

Accrued interest income is recognised as financial income following their assessment.

Financial costs are recognised through profit or loss on an accruals basis and are stated for the amount of effective interest.

Income tax

Current tax

Current income tax for the period is determined based on an estimate of taxable income and in compliance with the provisions in force or substantially approved at the reporting date, taking account of any applicable exemption and of any tax credit due.

Deferred tax assets and liabilities

These are calculated on the temporary differences between the value attributed to assets and liabilities in the accounts and the corresponding values recognised for tax purposes.

The rates applied are those estimated that will be in force when the temporary differences reverse. Deferred tax assets are recorded only to the extent that it is probable that taxable income will be available against which these assets may be used. The book value of receivables for deferred tax assets is reduced to the extent that it is no longer probable that the related tax benefit may be realised. The business planning period is taken into account in the assessment of deferred tax assets.

When the results are recorded in the OCI section, current tax, deferred tax assets and liabilities are also directly charged to this section. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Taxes can be offset when they are applied by the tax authority itself, when there is a legal entitlement to offsetting and the net balance is expected to be paid.

Use of estimates

The preparation of the financial statements and of the explanatory notes has required the use of estimates and assumptions both in the determination of certain assets and liabilities and in the measurement of contingent assets and liabilities. The final results that derive from the occurrence of events could differ even significantly from these estimates.

The estimates have been used in the assessment of tariff adjustments, provisions for risks and charges, provisions for bad debts, useful life of assets, employee benefits and taxes. The estimates and assumptions are reviewed periodically and the effects of each change are immediately taken to profit or loss.

The main assumptions used by management in the evaluation process of the aforementioned accounting estimates are illustrated below. The criticality inherent in these estimates is in fact determined by using assumptions and/or professional judgements relating to issues that are by their nature uncertain. Changes to the conditions underlying the assumptions and judgements adopted could have a significant impact on subsequent results.

Revenue Recognition

Revenues from sales and services are recognised on an accruals basis. The fee invoiced to each municipality is that determined under the scope of the concession area, which the Authority distributes annually between each of the Municipalities.

Provisions for risk and charges

The identification of whether there is a current obligation (legal or constructive) is not easy to determine in some circumstances. The directors evaluate these events on a case-by-case basis, together with the estimated amount of financial resources required to fulfil the obligation. Provisions are estimated within a complex process that involves subjective judgements by the Company management. When the directors believe that the occurrence of a liability is only possible, the risks are reported in the specific information section on commitments and risks, without giving rise to any provision.

Liabilities for landfills

The provision for liabilities for landfills consists of the amount set aside to meet the costs that must be incurred to manage the closure and post-closure period of landfills currently in use. Future outlays, which are

inferred for each landfill from a specific valuation report which is updated annually, have been discounted in accordance with the provisions of IAS 37.

Provision for bad debts

This reflects management's estimate of expected losses relating to the loan portfolio. The Company applies the simplified approach envisaged under IFRS 9 and records expected losses on all trade receivables based on the residual maturity, determining the provision based on the past experience of credit losses (Expected Credit Loss - ECL concept).

Amortisation and depreciation

Amortisation and depreciation of fixed assets constitute a significant cost to the company. Fixed assets are amortised or depreciated systematically over their estimated useful life. The useful economic life of the company's fixed assets is determined by the directors, with the help of technical experts, once the asset has been purchased. The company evaluates technology and sector changes, decommissioning/closure costs and the recoverable value to update the residual useful life on a periodical basis. This periodical updating could entail a change in the amortisation and depreciation period and therefore also in the amortisation and depreciation allowances for future periods.

Employee benefits

The expenses and related liabilities are calculated based on actuarial assumptions. The effects of any changes in these actuarial assumptions are recorded in a specific item of the OCI section.

Current tax and future recovery of deferred tax assets

The existing uncertainties regarding the application of some tax regulations have led the company to take a stand in terms of interpretation upon the allocation of current tax for the purposes of the financial statements that could be questioned following official clarifications on the part of the tax authorities.

Deferred tax assets are recognised on the basis of forecasts of tax income expected in future periods. The valuation of expected income for the purposes of accounting for deferred tax depends on factors that may vary over time and determine effects on the measurement of deferred tax assets.

Change in international accounting standards

Accounting standards, amendments and interpretations applied from 1 January 2018

The accounting policies used for the preparation of the 2018 financial statements do not differ from those used for the preparation of the 2017 financial statements presented for comparison purposes. The main developments introduced in 2018 concerning the set of international accounting standards are shown below:

- IFRS 9 - *Financial instruments*. In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all the phases of the financial instrument project and replaces IAS 39 *Financial Instruments: Recognition and measurement*, as well as any and all previous versions of IFRS 9. The standard introduces new requirements for classification, measurement, impairment, hedge accounting and accounting for operations to change financial liabilities.
 - o Financial Instruments - It should be noted that, according to the option provided by the new IFRS9 (paragraph 7.2.21 on the subject of "Transition for hedge accounting"), the Group has

chosen to continue to apply, for this type of transaction, the provisions governing hedge accounting laid down in IAS 39;

- Write-down of financial assets - As regards the introduction of the new method relating thereto, the Group reviewed from 1 January 2018 the method to calculate the provision to be recognised to cover credit losses, taking account of expected losses, as required by the new standard, without having reported any significant impact on the result for the period or equity arising from the adoption of IFRS 9. The Group measures the provision for loss coverage for an amount equal to expected losses throughout the maturity of the account receivable, according to a method that considers whether the credit risk relating to a financial instrument had increased significantly after initial recognition at the reporting date of the financial statements. As regards trade receivables, the Group adopts the simplified approach permitted by the new standard, measuring the provision for loss coverage for an amount equal to expected losses throughout the maturity of the account receivable. Furthermore, it should be noted that IFRS 9 has made amendments to IAS 1 (82 ba) requiring the separate recognition of impairment losses (including reinstatements of impairment losses or impairment profits) in the Income Statement.
- IFRS 15 (and subsequent clarifications issued on 12 April 2016) - *Revenue from contracts with customers*. This standard was issued in May 2014 and introduces a new five-step model that applies to revenue from contracts with customers. IFRS 15 provides for the recognition of revenues for an amount that reflects the consideration to which the entity believes it is entitled in exchange for the transfer of goods or services to the customer. The standard provides a more structured approach for the recognition and measurement of revenues, replacing all the current requirements set out in other IFRS in terms of revenue recognition. In particular, the standard provides for the recognition of revenue on the basis of the following five steps:
 - Identifying the contract;
 - Identifying the performance obligation;
 - Determining the transaction price;
 - Allocating the transaction price to the performance obligations on the basis of their stand-alone selling price;
 - Recognising revenues allocated to each obligation when it is satisfied, i.e. when the customer obtains control over goods and/or services.

The Company carries out waste collection and road sweeping activities determined in the concession agreement or on the basis of private contracts. Almost all transactions are carried out on the basis of contracts that provide for only one obligation. Given the nature of these transactions, the change in the standard has not had any significant impact on the financial statements.

- *Amendments to IFRS 2 - Clarifications of classification and measurement of share-based payment transactions*. This amendment deals with the following issues identified by the IFRS Interpretation Committee: i) accounting for a defined-benefit share-based payment which includes the achievement of performance results; ii) share-based payment in which the method of settlement is linked to future events; iii) share-based payments settled net of withholding taxes; iv) the transition from a cash-based to a share-based remuneration method.
- *Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*. This amendment deals with concerns arising from the application of IFRS 9 on financial instruments before the introduction of the new insurance contract standards. Two options are also provided for entities that enter into insurance contracts according to IFRS 4: i) an option that allows entities to reclassify some revenues or costs from certain financial assets from the income statement to the statement of comprehensive income; ii) a temporary exemption from the application of IFRS 9 whose core business is the execution of contracts as described by IFRS 4.
- IFRIC 22 – *Foreign Currency Transactions and Advance Consideration*. This interpretation deals with foreign currency transactions in the event that an entity recognizes a non-monetary asset or liability arising from the payment or collection of an advance consideration before the entity recognizes the related asset, cost or revenue. The foregoing must not be applied to tax, insurance or reinsurance contracts.
- *Amendments to IAS 40 regarding transfers of investment property*. The amendment provides as follows: i) paragraph 57 of IAS 40 is amended to provide that an entity must transfer a property to or

from investment property only when there is evidence of a change of use. ii) The list of examples indicated in paragraph 57 (a) - (d) is redefined as a non-exhaustive list of examples.

- *Improvements to International Financial Reporting Standards (2014-2016)*. These are part of the annual improvement program for standards and entered into force from 1 January 2018. The works concerned:
 - IFRS 1: the short-term exemptions provided for in paragraphs E3-E7 have been removed, because the reasons for their provision no longer exist;
 - IFRS 12 clarifies the purpose of the standard specifying that the disclosure requirements, except for those set out in paragraphs B10-B16, apply to the interests of an entity listed in paragraph 5 which are classified as held for sale, for distribution or as a discontinued operation under IFRS 5;
 - IAS 28 clarifies that the decision to measure an investment in a subsidiary or a joint venture held by a venture capital company at fair value through profit or loss is possible for any investment in subsidiaries or joint ventures since their initial recognition.
 - *Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures*. The amendments define that IFRS 9 must be applied to long-term receivables from an associate or joint venture that, in substance, form part of the investment in the associate or joint venture.

Accounting standards, amendments and interpretations applicable thereafter

The standards and interpretations that, at the reporting date of these financial statements, had already been issued but not yet applicable are illustrated below.

- *IFRS 16 - Leases*. This standard was published by the IASB on 13 January 2016, intended to replace *IAS 17 - Leases*, as well as interpretations *IFRIC 4 - Determining Whether an Arrangement Contains a Lease*, *SIC 15 - Operating Leases - Incentives* and *SIC 27 - Evaluating the Substance of Transactions in the Legal Form of a Lease*. The new standard provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset to distinguish lease agreements from services contracts, while identifying the following as discriminating factors: the identification of the asset, the right to replace the asset, the right to obtain substantially all the economic benefits derived from the use of the asset and the right to direct the use of the asset underlying the contract. Its adoption expected from 1 January 2019, with early adoption permitted for entities that will apply IFRS 15. The Company is assessing the impact of this new standard on its financial statements.
- *IFRIC 23 - Uncertainty over Income Tax Treatments*. This interpretation provides instructions on how to reflect the uncertainties on the tax treatment of a given phenomenon in accounting for income tax. IFRIC 23 will become applicable from 1 January 2019. The Company believes that this IFRIC will not have any significant impact on its financial position, results of operations and cash flows.
- *Amendments to IFRS 9 - Financial Instruments*. These amendments, published in October 2017, relate to the "Prepayment Features with Negative Compensation" which allow the application of the amortised cost or fair value through other comprehensive income (OCI) for financial assets with an option for early repayment ("negative compensation").
- *Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures*. On 12 October 2017, the IASB issued these amendments to clarify the adoption of IFRS 9 - *Financial Instruments* in relation to long-term interests in subsidiaries, or joint ventures, for which the equity method is not applied. These amendments will be applicable to financial periods commencing on or after 1 January 2019.

The accounting standards, amendments and interpretations published by the IASB but not yet endorsed by the European Union are listed below. These standards will be applicable from the subsequent periods.

- *IFRS 17 - Insurance Contracts*. This standard, issued on 18 May 2017, sets out the principles for the recognition, measurement, presentation and reporting of insurance contracts included in the standard. The objective of IFRS 17 is to ensure that an entity provides material information that provides a true view of such contracts, in order to provide a basis for users to assess the effects of these contracts on the entity's financial position, results of operations and cash flows. On 21 June 2018, the IASB resolved to issue clarifications regarding IFRS 17 - *Insurance Contracts* to ensure that the interpretation of the standard reflects the decisions taken by the Board, with particular reference to some points in variable fee contracts and issues related to IFRS 3 - *Business Combinations*. The provisions of IFRS 17 will be applicable from financial periods commencing on or after 1 January 2021.

- *Amendments to IAS 19 - Employee benefits - Plan Amendment, Curtailment or Settlement.* This amendment, issued by the IASB on 7 February 2018, clarifies how pension costs are calculated, when a change in the defined benefit plan occurs. These amendments will be applicable to financial periods commencing on or after 1 January 2019.
- *Improvements to International Financial Reporting Standards (2015-2017).* The amendments, published in December 2017, mainly relate to the following IFRS: a) IAS 12 - *Income Taxes.* The proposed amendments clarify that an entity should recognise any and all tax effects in the distribution of dividends; b) IAS 23 - *Borrowing Costs:* the proposed amendments clarify that, if the specific loans required for the acquisition and/or construction of an asset remain in place even after the asset is ready for its use or sale, these loans cease to be considered specific and are therefore included in the entity's general borrowing, for the purpose of determining the capitalisation rate of borrowings; c) IAS 28 - *Investments in Associates and Joint Ventures - Long-term interests in associates or joint ventures.* The proposed amendments clarify that IFRS 9 - *Financial Instruments,* including impairment requirements, also applies to other financial instruments held for a long period issued to an associate or joint venture. These amendments will be effective from 1 January 2019, with early adoption permitted.
- *Amendments to IAS 1 and IAS 8.* These amendments, published by the IASB on 31 October 2018, provide for a different definition of "material", namely: "*Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.*" These amendments will be applicable to financial periods commencing on or after 1 January 2020, with early adoption permitted.
- *Amendments to IFRS 10 and to IAS 28:* these amendments, published on 11 September 2014, provided for 1 January 2016 as the date of first-time adoption; subsequently, the adoption was postponed to a date not yet set. These amendments were issued due to the conflict between the requirements of IAS 28 and IFRS 10. The IASB and the interpretations committee have established that a full gain or loss should be recognised on the loss of control of a business, regardless of whether the business is housed in a subsidiary or not.
- *Amendments to IFRS 3 - Business Combinations.* These amendments, issued by the IASB on 22 October 2018, are aimed at solving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date falls on or after 1 January 2020, with early adoption permitted.

Finally, it should be noted that on 29 March 2018 the IASB published the revised version of the "Conceptual Framework for Financial Reporting." The main amendments compared to the 2010 version concern: i) a new chapter on the subject of measurement; ii) better definitions and guidance, in particular with reference to the definition of liabilities; iii) clarifications of key concepts, such as stewardship, prudence and uncertainty in measurements. The amendments, where actually updated, will be applicable from financial periods commencing on or after 1 January 2020.

4) EXPLANATORY NOTES TO THE ASSET ITEMS

NON-CURRENT ASSETS

1) Property, plant and equipment

These are depreciated on a straight-line basis (except for the depreciation of landfills which is recognised based on the ratio of the amounts of waste transferred to the amount of waste that can be transferred). Below are the depreciation rates of property, plant and equipment, as depreciated on a straight-line basis:

DESCRIPTION	DEPRECIATION RATES
Civil and Industrial Buildings	3%
Light-weight constructions	10%
Plant and machinery	10%
Specific plant and machinery	10%
Sorting and composting plant	10%
PV plant	9%
Miscellaneous and small workshop equipment	25%
Miscellaneous Door-to-Door collection equipment	20%
Other miscellaneous and small equipment	25%
Motor vehicles	20%
Cars	25%
Containers	10%
Bins	10%
Office furniture and ordinary machines	12%
Electronic office machines	20%
Bells-shaped containers	10%
Fully depreciable assets	100%
Landfill	Based on transfers

The table below shows the balances of property, plant and equipment:

DESCRIPTION	LAND AND BUILDINGS	PLANT AND MACHINERY	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION	PROPERTY, PLANT AND EQUIPMENT
VALUES AT 31.12.2017						
Gross value	168,137,719	123,266,220	5,982,065	120,466,251	13,582,358	431,434,613
Depreciation fund	-44,344,291	-110,044,565	-4,930,994	-94,777,164	0	-254,097,014
NET IAS BALANCE AT 31.12.2017	123,793,428	13,221,655	1,051,071	25,689,087	13,582,358	177,337,599
NET CHANGES FOR FY 2018						
FIXED ASSETS FROM COMPLETION OF TRANSFER OF PROGRAMMA AMBIENTE BUSINESS UNIT WITH EFFECT FROM 01.11.2018	0	0	12,724	37,052	0	49,776
DEPRECIATION FUND OF FIXED ASSETS FROM COMPLETION OF TRANSFER OF PROGRAMMA AMBIENTE BUSINESS UNIT WITH EFFECT FROM 01.11.2018	0	0	-12,724	-30,315	0	-43,038
RECLASSIFICATION OF GROSS VALUE AT 01.01.2018 TO FIXED ASSETS - CONCESSION RIGHTS	-115,710,197	-118,946,578	-36,329	-112,486,902	0	-347,180,006
RECLASSIFICATION OF DEPRECIATION FUND AT 01.01.2018 TO FIXED ASSETS - CONCESSION RIGHTS	28,904,689	106,903,743	10,899	86,365,168	0	222,184,498
TOTAL BUSINESS COMBINATION PURCHASES	19,370,033	5,559,013	3,127,679	121,855	516,406	28,694,985
CHANGES FROM PURCHASES	156,556	11,066,474	373,537	538,740	5,151,480	17,286,787

TRANSFERS FOR RECLASSIFICATIONS	10,145,874	69,922	80,018	1,675,605	-12,084,082	-112,662
DECREASES	-49,153	-213,699	-42,443	-708,421	0	-1,013,716
DISPOSAL OF DEPRECIATION FUND	21,783	61,899	-30,170	694,998	0	748,510
2018 DEPRECIATION	-1,106,307	-702,352	-831,714	-459,102	0	-3,099,475
Gross value	82,050,832	20,801,353	9,497,250	9,644,181	7,166,162	129,159,778
Depreciation fund	-16,524,127	-3,781,276	-5,794,703	-8,206,414	0	-34,306,520
NET IAS BALANCE AT 31.12.2018	65,526,705	17,020,077	3,702,548	1,437,766	7,166,162	94,853,258

It should be noted that there are collaterals on the Company's real estate assets, issued against the following bank loans:

- Mortgage loan taken out with "Banca Intesa Mediocredito S.p.A.", with registered office in Milan, on 29 March 2007 for an initial amount of € 17,000,000.00, due 31 December 2021, backed by a mortgage on the Pontedera property, to be repaid in 59 quarterly instalments. The residual amount to be paid at 31 December 2018 was Euro 3,889,748.

- Mortgage loan taken out with "MPS CAPITAL SERVICES BANCA PER LE IMPRESE SPA", with registered office in Florence, on 7 September 2010 for an initial amount of Euro 7,600,000.00, backed by a second mortgage on the Pontedera property and by a lien on a recycling plant, divided into two tranches, one of which was already repaid in full in 2014, whose conditions and amortisation schedules were amended by a supplementary deed on 18 April 2012 as follows: one tranche of Euro 5,500,000 due 31 December 2021, to be repaid in 16 six-monthly instalments; the residual amount to be repaid at 31 December 2018 was equal to Euro 2,235,461.

- Mortgage loan taken out with MPS Capital Services S.p.A. with a mortgage on the composting plant located in Faltona in the Municipal district of Borgo San Lorenzo for Euro 8,850,000.

The main investments made during 2018 involved the purchase of the "Cava Fornace" landfill for the storage of non-hazardous special waste located between the Municipal districts of Pietrasanta and Montignoso, which was completed by a notarial deed, file 24607 of 3 August 2018, for a consideration of Euro 10,189,607, recognised among Alia's assets. The plant was granted for use to subsidiary Programma Ambiente Apuane S.p.A. under a lease agreement signed on 24 August 2018. During 2018, additional investments were made in implementing operations at the industrial complex located in Florence, in the Ferrale area, at Via di Castelnuovo 20, which had been acquired within Bankruptcy proceedings 288/2014 before the Court of Florence in 2017 and which definitively entered into service in the current year. These investments concerned electrical and air-conditioning systems for Euro 256,990 and the PV plant for Euro 220,000. Other investments for plants involved in the capitalisation, according to IAS principles, of the "mechanical press" for Euro 275,000 at subsidiary Revet S.p.A., as well as minor investments for plants for about Euro 80,000; while subsidiary Revet Recycling made investments for the "granule plant" for Euro 265,725 and investments in other plants for around Euro 32,000.

Purchases for industrial and commercial equipment amounted to approximately Euro 370,000. Additional purchases, reclassified to "Other property, plant and equipment", mainly concerned furniture and other office shelving for Euro 175,709 and electrical and electronic machines for Euro 80,360.

Finance leases

The Company holds property, plant and equipment acquired under finance lease agreements mainly relating to buildings, collection vehicles and a mechanical press.

	Properties	Plants	Vehicles
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Net book value	456,773	251,945.00	1,404,948.00
Present value of minimum payments	450,346	207,983.00	1,329,771.51
Total remaining minimum payments	599,386	218,480.00	1,358,556.60
Minimum payments to be made			
<i>Within 12 months</i>	41,626	52,832.00	523,088.44
<i>After 12 months within 5 financial years</i>	208,130	165,648.00	835,468.16
<i>Beyond 5 years</i>	349,630	0	0

2) Concession rights

These consist of the rights relating to the integrated municipal waste management in the municipal districts of ATO Toscana Centro, which was started from 1 January 2018.

On 31 August 2017, Alia Servizi Ambientali S.p.A. (which is also referred to as the Concessionaire and/or Operator) and ATO Toscana Centro (Integrated Municipal Waste Management Authority) signed a "Service contract for integrated municipal waste management under Article 26, paragraph 6, of Regional Law 61/2017 and Article 203 of Legislative Decree 152/2006". The contract was entered into following a public tender procedure for the concession of the integrated municipal waste management service in the Municipal districts under the responsibility of ATO Toscana Centro.

At the end of 2017, the transitional period ended and from 1 January 2018, the term started for the concession involving the integrated management of municipal waste on an exclusive basis, which consists of the following activities:

- provision of basic services;
- provision of ancillary services;
- execution of the works provided for in the contract.

As from 1 January 2018 the service is delivered for 30 Municipalities in the province of Florence, 12 in the Province of Pistoia and 7 in the Province of Prato; as from 1 March 2018 the service is also delivered for other 2 municipalities in the Province of Florence and other 8 municipalities in the Province of Pistoia, for a total of 59 municipalities served.

The fees for basic services are set on a fixed-price basis. The fees for the first four years of the Concession term (2018-2021) are those resulting from the offer according to the following schedule:

2018	2019	2020	2021
239,121,513.44	245,438,534.38	259,267,530.04	261,842,683.11

The table below shows the breakdown of basic services.

BASIC SERVICES	
1	Collection, transport, sweeping, support to domestic composting

2	User relationships and communication management
3	Analysis, communication and reporting
4	Sale of waste and/or raw materials and/or supply raw materials and/or by-products deriving from collection, treatment, recovery and/or disposal operations
5	Operation of the existing plants included in the perimeter of the tender for the treatment, recovery and/or disposal of waste that will be transferred to the service Contractor
6	Waste transport between the plants
7	Operation of existing and new collection sites
8	Operation of new installations (if any)
9	Post-closure operation of sites/landfills

The fees for ancillary services are set at a unit rate based on unit prices.

The table below shows the breakdown of ancillary services.

ANCILLARY SERVICES	
1	Washing roads and public areas or for general public use
2	Weeding as part of waste collection
3	Waste collection and cleaning after public and similar events
4	Cleaning banks of rivers, streams and lakes
5	Cleaning residues from accidents and similar emergency services
6	Collecting syringes abandoned on public land or private land intended for public use
7	Cleaning bird droppings and canine excrement
8	Collecting animal carrion
9	Removing vehicle wrecks abandoned on public land
10	Cleaning and washing particularly valuable public surfaces
11	Washing and disinfection of drinking fountains and tanks
12	Cleaning public toilets
13	Collecting asbestos from small household tasks
14	Collecting special waste lying in public areas
15	Pest control and rat extermination
16	Collecting used vegetable oils from catering activities and/or with containers in local areas, if these operations comply with current and newly-issued legislation
17	Collecting cemetery waste from exhumation and removal of remains from crypts
18	Assessment, collection and litigation service for users

Of these 18 ancillary services, nos. 5, 6, 8, 9, 14 and 17 are already active as basic services under the Concession agreement. The other ancillary services can be activated at the request of the Municipal Authorities. The total value of ancillary services was estimated at Euro 15,000,000.00 in tendering.

The object of the Concession also includes the execution of works included in the tender as defined in the table below:

Intervention	Amount of Works	Security costs
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1)	33 Collection sites	Euro 12,320,000.00	Euro 123,200.00
2)			

The remuneration for these works is envisaged under the Economic and Financial Plan. The related planning is regulated by Section 10 of the Contract. The executive design of the works will be approved by ATO in advance and it will be possible to carry out a rebalancing as a result of any substantiated cost deviation.

Calculation of annual fees

As regulated by Section 20 of the contract (shown below):

2. *The Operator's fees for basic services and ancillary services on request for the relevant year (n) are approved by ATO by 31 December of year n-1 according to the provisions of the following paragraphs.*
3. *The fees for basic services and ancillary services at the request of the Operator are those set in the economic and financial plan reported in Annex 9 attached to the Contract, as supplemented pursuant to Section 4.*
4. *The fees referred to in paragraph 3, in relation to basic services, are approved by ATO, for each year n, according to paragraph 2, taking account of:*
 - *the expected inflation rate for year n;*
 - *the Rendistato (yield on Italian Government securities);*
 - *the investments actually made in year n-1;*
 - *requirements of economic and financial rebalancing for year n, according to Section 22.*
5. *As from the fifth year of operation, the fees referred to in paragraph 3, with regard to basic services, are also approved for each year n, adjusting them according to the normalisation method under Presidential Decree 158/1999, taking account of the provisions under Annex 10 attached to the Contract and in addition to the provisions already laid down in paragraph 4:*
 - *of investments planned for year n;*
 - *of productivity recovery for year n.*
6. *The fees referred to in paragraph 3, with regard to ancillary services on request, are approved by ATO for each year n according to paragraph 2, taking account of the quantity of ancillary services on request activated by each Municipality, and:*
 - a) *of the expected inflation rate for year n;*
 - b) *of productivity recovery for year n.*
7. *The cost components relating to the municipal waste management service that define the Operator's Economic and Financial Plan, as well as any other information required for the audit of what is stated in paragraph 3 of Section 22 below, are verified by ATO for each year n-1, by 31 December of year n. On the basis of these audits, ATO shall proceed with the definition of the operator's fees for year n and the economic and financial rebalancing referred to in paragraph 9 of Section 22 below.*
8. *The Operator, according to the reporting formats produced by ATO, shall provide ATO with all information required to carry out the audits referred to in paragraph 7, by 30 September of each year n.*
9. *ATO may request clarifications and additional information and carry out audits, even on site, on the data communicated by the Operator. The Operator undertakes to provide ATO with any useful information for a full understanding of the data communicated pertaining to the management and its costs.*
10. *If any plant for the management of municipal waste and/or special waste deriving from municipal waste treatment coming from ATO Toscana Centro is also authorised to manage other waste, the costs for the management of waste other than those coming from ATO Toscana Centro are unrelated to the fees payable to the operator and the fixed costs incurred by this plant are included in the calculation of the fees limited to the actual use attributable to the share of municipal waste and/or special waste deriving from the treatment of municipal waste coming from ATO Toscana Centro.*
11. *For the analytical assessment of operating management costs (MC) and common costs (CC) referred to in Presidential Decree 158/1999, reference should be made to the categories provided for in Legislative Decree 127/1991 governing the preparation of financial statements and to the specifications set out by ATO, according to the methods set out in Annex 10 attached to the Contract.*
12. *Revenues from sales of waste, supply raw materials and energy accrue to the Operator. ATO takes this into account by reducing the fees referred to in paragraph 2 above by a corresponding amount, except as*

stated in paragraphs 13 and 14 below. The Operator is required to notify ATO of the quantities, quality and proceeds of the sale of the materials transferred to the chain consortia and/or sold directly on the supply raw materials markets.

13. If waste and supply raw materials are sold on the market, revenues from sale, exceeding those that can be obtained from chain consortia, reduce the reference tariff by an amount equal to 50% of the surplus.

14. All other possible revenues other than the previous ones and connected with the activities regulated by the Contract accrue to the Operator. ATO takes this into account by reducing the reference tariff referred to in Presidential Decree 158/1999 by an amount corresponding to 50% of these revenues.

15. All possible public funds received by the Operator in relation to the activities covered by this Contract, including those provided for in Article 3, paragraph 1, of the Tuscany Regional Law 25/1998, are accounted for by the Operator separately and contribute to the reduction in the reference tariff, approved by ATO according to paragraph 2 above. In particular, for the purposes of equivalence referred to in point 1 of the annex attached to Presidential Decree 158/1999, operating grants reduce management costs by a corresponding amount, while capital grants reduce the costs of using capital (CK) referred to in Presidential Decree 158/1999.

16. The Operator invoices each Municipality in monthly instalments, except as provided for in paragraph 691 of Law 147/2013 and Section 21 below.

Annual fees are set for the first 4 years of the concession term (3 years of investments and transformations and first year of full operation) differently from those planned as from the fifth year.

Basic services

Initially, the annual fees for basic services are those set in the Economic and Financial Plan (EFP) of the tender (paragraph 3) supplemented by the executive design drawn up during the Transitional Period. These fees are approved by ATO each year taking account of: the expected inflation rate for year n; the *Rendistato* yield; the investments actually made in year n-1; any requirements of economic and financial rebalancing for year n, (paragraph 4).

As from the 5th year, annual fees for basic services (4th year of concession term) are adjusted according to the normalisation method set out in Presidential Decree 158/1999, taking account of the guidelines attached to the contract and, in addition to the above provisions, of: investments planned for year n; productivity recovery for year n.

This is because while for the first four years the investments in the transformations are already envisaged in the specifications and in the offer, updating of the tender EFP must be carried out during the fifth year. For this purpose, the Operator shall submit the four-year Plan for detailed investment of basic services to ATO for approval. This procedure is repeated every four years for the entire term of the Concession.

Ancillary Services

The Concession fees, for ancillary services on request, are approved by ATO for each year n, according to paragraph 2, taking account of the quantity of ancillary services on request activated by each Municipality, and: of the expected inflation rate for year n; productivity recovery for year n. In this regard, it is noted that there will therefore be a settlement between the ancillary services provided for in the EFP and those actually delivered for each year.

Economic and financial rebalancing

In addition to the methods for calculating and adjusting the fees, the service Contract provides for an economic and financial rebalancing mechanism. As literally stated in Section 22 of the Contract, "*The Parties mutually undertake the obligation to maintain the economic and financial balance, in compliance with the provisions of this Contract.*" The economic and financial balance is altered when the reference tariff does not cover all the costs of the waste management service, or rather, it covers them excessively. The Rebalancing may therefore occur both in favour of the Operator and in favour of the granting Authority.

Under the contract the alteration of the economic and financial balance can be caused by:

- a) operational inefficiencies which are attributable, among other things, to the failure to achieve the productivity targets undertaken in bidding;
- b) erroneous communication of the data required to adjust the tariff;

- c) exceptionally unfavourable market conditions with reference to the activities covered by the Contract, determined by objective situations;
- d) amendments to laws or regulations that establish new tariff mechanisms (costs and revenues) or new conditions for the performance of the activities required by the concession agreement;
- e) modification or new approval of the regional municipal waste Plan and/or of the inter-provincial municipal waste Plan and/or of the concession area Plan and/or technology innovations such as to alter the balance of the Contract;
- f) ATO's requests for new investments or substantial changes to those already planned;
- g) introduction of changes in services activated with the procedure referred to in Section 7 of this Contract, provided that they are not the responsibility of the Operator;
- h) activation of additional complementary services according to Section 8 of this Contract;
- i) request for changes in the functional works under the concession and/or request for the execution of additional functional works with respect to those referred to in the concession, following orders issued by ATO and/or by competent provincial and/or regional authorities;
- j) modification of prices for access to authorised plants;
- k) delivery of the service according to Section 9, paragraph 4, for early termination of the concession agreements that have not been terminated in accordance with Article 4, paragraph 32, of Decree Law 138/2011;
- l) any lower absorption of common costs by the municipal waste management service due to a higher volume of activities not included in the Contract;
- m) quantity and quality of total waste actually collected and treated with deviations of over 3% compared to the ATO management model;
- n) actual costs incurred for the operation of landfills in the after-closure phase;
- o) higher revenues than in bidding referred to in Annex 9 in relation to items referred to in paragraphs 12, 13 and 14 of Section 20;
- p) actual amortisation or depreciation related to the assets transferred by former Operators;
- q) new public financing received by the Operator according to paragraph 15 of Section 20.

The reasons for which the Operator may be entitled to rebalancing are those referred to in letters c), d), e), f), g), h), i), j), k), m), n), p. For ATO, rebalancing may also take place in the cases referred to in letters b) and l).

As regards the Operator, the reasons that allow rebalancing are all external since the operational inefficiencies referred to in letter (a) are not subject to rebalancing. Accordingly, the profit margins that the Operator should obtain thanks to its efficiency do not constitute rebalancing in favour of the competent Authority.

Operational rebalancing can be achieved by acting on:

- a) the tariff (fees);
- b) the quality of service;
- c) the term of the concession.

ATO's procedure for rebalancing in favour of the Operator is set out in the Service Contract and is started at the request of the Concessionaire. Rebalancing in favour of ATO is established *ex officio*. In the event of disputes, a Technical Committee will be appointed with conciliation functions for the management of the Contract.

Composition of the concession right

At the inception of the Concession granted to the Operator Alia S.p.A., the ownership was transferred for all plants, real estate and other capital assets that had been used by the former operators until that date, as well as for those owned by the local Bodies, granted to it under a loan for use agreement. As reported in the Introduction (in the paragraph on "GENERAL INFORMATION AND SIGNIFICANT EVENTS DURING THE YEAR"), the transfer of assets functional to the service, such as properties, capital and staff took place from 1 March 2018, at the residual book value resulting on the date of transfer, for former operators AER Ambiente, Energia Risorse S.p.A. and COSEA Ambiente S.p.A., not incorporated into Alia.

The table below summarises the book value of the assets falling within the scope of the concession ("regulated assets"):

DESCRIPTION	GROSS VALUE	DEPRECIATION FUND	NET IAS BALANCE AT 31.12.2018
LAND AND BUILDINGS	116,764,138	-32,301,548	84,462,590
PLANT AND MACHINERY	119,690,862	-109,832,242	9,858,620
INDUSTRIAL AND COMMERCIAL EQUIPMENT	223,070	-79,048	144,022
OTHER TANGIBLE ASSETS	112,362,624	-87,320,548	25,042,076
CONCESSIONS, TRADEMARKS AND SIMILAR RIGHTS	248,963	-188,276	60,687
OTHER INTANGIBLE ASSETS	8,536,670	-8,502,731	33,939
TOTAL	357,826,327	-238,224,393	119,601,934

Obligations to acquire or build property units

As noted above, the Company is required to build 33 collection sites under the concession agreement. None were built during 2018.

Obligations to deliver or rights to receive certain assets at the end of the concession term

At the end of the Concession term, capital assets and their appurtenances, required for the service management, are transferred to the successor Operator free of charge and free of burdens and encumbrances. If, at the time of termination of operations, these assets have not been depreciated in full, the successor Operator will pay Alia S.p.A. an amount equal to the original book value of the work or plant not yet depreciated, net of public grants (if any) directly related thereto (Section 13 of the Contract).

The Operator is obliged to keep the transferred plants in operation and held under management in full working order, implementing the routine maintenance Plan and performing non-routine maintenance, when necessary, having agreed on them with ATO in advance. The Operator is also obliged to maintain the transferred plants in operation but not managed, as well as the transferred plants that are not in operation, in safe conditions, implementing the Plans to maintain them in safe conditions. The decommissioning of the plants must be agreed with ATO. Where still existing upon expiry, or in any case at the time of early termination of the Contract, the Operator undertakes to hand over the works, installations and other equipment in a state of efficiency and good maintenance.

In case of decommissioning agreed between ATO and the Operator involving plants and/or other works functional to the integrated municipal waste management service, for which the law, public planning, or authorisation to operate or execute the work itself, require investigation plans to verify the state of non-contamination of the site upon decommissioning, the Operator shall be required to carry out this activity.

Decommissioning will be considered for the purposes of rebalancing the management.

Options for renewal and early termination of the agreement

Upon the natural expiry or in the event of early termination of the contract, the Operator is required to ensure the complete and regular continuation of the service and, in particular, compliance with public service obligations and minimum standards of local public service, at the same terms and conditions regulated by this Contract, until the new Operator takes over the operation of the service. No indemnity or compensation in addition to what is already provided for in the Contract for the performance of the service may be claimed by the Operator for the continuation of the service. ATO undertakes to start the awarding procedures at least one year before the expiry date of the contract or, in the event of termination, as soon as the term in which it becomes operational has expired.

Other rights and obligations

The services provided for in the Contract, the operation of which is entrusted to the Concessionaire, are based on a prominent public interest. To satisfy this or due to regulatory or legislative developments, ATO may request, on its own initiative or at the request of the Municipalities, changes in both basic services and ancillary services on request from the Operator.

The procedure (Section 7 of the contract) provides for ATO's application to be submitted to the Operator, as well as the preparation of a specific project describing the changes in the services and the proposals for changes in the economic and financial plan.

The changes are permitted up to one-fifth of the overall contract amount as prescribed by law.

ATO also reserves (Section 8) the right to appoint the Operator to deliver additional complementary services in the event of supervening circumstances, reasons of public interest and/or orders issued by the competent national, regional and provincial authorities. The awarding of these services is subject to the following conditions:

- the additional complementary services cannot be separated from the original contract from a technical and economic point of view without causing serious inconveniences to the granting ATO authority or, even though they can be separated from the performance of the initial contract, they are strictly necessary for its completion;
- the total value associated with the additional complementary services must not exceed 20% of the amount of the initial contract.

A procedure similar to that of the changes must be followed for their activation.

At the request of ATO, the Operator may be required to perform additional functional works which have become necessary following the public interest requirements which have arisen and/or legislative and/or regulatory provisions, provided that they are envisaged in the planning agreements in force at the time.

The cost of additional functional works will be considered for the purpose of rebalancing the management under the Contract. The Operator may in turn propose to ATO plants and/or works not provided for in the concession area Plan, but complementary to the planning, which allow a reduction in the tariff rate of the Operator. ATO reserves the right to accept them and, in case of acceptance, the same procedure is applied for the complementary works requested by ATO.

According to the provisions of the concession agreement, reported above, these rights were accounted for by applying the intangible asset model, required by IFRIC 12, since it was considered that the underlying concession relationships did not guarantee the existence of the concessionaire's unconditional right to receive cash, or other financial assets. Improvement works and services performed on behalf of the granting authority are accounted for as "Construction costs - concession rights." Since all the works have been contracted out to third parties, these improvements have been recognised on the basis of the costs actually incurred.

Construction revenues - concession rights

These consist of the fees receivable for the work performed in favour of the granting authority and are measured at fair value, as determined on the basis of total costs incurred.

These are stated against an entry under concession rights among intangible assets.

At 31 December 2018 these revenues amounted to Euro 8,594,972 and related to the following types of assets:

CHANGE FROM PURCHASES 2018 - CONCESSION RIGHTS	
LAND AND BUILDINGS	1,105,795
PLANT AND MACHINERY	691,519
INDUSTRIAL AND COMMERCIAL EQUIPMENT	142,928
OTHER TANGIBLE ASSETS	6,624,648
<i>of which Collection equipment</i>	3,052,133
<i>of which Motor vehicles</i>	3,566,927
<i>of which office machines</i>	5,588
CONCESSIONS, TRADEMARKS AND SIMILAR RIGHTS	0

OTHER INTANGIBLE ASSETS	30,082
TOTAL	8,594,972

Construction costs - concession rights

At 31 December 2018 these amounted to Euro 8,594,972 and were stated in accordance with the provisions of IFRIC 12.

3) Other intangible assets

The Group holds goodwill of Euro 250 thousand arising from the acquisition of Revet S.p.A.. For details on how goodwill was determined, reference should be made to the information provided above. As required by international standards, goodwill has not been amortised. This is placed on the Revet CGU, to be understood as a company as a whole. Given that the purchase was made towards the end of the 2018 financial year, no evidence of impairment loss of the intangible asset was reported at the end of the year.

These are amortised on a straight-line basis, the amortisation rate for concessions and licenses in use is 33% while for other fixed assets it is 20%. The latter mainly include the Group's management software.

DESCRIPTION	CONCESSIONS, TRADEMARKS AND SIMILAR RIGHTS	GOODWILL	OTHERS	CONCESSION RIGHTS	ASSETS UNDER DEVELOPMENT	INTANGIBLE ASSETS
VALUES AT 31.12.2017						
Gross value	8,171,589	0	10,739,665	0	891,565	19,802,819
Amortisation fund	-7,553,473	0	10,607,335	0		-18,160,808
NET IAS BALANCE AT 31.12.2017	618,116	0	132,330	0	891,565	1,642,011
CHANGES FOR FY 2018						
FIXED ASSETS FROM COMPLETION OF TRANSFER OF PROGRAMMA AMBIENTE BUSINESS UNIT AS FROM 01.11.2018	0	0	0	143,849	0	143,849
AMORTISATION FUND FOR FIXED ASSETS FROM COMPLETION OF TRANSFER OF PROGRAMMA AMBIENTE BUSINESS UNIT AS FROM 01.11.2018	0	0	0	-139,457	0	-139,457

RECLASSIFICATION OF GROSS VALUE AT 01.01.2018 TO: FIXED ASSETS - CONCESSION RIGHTS	-248,963	0	-8,526,782	355,955,750	0	347,180,006
RECLASSIFICATION OF AMORTISATION FUND AT 01.01.2018 TO FIXED ASSETS - CONCESSION RIGHTS	105,289	0	8,516,421	-230,806,207	0	-222,184,498
TOTAL BUSINESS COMBINATION PURCHASES	191,909	250,481	90,068	0	505	532,962
CHANGES FROM PURCHASES	588,726	0	289,354	8,594,972		9,473,052
TRANSFERS FOR RECLASSIFICATIONS	883,415	0	80,056	46,308	-891,565	118,214
DECREASES	-119,627	0	0	-6,914,552		-7,034,179
DISPOSAL OF AMORTISATION FUND	119,627	0	0	6,852,025		6,971,652
2018 AMORTISATION	-618,493	0	-344,381	-14,130,754		-15,093,627
Gross value	9,467,049	250,481	2,672,361	357,826,327	505	370,216,723
Amortisation Fund	-7,947,050	0	-2,435,295	-238,224,393	0	-248,606,738
NET IAS BALANCE AT 31.12.2018	1,519,999	250,481	237,066	119,601,934	505	121,609,984

During the year software licenses were acquired for Euro 552,704, of which specific licences of Euro 178,462 for ERP SAP and Euro 155,759 for the Windows environment, as well as about Euro 36,000 for other software licenses purchased by Revet S.p.A. and Revet Recycling S.r.l..

It should be noted that no fixed assets are pledged as collateral, there are no contractual commitments for the acquisition of new fixed assets nor is the Company entitled to compensation from third parties for impairment losses and disposals.

Goodwill

Goodwill arises from the business combination with Revet as described in the section on "ACCOUNTING STANDARDS AND BASIS OF PREPARATION."

4) Equity investments

The value of equity investments amounted to Euro 2,384 thousand (of which Euro 1,761 thousand in associates while non-qualified investments amounted to Euro 623 thousand).

Equity investments in associates

The table below shows the book values and the income statement and balance sheet data of associates:

GENERAL DETAILS						
Company name	Q.ENERGIA SRL	AL.BE S.r.L.	VALCOFERT SRL	SEA RISORSE SPA	VETRO REVET SRL	HOLME S.p.A. in liquidation
Main operating office	CERTALDO - VIA PIANGRANDE	PECCIOLI (PI) - VIA GUGLIELMO MARCONI	CERTALDO - LOC. CANTONE S.S. 429	VIAREGGIO - VIA PALADINI	EMPOLI - VIA VIII MARZO	CASTELLO DI CISTERNA (NA) VIA ANTONIO GRAMSCI 16 CAP 80030
Registered office	FORLI - VIA A. MASETTI	PECCIOLI (PI) - VIA GUGLIELMO MARCONI	EMPOLI - VIA GARIGLIANO	VIAREGGIO - VIA DEI COMPARINI	EMPOLI - VIA VIII MARZO	CASTELLO DI CISTERNA (NA) VIA ANTONIO GRAMSCI 16 CAP 80030
Ownership percentage held by the company	50%	50%	42.50%	24.00%	49.00%	49.00%
Share of voting rights held by the company	50%	50%	42.50%	24.00%	49.00%	49.00%
ALIA BALANCE SHEET VALUES						TOTAL
Alia balance sheet value at 31/12/2017	213,995		103,558	920,730	0	1 1,238,284
Purchases		25,000				25,000
Change in consolidation area					789,909	789,909
Change for application of the equity method through P&L	12,663	-2,181	-71,723	-4,551	-226,697	-292,489
Alia balance sheet value at 31/12/2018	226,658	22,819	31,835	916,179	563,212	1 1,760,704

These investments, as described in the introduction, are measured using the equity method.
The main investments in associates are:

- Vetro Revet S.r.l., held by Revet S.p.A.. In 2018, this investment recorded a loss of Euro 1,969 thousand. The equity valuation method led to recording an impairment loss of Euro 227 thousand.
- Sea Risorse S.p.A. (a company that performs waste sorting in two municipal districts of Versilia).

Revet S.p.A. became a subsidiary in 2018, while it had been an associate in the previous year (for more details, reference should be made to the paragraph on “General information and significant events during the year”).

Non-qualified equity investments:

Non-qualified equity investments came to Euro 622,879, including the investment in Valdisieve soc. cons. a r.l. for Euro 350,000: this is a holding company that holds the capital of A.E.R. S.p.A. (in the Municipal district of Pontassieve), a company that operates the environmental hygiene service in the north area of Florence. There is also a quota in Sei Toscana S.r.l., measured in the financial statements for Euro 154 thousand.

5) Non-current financial assets

Below are the non-current financial assets:

Description	Balance at 31/12/2018	Balance at 31/12/2017	change
Guarantee deposits	158,855	133,562	25,293
Receivables from associates	80,000	80,000	0
Total	238,855	213,562	25,293

The balance at 31 December 2018 was Euro 239 thousand, of which an amount of Euro 80,000 related to the financial receivable claimed from Valcofert S.r.l.. The balance at 31 December 2017, equal to Euro 214 thousand, included guarantee deposits of Euro 134 thousand and a financial receivable of Euro 80,000 claimed from Valcofert S.r.l..

6) Deferred tax assets and liabilities

Deferred tax assets are generated by the temporary differences between the balance sheet profit and taxable income, mainly in relation to the provision for bad debts, provisions for risks and charges, statutory amortisation greater than that for tax purposes, past losses and provisions for employee benefits.

Below is a breakdown of deductible and taxable temporary differences:

	BALANCE SHEET ITEMS	DEFERRED TAX ASSETS AND LIABILITIES 31/12/2017	TEMPORARY DIFFERENCES 31/12/2018	DEFERRED IRES TAX ASSETS/LIABILITIES 31/12/2018	DEFERRED IRAP TAX ASSETS/LIABILITIES 31/12/2018

ALIA (PARENT COMPANY)	Fixed assets	-5,820,003	-18,554,925	-4,453,182	-950,012
	Provision for bad debts	10,675,942	33,540,993	8,049,838	0
	Productivity	601,847	2,577,010	618,482	0
	Litigation risks	403,751	1,417,808	340,274	72,592
	Employee Severance Pay	297,179	921,095	221,063	
	Provision for risks from fees	1,694,784	0	0	0
	Losses from previous years	218,527	15,973,289	3,833,589	0
	Vaiano landfill	390,306	814,910	195,578	41,723
	Vigiano landfill	915,195	2,607,112	625,707	133,484
	Case Passerni landfill	-1,604,188	-5,942,375	-1,426,170	-304,250
	Capital gains divided into instalments	-15,483	-32,256	-7,741	0
	Provision for maintenance risks	0	272,477	65,394	13,951
	Receivables for deferred tax assets -OCI	0		322,736	
	Provision for bad debts on loans	0	4,825	1,158	0
	IRMEL				
PROGRAMMA AMBIENTE	Write-down of securities and shares	1,364		1,364	
	Provision for bad debts	101,280		101,280	
	Tax losses	37,239		37,239	
	Property revaluation			0	-89,567
PROGRAMMA AMBIENTE APUANE	Provision for bad debts	107,376		131,428	
Q.THERMO	Losses from previous years	140,364		140,364	
REJET RECYCLING					
REJET	Fixed assets	-533,850	-3,377,323	-810,558	-162,787
	Provision for bad debts	5,587	20,970	5,033	0
	Litigation risks	25,777	49,469	11,873	2,384
	Employee Severance Pay	5,894	16,516	3,106	0

Others	349	0	0	0
Cash flow hedge derivative	0	453,762	108,903	
Lease debt	0	1,285,690	308,566	61,970

	DEFERRED IRES TAX ASSETS	DEFERRED IRES TAX LIABILITIES	DEFERRED IRAP TAX ASSETS	DEFERRED IRAP TAX LIABILITIES
ALIA	8,386,727	0	0	-992,512
IRMEL	0	0	0	0
PROGRAMMA AMBIENTE	139,883	0	0	-89,567
PROGRAMMA AMBIENTE APUANE	131,428	0	0	0
Q.THERMO	140,364	0	0	0
REJET RECYCLING	0	0	0	0
REJET	108,903	-481,981	0	-98,432
GROUP	8,907,305	-481,981	0	-1,180,511

Other non-current assets

The amount of Euro 112 thousand related to the transformation of the ACE (*Aiuto alla Crescita Economica*, Aid to Economic Growth) surplus into a tax credit that can be offset.

CURRENT ASSETS

7) Inventories

The table below shows changes in inventories:

Values at 31/12/2017	Supply raw materials and consumables	1,812,471
	Finished products and goods for resale	20,112
	Balance at 31/12/2017	1,832,583
Changes for the year	Supply raw materials and consumables	236,014
	Finished products and goods for resale	-12,012
Values at 31/12/2018	Supply raw materials and consumables	2,048,485
	Finished products and goods for resale	8,100
	Changes in consolidation area	1,257,905
	Balance at 31/12/2018	3,314,490

Inventories, amounting to Euro 3,314 thousand, mainly consisted of spare parts and equipment for the maintenance and running of the plants in operation.

8) Trade receivables

The table below shows the breakdown of trade receivables and other current assets:

Description	31/12/2018	31/12/2017	change
Receivables from customers	120,746,131	109,063,543	11,682,588
Provision for bad debts	-36,205,542	-46,278,441	10,072,899
Total trade receivables	84,540,589	62,785,102	21,755,487

The balance of trade receivables, amounting to Euro 84,541 thousand, mainly includes receivables from Municipalities, third-party customers and related companies. These receivables mainly relate to invoices issued to municipalities for environmental hygiene services not yet collected at 31 December 2018 and receivables from users for TIA (*Tariffa di Igiene Ambientale*, Environmental Hygiene Tariff) bills.

The significant fluctuation compared to the previous year almost exclusively related to the change in the consolidation area.

Below is the breakdown of changes in the provision for bad debts:

Description	31/12/2017	Change in consolidation area	Increases	Uses	31/12/2018
Provision for bad debts	46,278,441	967,464	576,548	11,616,910	36,205,542

9) Equity investments

Description	Balance at 31.12.2018	Balance at 31.12.2017
Equity investments (Bank stocks)	1,770	1,770
TOTAL EQUITY INVESTMENTS	1,770	1,770

10) Current tax assets

The table below shows the breakdown of current tax assets:

TAX RECEIVABLES - ALIA GROUP	Balance at 31/12/2018	Balance at 31/12/2017	change
IRES tax advances	3,325,285	2,951,778	373,507
IRAP tax advances	866,702	343,532	523,170
Withholding tax receivables from Tax Office	154,773	252,085	-97,312

IRES tax receivables	3,783	82,946	-79,163
IRAP tax receivables	15,955	27,981	-12,026
Other receivables	22,893	222	22,671
TOTALS	4,389,391	3,658,544	730,847

The balance at 31 December 2018, equal to Euro 4,389,391, mainly consists of IRES (Corporate Income) and IRAP (Regional Production Activity) tax advances, for amounts in excess of the debt calculated at the end of the year.

11) Other current assets

Description	Balance at 31.12.2018	Balance at 31.12.2017	change
Receivables from Others	5,884,519	5,308,004	576,515
VAT tax receivables from Tax Office	3,370,662	12,447,082	-9,076,420
Receivable for IRES tax refund	83,270	11,000	72,270
Receivable for IRAP tax refund	760,858	2,315,672	-1,554,814
Receivable from Tax Office for VAT refund	418	4,422,720	-4,422,302
Receivables from Tax Office for Refund under 2009 Assessment	0	331,146	-331,146
Receivables for recovery of excise duties on fuels	0	37,747	-37,747
Accrued income and prepaid expenses	1,502,210	1,494,263	7,947
TOTALS	11,601,937	26,367,634	-14,765,697

The balance at 31 December 2018, amounting to Euro 11,602 thousand, related to VAT credits for Euro 3,371 thousand and to other receivables for Euro 5,885 thousand, of which an amount of Euro 2,038 thousand is claimed from ATO for grants to be received, an amount of Euro 205 thousand from the provincial government of Florence and an amount of Euro 256 thousand from the Tuscany Regional government.

12) Cash and cash equivalents

The table below shows the balances of the items at 31 December 2018:

Description	Balance at 31/12/2018	Balance at 31/12/2017	change
Current bank accounts	128,043,673	146,023,579	-17,979,906
Postal accounts	2,070,112	5,837,023	-3,766,911
Money and cash on hand	17,134	27,892	-10,758
TOTALS	130,130,919	151,888,494	-21,757,575

The balance consists of liquid assets, cash on hand and cash equivalents at the reporting date.

5) EXPLANATORY NOTES TO THE LIABILITY ITEMS

13) Share capital

The Alia Group's share capital at 31 December 2018 was Euro 85,376,852 and was divided into ordinary shares and company quotas.

At 31 December 2018 Revet S.p.A. held 418,023 treasury shares.

Earnings per share

These are calculated by dividing the profit or loss attributable to the Parent Company's shareholders by the weighted average of ordinary shares outstanding during the period. During the period the nominal share capital of Alia S.p.A. remained unchanged and was divided into 85,376,852 ordinary shares; there were no dilutive factors. Therefore they amounted to Euro 0.022.

14) Reserves

The table below shows the breakdown of reserves:

Description	Balance at 31/12/2017	Increases for the year	Decreases for the year	Balance at 31/12/2018	Possible use (A) - Distributability (B) - Loss coverage (C)
Legal reserve	1,598,901	197,623	-	1,796,524	C
Share premium reserve	16,965,073	0	-	16,965,073	A,C
Extraordinary reserve	30,258,041	3,754,843	-	34,012,884	A,B,C
Ex Asm S.p.A. Business Combination reserve	-2,488,476	0	-	-2,488,476	A,B,C
Ex Publiambiente S.p.A. Business Combination reserve	9,327,922	0	-	9,327,922	A,B,C
Ex Cis S.r.l. Business Combination reserve	580,659	0	-	580,659	A,B,C
OCI Actuarial Loss reserve	-121,351	0	21,341	-142,692	
Profits carried forward	355,229		-	355,229	A,B,C
Reserve from merger surplus	3,695,634			3,695,634	
Reserve from capital payments from shareholders	1,580,000	200,000	-	1,780,000	
Other reserves	8,433,944	5,122,766	1,148,978	12,407,732	A,B,C
Total	70,185,576	9,275,232	1,170,319	78,290,489	

The First-Time Adoption reserve, amounting to Euro 7,896,006, relates to the accounting differences arising from the transition to International Accounting Standards according to IFRS 1.

Share capital

The share capital, equal to Euro 85,376,852, is divided into 85,376,852 shares with a par value of Euro 1.00 each, and is fully subscribed and paid up.

Share premium reserves

This reserve, amounting to Euro 16,965,073, was set aside in 2017 and was generated by the share swap differences due to the merger transaction at book values.

Extraordinary reserve and other revenue reserves

These increased from Euro 53,696,405 at 1 January 2018 to Euro 61,801,318 at 31 December 2018; the increase for an amount equal to Euro 8,104,913 was mainly due to the allocation of the 2017 profit and to including Revet S.p.A. and Revet Recycling S.r.l. in the consolidation area.

Business Combination reserves

These reserves, amounting to Euro 7,420,104, did not report changes compared to the previous year.

The table below shows a reconciliation between the parent company's operating result and equity and related consolidated values at 31 December 2018:

	Equity at 31.12.2018	Profit (loss) at 31.12.2018
Balances as per the financial statements of the Parent Company Alia Servizi Ambientali S.p.A.	167,527,516	1,032,112
Equity of subsidiaries	11,527,356	(228,255)
Derecognition of the carrying amount of equity investments	(12,873,535)	
Derecognition of the effects of inter-company transactions		4,825
Other adjustments	243,579	1,139,702
Balances as per the consolidated financial statements of the Alia Group	166,424,915	1,948,384
Minority interests	7,039,352	(47,464)

Balances as per the consolidated financial statements

173,464,267

1,900,920

15) Minority interests

Share/quotaholders of:	Equity attributable to minority interests	Net profit (loss) attributable to minority interests
Programma Ambiente Apuane SpA	175,888	-56,702
Q.Thermo Srl	1,523,478	-41,102
Irmel Srl	129,065	70,394
Revet Spa	5,134,764	110,746
Revet Recycling Srl	123,621	-130,799
TOTAL	7,086,816	-47,464

NON-CURRENT LIABILITIES

16) Provisions for risks and charges

Below is the breakdown of the item:

DESCRIPTION	Case Passerini	Vaiano landfill	Vigiano landfill	Apuane landfill	Other risks	Provision for waste pre-treatment/di-sposal costs	Provision for Techset liquidation costs and charges	TOTAL
Value at 31/12/2017	17,606,241	1,868,064	4,754,176	6,072,368	9,714,203	10,130	27,028	40,052,210
Provisions					2,931,821	43,383		2,975,204
Adjustment to Provision	433,489	-374,216	-113,503					-54,230
Interest	-48,942	-97,460	-219,228	188,149				-177,481
Uses	-203,878	-53,750	-202,997		-8,236,639	-7,131	-27,028	-8,731,423
Surpluses through P&L					-131,055	-2,999		-134,054
Change in consolidation area					180,000			180,000
Value at 31/12/2018	17,786,910	1,342,639	4,218,448	6,260,517	4,458,330	43,383	0	34,110,226

The balance of provisions for risks and charges was Euro 34,110 thousand.

The effect was mainly related to the combination process highlighted in the introduction to this explanatory note.

The balance at the end of the year mainly included:

- Post-landfill management provision for Euro 29,609 thousand: this is the amount set aside to meet the costs that shall be incurred to manage the closure and post-closure period of landfills that are currently under management. Future outlays, which are inferred for each landfill from a specific valuation report, prepared by an independent third-party expert, have been discounted in accordance with the provisions of IAS 37. The increases in the provision include the financial component inferred from the discounting procedure and the provisions due to changes in the assumptions on future outlays following the review of valuation reports concerning both landfills in operation and those already exhausted. The uses consist of the actual outlays that were determined during the year.
- The Provision for risks for the Apuane Landfill was determined by a specific third-party expert's report aimed at quantifying the amount to be set aside based on the quantities of waste placed in landfills.
- As regards Case Sartori, a provision for Post-management was not set aside in accordance with the provisions of the EFP drawn up in tendering, which led to awarding the environmental management service of ATO Toscana Centro. According to the plan, the costs incurred for the post-management of this landfill will in fact be covered annually with the new tariffs, but they will not affect the Company's accounts.
- Provisions for Other risks for Euro 4,458 thousand. This item has been recorded to cover future and possible risks related to pending disputes (for Euro 1,418 thousand); an amount of Euro 2,577 thousand has also been allocated for productivity bonuses payable to employees.
- Provision for restoration and replacement for Euro 272 thousand. This item is recorded to meet costs relating to future and prospective cyclical non-routine maintenance of plants.

17) Employee severance pay and other benefits

The amount payable to employees for severance pay benefits at 31 December 2018 is shown in the table below:

<i>DESCRIPTION</i>	PROVISION FOR EMPLOYEE SEVERANCE PAY
1) Value at 31/12/2017	20,750,032
2) Provisions	112,967
3) Uses	-3,110,144
4) Releases	0
5) Surpluses through P&L	0
6) Other changes	1,269,489
7) Change for discounting	95,529
8) Interest cost	273,829
9) Business Combination purchases / Change in consolidation area	460,133
10) VALUE AT 31/12/2018	19,851,834

The item, amounting to Euro 19,852 thousand, includes provisions for subordinate employee severance pay and other contractual benefits, net of advances granted and payments made to social security institutions in accordance with current legislation. The calculation is carried out by using actuarial techniques and discounting future liabilities at the reporting date. These liabilities consist of the receivables that the employees will accrue on the date on which they will presumably leave the company.

The table below shows the main assumptions used in the actuarial estimate of employee benefits:

Description	Alia Spa	Revet Spa
Inflation rate	1.50%.	1.50%.
Annual discount rate	1.13%.	1.57%.
Annual rate of overall pay increases	2.63%.	0.50%.
Annual frequency of leaving work for reasons other than death	1.00%.	1.00%.

The actuarial component relating to the Employee Severance Pay and the related deferred tax are shown in the OCI section.

18) Non-current financial liabilities

Below are the total and breakdown of loans, payables and other non-current financial liabilities:

Description	Balance at 31/12/2018	Balance at 31/12/2017	change
Bond	49,672,287	49,600,578	71,709
Payables for Shareholders' Loans	126,000	136,936	-10,936
Payables to Banks	24,908,495	29,118,213	-4,209,718
Payables to leasing companies	1,409,716		1,409,716
Payables to other lenders	1,858,402	963,208	895,194
Total Non-current financial liabilities	77,974,900	79,818,935	-1,844,035

Below are the changes in payables to banks for loans:

Description	balance at 31/12/2017	Change in consolidation area	increase from new loans	decrease for repayments	balance at 31/12/2018
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Payables to banks	29,118,213	7,127,922	0	11,337,640	24,908,495
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Payables to banks: the balance also includes amounts due to banks for the medium- and long-term portion (equal to Euro 24,908 thousand).

Bond: on 9 March 2017, the Company completed the procedure for the issue of a Euro 50,000,000 bond listed on the Irish Stock Exchange in Dublin. It has a term of seven years and an effective rate of 2.7%. This loan will be repaid on a straight-line basis from 2021. The proceeds of the issue are mainly intended to finance the investments planned and attributable to the transformation of services under the twenty-year concession agreement.

19) Deferred tax liabilities

Deferred tax liabilities are detailed in note 6.

20) Derivatives

The "Provision for hedging derivatives" shows the fair values of two derivatives qualified as cash flow hedges. It should be noted that, according to the option provided by the new IFRS9 (paragraph 7.2.21 on the subject of "Transition for hedge accounting"), the Company has chosen to continue to apply, for this type of transaction, the provisions governing hedge accounting laid down in IAS 39.

Derivative contract type	Interest rate swap	Interest rate swap	Total
Contract number	007052502920	9162590	
Purpose	Hedging	Hedging	
Notional value	Euro 2,180,407	Euro 2,447,664	Euro 4,628,071
Underlying financial risk	Interest rate risk	Interest rate risk	
Fair value	Euro 164,854	Euro 288,897	Euro 453,751
Hedged assets / liabilities	Banca Intesa mortgage	Banca Intesa mortgage	

Against the reclassification adjustment for the above-mentioned derivatives, the OCI item on the income statement recorded an amount of Euro 64 thousand, net of related deferred tax liabilities.

21) Other non-current liabilities

Description	Balance at 31.12.2018	Balance at 31.12.2017	change
Payable to Publiservizi S.p.A.	1,560,000	1,680,000	-120,000

Provincial Tax	665,198	1,157,294	-492,096
Other tax payables	12,894		12,894
Guarantee deposits	546,639	907,060	-360,421
Accrued expenses and deferred income	4,847,990	3,686,182	1,161,808
TOTALS	7,632,721	7,430,536	202,185

The payable to Publiservizi S.p.A., equal to Euro 1,560 thousand, relates to an amount owed to this company for the purchase of an industrial shed located in the Municipal district of Fucecchio (Florence).

The Provincial Tax Debt consists of the amount to be paid for this purpose on TIA tariff bills collected during the year.

The payable for guarantee deposits received from Programma Ambiente Apuane came to Euro 547 thousand.

Deferred income relates to portions of set-up grants received and accruing in future years. The breakdown of portions accrued after 2019 and beyond five years can be inferred from the table below:

	FROM 1 TO 5 YEARS	BEYOND 5 YEARS
TOTAL	2,271,787	2,576,203

CURRENT LIABILITIES

22) Current financial liabilities

Below are the total and breakdown of current financial liabilities:

Description	31.12.2018	31.12.2017	change
Accrued BOND interest	1,098,493	1,098,493	0
Payables for Shareholders Loans	22,969	139,929	-116,960
Payables to Banks	36,270,243	42,160,062	-5,889,819
Payables to other lenders	2,409,145	23,027	2,386,118
TOTALS	39,800,850	43,421,511	-3,620,661

The balance at 31 December 2018 amounted to Euro 39,800,850 (Euro 43,421,511 at 31 December 2017) and mainly related to short-term payables to banks.

The balance also includes the short-term portion of the Bond for Euro 1,098 thousand, consisting of interest that accrued during the period.

23) Trade payables

The table below shows the total and breakdown of trade payables:

Description	31.12.2018	31.12.2017	change
Advances	0	62,309	-62,309
Payables to suppliers	90,206,639	54,031,797	36,174,842
Payables to associates	815,101	9,970,300	-9,155,199
Payables to entities controlled by parent companies	246	280	-34
Sundry payables		14,924	-14,924
TOTALS	91,021,986	64,079,610	26,942,376

The balance of Euro 91,022 thousand mainly includes trade payables of Euro 90,207 thousand. The increase compared to the previous year was mainly attributable to including Revet in the consolidation area.

24) Current tax liabilities

Current tax liabilities are broken down in the table below:

Description	31.12.2018	31.12.2017	change
IRES tax debt	6,617	120,114	-113,497
IRAP tax payables to the Tax Office	29,505	23,781	5,724
	36,122	143,895	-107,773

The debt positions illustrated above relate to the Group's tax payables due within 12 months.

25) Other current liabilities

Description	Balance at 31/12/2018	Balance at 31/12/2017	change
VAT on purchases - SPLIT payment	0	2,618,514	-2,618,514
VAT payables to Tax Office	56,627	38,519	18,108
Deferred VAT - Customers	776	24,873	-24,097
Withholding tax payables to Tax Office	43,582	38,868	4,714
Tax Office on account of IRPEF tax for employees	2,277,419	1,751,483	525,936

Substitute tax payables - Employee Severance Pay	7,489	27,304	-19,815
Ecotax	74,284	89,025	-14,741
Payables to social security institutions	4,521,968	3,459,580	1,062,388
Payables to the Municipality of Florence	222,156		222,156
Other payables	8,141,182	13,418,297	-5,277,115
Accrued expenses and deferred income	783,670	560,700	222,970
Total Other current liabilities	16,129,155	22,027,163	-5,898,008

The debt positions illustrated above relate to the tax and social security payables repaid by the Group within 12 months. The payable to the parent company (Municipality of Florence) relates to payments for waste tax, received from users as accounting agents and reversed after 12 months.

6) EXPLANATORY NOTES TO THE INCOME STATEMENT ITEMS

26) Revenues

Total revenues from sales and services of the Alia Group recorded in 2018 came to Euro 299,555,621 (Euro 253,434,106 at 31 December 2017). The revenues of Parent Company Alia Servizi Ambientali S.p.A., deriving from waste collection, treatment and disposal service, amounted to Euro 290,112,523, of which an amount Euro 267,580,837 came from the Municipalities that are directly and indirectly shareholders of the Company. Changes in inventories for finished products came to - Euro 254,480, due to the consolidation of Irmel S.r.l., Revet S.p.A. and Revet Recycling S.r.l..

Other operating revenues of the Alia Group came to Euro 6,906,294 (Euro 6,547,703 at 31 December 2017), including operating revenues of the Parent Company alone for Euro 4,935,595.

The breakdown of Other operating revenues of the Group mainly include:

- Operating grants for Euro 27,979 (Euro 383,038 at 31 December 2017)
- Set-up grants for Euro 381,246 (Euro 625,601 at 31 December 2017)
- Revenue from penalties for Euro 649,702 (Euro 1,122,945 at 31 December 2017)
- Revenues for claims compensation for Euro 481,187 (Euro 339,868 at 31 December 2017)
- Refunds of fuel excise duties for Euro 400,553 (Euro 492,289 at 31 December 2017)
- GSE electricity production incentives for Euro 310,075 (Euro 324,259 at 31 December 2017)
- Recoveries and reimbursements for Euro 1,104,962 (Euro 897,107 at 31 December 2017)
- Contingent assets for Euro 575,029 (Euro 1,008,580 at 31 December 2017)
- Other revenues for Euro 717,034 (Euro 958,882 at 31 December 2017)
- Compensation for transport costs for Euro 570,978 (Euro 395,134 at 31 December 2017)
- Capital grants for Euro 200,000 (Euro 0.00 at 31 December 2017)
- Incentive tariff for Euro 258,326 (Euro 113,616 at 31 December 2017)
- Revenue from company canteen for Euro 251,273 (Euro 176,103 at 31 December 2017)
- Reimbursement of disposal costs for Euro 977,950 (Euro 0.00 at 31 December 2017).

27) Operating costs

Below are the total and breakdown of operating costs at 31 December 2018:

Description	Balance at 31/12/2018	Balance at 31/12/2017	change
Fuels and lubricants	7,667,911	6,301,758	1,366,153
Spare parts	2,515,657	2,085,689	429,968
Bags	1,389,773	1,046,575	343,198
Consumables	3,604,347	1,577,400	2,026,947
Other purchases	1,661,683	1,130,706	530,977

Description	Balance at 31/12/2018	Balance at 31/12/2017	change
Costs for raw materials and consumables	16,839,371	12,142,128	4,697,243
Waste collection and sorting	41,823,925	39,991,162	1,832,763
Transport, treatment and disposal services	60,778,555	35,545,629	25,232,926
Cleaning and sweeping services	6,665,210	4,862,927	1,802,283
Operation and cleaning of green areas and historic centres	5,471,721	1,831,070	3,640,651
Environmental hardship allowance	2,887,527	2,485,984	401,543
Maintenance	7,888,296	7,524,662	363,634
Energy, water and gas utilities	4,368,819	3,310,917	1,057,902
Rentals and leases payable	3,862,523	2,457,586	1,404,937
Canteen	1,459,562	1,354,031	105,531
Insurance	4,211,947	4,069,492	142,455
TIA tariff collection services	1,019,767	2,237,944	-1,218,177
Legal and notarial fees	795,791	1,328,974	-533,183
Provision of services Contracts	0	1,255,779	-1,255,779
Third-party services	4,350,948	1,856,474	2,494,474
Refund to suppliers of regional waste disposal tax	2,185,728	1,769,713	416,015
Others	10,487,657	14,712,234	-4,224,577
Leases and rentals	158,257,975	126,594,578	31,663,397
Wages and salaries	63,726,004	56,137,929	7,588,075
Contracted work	11,803,207	8,006,994	3,796,213
Social security costs	22,393,537	20,045,988	2,347,549
Employee severance pay	4,249,526	3,670,574	578,952
Other personnel costs	2,595,739	2,507,694	88,045
Personnel costs	104,768,012	90,369,179	14,398,833
Regional disposal tax	32,811	606,171	-573,360
Contingent liabilities	744,450	551,854	192,596
Sundry tax and duties	1,457,097	1,168,694	288,403
Capital losses	121,882	670,472	-548,590
Others	1,149,179	1,340,227	-191,048
Other operating expenses	3,505,418	4,337,418	-832,000

Compared to the table of operating costs reported in the notes to the 2017 consolidated financial statements, changes have been made to the breakdown items used in order to ensure a better reporting.

The fees paid to directors and statutory auditors amounted to Euro 447,614 and Euro 157,645, respectively.

The average number of staff employed by the Alia Group during the year was 2,389 as detailed below:

	ALIA S.p.A.	Revet S.p.A.	Revet Recycling S.p.A.	IRMEL S.r.l.	Qthermo S.r.l.	Programma Ambiente S.p.A.	Programma Ambiente Apuane S.p.A.	Alia Consolidated Financial Statements
Senior management	13	2						15
Middle managers/Office workers	507	50	5			12		574
Manual workers	1,283	133	18	2		25	4	1,465
Agency staff	332	3						335
Total	2,135	188	23	2	0	37	4	2,389

28) Amortisation, depreciation, provisions and write-downs

Description	Balance at 31/12/2018	Balance at 31/12/2017	change
Amortisation of intangible assets	15,093,627	997,746	14,095,881
Depreciation of property, plant and equipment	3,099,475	17,157,496	-14,058,021
Provisions for risks	289,546	320,500	-30,954
Other provisions	43,383	12,169	31,214
Total	18,526,031	18,487,911	38,120

Net value write-backs (write-downs) of trade and other receivables

This item is broken down as follows:

Description	Balance at 31/12/2018	Balance at 31/12/2017	change
Write-down of receivables stated in current assets and of cash and cash equivalents	576,548	825,563	-249,015
Total	576,548	825,563	-249,015

29) Write-downs and reinstatements of financial assets and liabilities

Description	Balance at 31/12/2018	Balance at 31/12/2017	change
Revaluations of other equity investments	0	1,770	-1,770
Write-downs of other equity investments	-220	-22,113	21,893
Total	-220	-20,343	20,123

30) Share of profits (losses) of joint ventures and associates

The balance at 31 December 2018 came to - Euro 216,772 and consists of the share of profits accrued by the associates and attributable to the Alia Group, against a value of Euro 666,971 at 31 December 2017. For more information, reference should be made to the paragraph on “Accounting policies and basis of preparation.” For the breakdown of income and costs arising from measurement at equity, reference should be made to note 3.

31) Financial operations

The following is a brief summary of financial income and costs.

Financial income

Description	Balance at 31/12/18	Balance at 31/12/17	change
Consolidation adjustments	688,243		688,243
Income from equity investments in other companies	3	8	-5
Other financial income from securities stated in current assets other than equity investments	5	21	-16
Other interest income from Receivables	336,177	782,073	-445,896
Interest income from current bank accounts	487,018	904,752	-417,734
Financial income from discounting of post-landfill management provisions	365,630	0	365,630
Income other than the forgoing	44,096	135	43,961
TOTAL	1,921,170	1,686,989	234,181

Financial costs

The table below shows the breakdown of financial costs:

Description	Balance at 31/12/18	Balance at 31/12/17	change
Interest on IAS adoption	188,149		188,149
Interest on Loans	826,391	1,014,810	-188,419
Interest expense on BOND	1,421,709	1,155,513	266,196
Default interest expense	8,582	50,811	-42,229
Interest expense on current bank accounts	197,766	855,219	-657,453

Financial costs on discounting of post-landfill management provisions	0	297,087	-297,087
Interest expense on Employee Severance Pay	277,760	264,644	13,116
Other interest expense	66,590	2,576	64,014
TOTAL	2,986,950	3,640,660	-653,710

32) Taxation

Below is a reconciliation between of difference between production value and costs and the IRAP taxable income; the rate for the parent company was 5.12% in 2018 and remained unchanged compared to 2017:

	Alia SpA (parent company)	Irmel Srl	Programma Ambiente SpA	Programma Ambiente Apuane SpA	Q. Thermo Srl	Revet Recycling Srl	Revet SpA	ALIA GROUP
Difference between production value and costs	103,942,089	166,501	-183,751	-192,856	-102,761			103,629,222
Increases due to revenues	0	0	0	0	0			0
Decreases due to revenues	7,716,935	0	0	0	0			7,716,935
Increases due to costs	2,222,667	78,344	907,520	83,276	24,467			3,316,273
Decreases due to costs	90,262,532	10,130	13,253	0	0			90,285,915
Taxable income	8,185,288	234,715	710,516	-109,580	-78,294			8,942,645
IRAP tax rate	5.12%	4.82%	4.82%	0.00%	0.00%			
IRAP tax	419,087	11,313	34,247	0	0			464,647
Contingent items	-9,197							
IRAP tax	409,889	11,313	34,247	0	0		2,770	458,220

The following is a reconciliation between accounting income and IRES taxable income.

	Alia SpA (parent company)	Irmel Srl	Programma Ambiente SpA	Programma Ambiente Apuane SpA	Q. Thermo Srl	Revet Recycling Srl	Revet SpA	ALIA GROUP
Pre-tax accounting income	1,837,767	162,581	-273,041	-231,970	-102,756			1,392,582
Increases	5,924,453	110,085	333,356	32,746	24,467			6,425,107
Decreases	22,499,721	-87,911	-132,253	48,804	-4,893			22,323,468
Tax losses	-14,737,501	-157,137	0	0	0			-14,894,638
Taxable income	0	27,619	-71,938	-248,028	0			-292,347
IRES tax rate	0%	24%	0%	0%	0%			
IRES tax	0	6,628	0	0	0			6,628
Contingent items	-140.577							
IRES tax	-140.577	6.628	0	0	0	-61,000		-194,949

The data provided in the tables reported above for Revet S.p.A. and Revet Recycling S.r.l. are not stated as to the calculation of taxable income since they were consolidated, as already mentioned above, from 30 September 2018. Therefore we report the value of consolidated current tax.

The calculation of the tax rate for 2018 is shown below:

Accrued IRES tax	-194,949
Accrued IRAP tax	458,220
Change in deferred tax	327,644
Accrued tax	590,914
Income before tax	2,491,834
Tax rate	23.71%.

7) OTHER INFORMATION

For more information on the significant events involving the Company after 31 December 2018, reference should be made to the relevant chapter in the report on operations.

The following is a breakdown of net financial position; it is not considered necessary to report the comparative data as the change in the consolidation area does not make the data perfectly comparable.

Net financial position	Note	31/12/2018
Non-current bonds	18	-49,672,287
Non-current bank loans	18	-26,318,210
Due to shareholders for loans	18	-126,000
Other lenders	18	-1,858,402
Total non-current financial debt		-77,974,900
Current bank loans	22	-37,368,736
Other lenders	22	-2,409,145
Shareholders loans	22	-22,969
Cash and cash equivalents	12	130,130,919
Total net financial debt		12,355,169

Fees due to Independent Auditors

Fees due for the auditing services performed by the independent auditors appointed by the Parent Company and by its subsidiaries, such as PricewaterhouseCoopers S.p.A. and Baker Tilly Revisa S.p.A., totalled Euro 108,778. Fees for other auditing services rendered by PricewaterhouseCoopers S.p.A. for the parent company, amounted to Euro 18,000; fees for other non-auditing services delivered by the same company for the parent company amounted to Euro 21,000.

Related-party transactions

The municipal waste service operated by the Alia Group in the area of competence is performed on the basis of agreements signed with local area authorities and concerns the operation of collection, transport, road sweeping and washing services, sending waste for recovery and disposal, etc. on an exclusive basis. The agreements signed with local area authorities regulate the economic aspects of the contractual relationship, as well as the methods of organisation and operation of the service and the quantitative and qualitative levels of the services delivered. The fees due to the operator for the services performed, including municipal waste disposal, treatment and recovery, are set annually according to the national tariff method, as supplemented, from 2013, by the TARES (*Tassa Rifiuti e Servizi*, Waste and Services Tax)/TARI (*Tassa sui*

Rifiuti, Waste Tax) legislation. The 2018 fees approved by the local area authorities were invoiced to each Municipality or to the citizens, where the quantity-based tariff fee is applied.

"Related parties" are those indicated by the international accounting standard concerning disclosures on related-party transactions (IAS 24 revised).

Related-party transactions were carried out at arm's length, the major of which are shown below:

EURO*1,000	RECEIVABLES	NON-CURRENT FINANCIAL ASSETS	PAYABLES	REVENUES	COSTS
PARENT COMPANIES	11,960	0	222	81,495	441
MUNICIPALITY OF FLORENCE	11,960		226	81,495	441

MUNICIPALITIES	40,160	0	1,746	184,836	2,752
MUNICIPALITY OF SIGNA	480			3,298	0
MUNICIPALITY OF SESTO FIORENTINO	2,279		364	8,802	11
MUNICIPALITY OF SCANDICCI	1,006			8,313	3
MUNICIPALITY OF CALENZANO	1,954			4,014	0
MUNICIPALITY OF BAGNO A RIPOLI	640		0	4,440	2
MUNICIPALITY OF CAMPI BISENZIO	2,649		260	8,470	260
MUNICIPALITY OF SAN CASCIANO VAL DI PESA	404			3,174	18
MUNICIPALITY OF IMPRUNETA	1,134			2,372	0
MUNICIPALITY OF GREVE IN CHIANTI	1,416			2,992	24
MUNICIPALITY OF TAVARNELLE VAL DI PESA	166			1,666	0
MUNICIPALITY OF FIESOLE	289		0	2,601	0
MUNICIPALITY OF BARBERINO VAL D'ELSA	194			741	0
MUNICIPALITY OF FIGLINE E INCISA VALDARNO	610			4,143	54
MUNICIPALITY OF SCARPERIA E SAN PIERO	129			2,265	0
MUNICIPALITY OF LASTRA A SIGNA	474			3,475	0
MUNICIPALITY OF EMPOLI	1,115			8,114	74
MUNICIPALITY OF VINCI	364			2,171	10
MUNICIPALITY OF MONTELUPO FIORENTINO	475		1	2,051	13
MUNICIPALITY OF CASTELFIORENTINO	343			2,302	35
MUNICIPALITY OF CERRETO GUIDI	1,358			1,478	3
MUNICIPALITY OF GAMBASSI TERME	146			744	0
MUNICIPALITY OF MONTAIONE	108		5	789	0
MUNICIPALITY OF BORGO SAN LORENZO	187		223	3,169	198
MUNICIPALITY OF CAPRAIA E LIMITE	123			893	0

MUNICIPALITY OF VICCHIO	2,078			1,166	0
MUNICIPALITY OF FUCECCHIO	537			3,112	21
MUNICIPALITY OF MASSA E COZZILE	123			1,281	0
MUNICIPALITY OF BARBERINO DI MUGELLO	861			2,068	0
MUNICIPALITY OF MONTESPERTOLI	567		173	2,121	1,175
MUNICIPALITY OF PONTE BUGGIANESE	1,033		0	1,506	0
MUNICIPALITY OF CERTALDO	332		90	2,214	96
MUNICIPALITY OF LARCIANO	120			890	0
MUNICIPALITY OF MONSUMMANO TERME	274		0	2,504	10
MUNICIPALITY OF VAGLIA	57			739	0
MUNICIPALITY OF PISTOIA	3,387		163	15,288	265
MUNICIPALITY OF SERRAVALLE PISTOIESE	283			1,361	0
MUNICIPALITY OF CHIESINA UZZANESE	73			691	0
MUNICIPALITY OF AGLIANA	578			3,093	0
MUNICIPALITY OF QUARRATA	521		0	4,919	2
MUNICIPALITY OF MONTALE	242			2,035	0
MUNICIPALITY OF BUGGIANO	1,029			1,490	0
MUNICIPALITY OF CANTAGALLO	24		7	431	0
MUNICIPALITY OF CARMIGNANO	100			1,885	0
MUNICIPALITY OF MONTEMURLO	1,919			4,003	12
MUNICIPALITY OF POGGIO A CAIANO	2,710		0	1,500	0
MUNICIPALITY OF PRATO	1,770		437	33,470	455
MUNICIPALITY OF VAIANO	71		4	1,366	6
MUNICIPALITY OF VERNIO	47		6	831	0
MUNICIPALITY OF ABETONE CUTIGLIANO	220			555	0
MUNICIPALITY OF MARLIANA	18			399	0
MUNICIPALITY OF MONTECATINI TERME	501			4,390	1
MUNICIPALITY OF PIEVE A NIEVOLE	416		2	1,027	2
MUNICIPALITY OF PESCIA	1,713			2,800	0
MUNICIPALITY OF RIGNANO SULL'ARNO	186			1,222	0
MUNICIPALITY OF SAMBUCA PISTOIESE	15			170	0
MUNICIPALITY OF SAN MARCELLO PITEGLIO	100			1,128	0
MUNICIPALITY OF UZZANO	199			700	0
MUNICIPALITY OF LAMPORECCHIO	11		8	4	0

EURO*1,000	Receivables	Non-current financial assets	Payables	Revenues	Costs
Controlled by Parent Companies:	1	0	0	7	9
Marcafir S.c.p.A.	0	0	0	3	0
S.A.S. S.p.A.	0	0	0	0	7
Firenze Parcheggi S.p.A.	0	0	0	0	0
Casa S.p.A.	0	0	0	1	0
Silfi S.p.A.	0	0	0	4	2
ATAF S.p.A.	0	0	0	0	0

EURO*1,000	Receivables	Non-current financial assets	Payables	Revenues	Costs
Associates	2,209	80	815	464	901
Q.Energia S.r.l.	143	0	38	67	0
Al.Be S.r.l.	0	0	0	0	0
Valcofert S.r.l.	1	80	88	0	402
SEA Risorse S.p.A.	295	0	0	0	0
Vetro Revet Srl	1,710	0	689	397	499
HOLME S.p.A. in liquidation	60	0	0	0	0

EURO*1,000	Receivables	Non-current financial assets	Payables	Revenues	Costs
Related parties	0	0	711	7	2,372
Le Soluzioni S.c.r.l.	0	0	711	7	2,372

Information on operating segments - IFRS 8

The Alia S.p.A. Group operates in the sector of environmental hygiene, as well as collection, sweeping and disposal of municipal waste. For this reason, the data given above report the balance sheet and income statement data of the sole operating segment.

Risks

The Company has designed specific policies for each of the following types of risk with the primary aim of setting out the strategic guidelines, organisational and management principles, macro processes and techniques required for their active management (where applicable):

- 1) Financial Risks (liquidity, exchange rate, interest rate);
- 2) Credit Risks;
- 3) Equity Risks;
- 4) Operational Risks.

The active management methods used by the Company for each type of risk are described below.

1. FINANCIAL RISKS:

a) Liquidity risk

Liquidity risk is the risk that the financial resources available to the company are not sufficient to meet the financial and commercial obligations according to the agreed terms and conditions and deadlines.

The procurement of financial resources is managed by the Finance and Control Department to optimise the use of available resources. In particular, the centralised management of financial flows makes it possible to allocate the available funds according to needs. The competent Department carefully monitors compliance with the financial covenants regulating the Bond issued in 2017 and other medium and long-term loans on a regular basis. All the covenants expressed in the form of a) Equity/EBITDA, b) Net financial position/EBITDA, c) EBITDA/Financial costs have been complied with.

The current and future financial position and the availability of appropriate bank credit facilities are monitored on an ongoing basis; no critical issues are reported in relation to covering short-term financial commitments.

The most suitable forms of financing to meet Alia's requirements and the best market conditions are sought through the relationships the Company maintains with the major Italian Banks.

The liquidity risk for Alia S.p.A. is therefore strongly mitigated by monitoring carried out by the Finance and Control Department on an ongoing basis.

Below are the maturities of payables with regard to liquidity risk:

Description	Within 12 months	Between 1 and 5 years	Beyond 5 years	Total
Financial liabilities	39,800,850	77,349,969	624,932	117,775,751
Trade payables	83,921,986	7,100,000	0	91,021,986
Other payables	16,129,155	4,087,740	3,544,981	23,761,876
Total	139,851,991	88,537,709	4,169,914	232,559,614

At 31 December 2018, "cash and cash equivalents" amounted to Euro 130,131 thousand; thus, there are no problems regarding the repayment of total short-term payables as described above.

b) Exchange rate risk

Alia S.p.A. is not exposed to exchange rate risks since the Company operates at a national level.

c) Interest rate risk

The interest rate risk to which the Company is exposed mainly originates from financial debts to banks. In light of the current trend in interest rates, the Company's risk management policy does not provide for the use of derivative contracts to hedge interest rate risks. Furthermore, due to the financial debts of Revet S.p.A., the company took out derivative instruments, already present at the date of the acquisition of control, to hedge this risk.

To complete the disclosure on financial risks, the table below reports a reconciliation between the classes of financial assets and liabilities as identified in the statement of financial position and the types of financial assets and liabilities identified based on the requirements of IFRS 7 - adopted in these Financial Statements.

<i>(In Euro units)</i>	Financial assets / liabilities measured at fair value	Loans and receivables	Liabilities measured at amortised cost	Total
CURRENT ASSETS				
Trade receivables	-	84,540,589	-	84,540,589
Other current assets	-	11,601,937	-	11,601,937
Cash and cash equivalents	-	130,130,919	-	130,130,919
NON-CURRENT ASSETS				
Non-current financial assets	-	238,855	-	238,855
CURRENT LIABILITIES				
Current financial liabilities	-	-	39,800,850	39,800,850
Trade payables	-	-	91,021,986	91,021,986
Other current liabilities	-	-	16,129,155	16,129,155
NON-CURRENT LIABILITIES				
Non-current financial liabilities	-	-	77,974,900	77,974,900
Other non-current liabilities	-	-	7,632,721	7,632,721

It should be noted that there were no financial instruments measured at fair value at 31 December 2018, except for the hedging derivatives described above. Trade receivables and payables have been measured at the book value that is believed to approximate their fair value.

2. CREDIT RISK

Alia S.p.A.'s credit risk is substantially linked to the amount of trade receivables due from companies and private individuals who make use of waste disposal services under private law contracts and to unsettled items arising from the former TIA tariff management which accrued directly to general users, as well as to the amount receivable claimed from the Municipal Authorities in relation to the municipal waste management service following the adoption of the taxation scheme from 2012/2013.

In conducting its business, Alia S.p.A. is exposed to the risk that the debts may not be honoured at maturity, with consequent increase in their ageing, or insolvency in the case of debts which are involved in insolvency proceedings or which are in any case uncollectible.

The credit management policy and the credit rating assessment tools, as well as monitoring and recovery, are differentiated according to the different types of credit mentioned above.

The terms of payment generally applied to customers are those prescribed by the legislation or regulations in force or are in line with market standards; in case of non-payment, default interest will accrue at the rate set out in the contracts.

Accruals to the provision for bad debts precisely reflect the actual credit risks.

3. EQUITY RISK

Equity risk is essentially linked to the recoverability of the value of the investments made in investees; this risk is not significant as the Company does not hold equity securities consisting of capitals subject to high variability and available for sale. All the investments held in subsidiaries and associates relate to companies that are not listed on the stock exchange and consist of long-term investments that are functional to the company business; the tests as to whether there is evidence of permanent impairment losses are monitored on the basis of the development plans and prospects of the companies and of available information: they are managed within the scope of the group's strategy in order to enhance and support any investment made.

Permanent impairment losses (if any) are adequately reported in the financial statements.

4. OPERATIONAL RISKS

This category includes all the risks which, in addition to those already highlighted in the previous paragraphs, can impact on the achievement of the objectives, in relation to the effectiveness and efficiency of company operations, performance levels, profitability and protecting resources from any loss.

The risk management process requires that the activities performed in each operational area are analysed and the main risk factors associated with aching objectives are identified. Following their identification, risks are assessed qualitatively and quantitatively (in terms of intensity and probability of occurrence), thus allowing the most significant to be detected and selected and mitigation plans to be designed accordingly.

For more information on the issues relating to credit risk and liquidity risk, reference should be made to the report on operations.

Guarantees and commitments

The guarantees given are shown below:

1) surety guarantee for the final deposit in favour of the Toscana Centro Area Authority for a value of Euro 11,956 thousand issued by Reale Mutua Assicurazioni on 27 July 2017 and valid for the period from 30 August 2017 to 30 August 2020;

2) bank guarantees as shown in the table below:

Bank	Type of Guarantee	Nominal Guarantee Amount (amounts in thousands of euros)
Intesa San Paolo	Surety in favour of Consorzio Progetto Acqua Spa	6
Intesa San Paolo	Surety in favour of Consorzio Progetto Acqua Spa	1
Intesa San Paolo	Surety on bank loans of Programma Ambiente S.p.A.	2,047
CRF	Unconditional first-demand guarantee in favour of the GSE energy services operator for Q.THERMO S.p.A. (*)	12,400
Insurance companies	Insurance guarantees for release of authorisations	1,494
Banca di Cambiano	Comfort letter in favour of Vetro Revet srl	3,820
Total		19,768

() with reference to the guarantee given in favour of Q.THERMO S.p.A. it should be noted that it is subject to a 40% indemnity on the enforcement risk held by HERA S.p.A.*

3) sureties of Euro 41,988 thousand to cover environmental risks related to landfills and plants under management, as requested by Municipalities, the Tuscany Regional Government, the Metropolitan City of Florence, as well as those issued to the Ministry of the Environment for registration in the Registry of Environmental Operators.

The Company has taken out policies against these sureties with leading insurance companies.

4) For Revet S.p.A.: Comfort letter in favour of Banca Cambiano for Vetro Revet S.r.l. for Euro 3,820,443.

Finally, a first mortgage was registered on the Faltona composting plant (Municipal district of Borgo San Lorenzo) in favour of Monte dei Paschi Capital Service S.p.A. for an amount of Euro 17,700 thousand.

Pending disputes are as follows:

INPS litigation for remuneration differences for employees under fixed-term contracts

As the deadline for appeal was pending last year, we confirmed the allocation to the provision for risks. On 14 June 2018, INPS served an appeal on the Company against the trial judgment (527/2017). The appellate proceedings initiated by INPS were settled by judgment 136 of 21 February 2019, whereby the appeal was rejected. Given that the time limits for challenging the second-instance judgment are still pending in the current year, we confirm once again the allocation of sums to the provision for risks for Euro 120,319.00 on a prudential basis.

INPS/INCA services litigation

The judgment handed down by the Court of Florence on 20 March 2015 rejected the appeal filed by (formerly) Quadrifoglio. The latter, as advised by its legal counsel, did not challenge the judgment, which thus became final. However, to date, INPS has not yet taken steps to claim the sums and, therefore, it is considered necessary to set aside a provision each year for an amount of Euro 695,690.00 on a prudential basis.

VAT on TIA tariff

The provision of Euro 25,000.00 is confirmed for disputes pending with some users for the refund of VAT on the TIA tariff, given the recent case law guidelines.

Maciste fatal accident

On 13 November 2018, the Court of Pistoia handed down the final trial judgment whereby it sentenced the three defendants (former CIS employees, two of which were transferred to ALIA as a result of the merger), jointly with Alia (which replaced CIS in the trial as the party subject to civil liability) to pay an amount of Euro 300,000.00, as an immediately enforceable advance payment, in favour of the three heirs (Euro 100,000.00 each): therefore, the provision already set aside by CIS for Euro 250,000.00 was increased by Euro 50,000.00.

Non-validated Waste Identification Forms

These proceedings were initiated by Alia, asking the Tuscany Regional Government - Environment and Energy Department to annul the reports issued by the latter for the use of non-validated Waste Identification Forms (FIR, *Formulari di Identificazione dei Rifiuti*), with a request for hearing under Article 18 of Law 689/1981. Since the proceedings are still ongoing, it is considered appropriate to confirm the provision of Euro 250,000.00 in 2018 too.

Labour litigation

The proceedings with the two employees, already reported in 2017, are still ongoing: therefore, it is considered appropriate to confirm the provision totalling Euro 5,500.00.

In 2018 some disputes were brought by four workers employed by one of our contractors who claim the salaries related to our contract, which are unpaid, by virtue of joint and several liability of Alia. It is deemed necessary to set aside the sums requested for a total of Euro 13,371.62.

Breach of contract

A user claims compensation for damage for the failure to perform the door-to-door service on a private road. Given the indications of the legal counsel, a provision of Euro 1,900.00 has been set aside.

Damage compensation for car deposit:

Litigation arising from the merger of ESSEGIEMME into ASM and of the latter into Alia. A user of a parking area operated by ESSEGIEMME claims his car suffered damages at the Serraglio car park. Given the indications of the legal counsel, a provision of Euro 6,027.65 has been set aside.

ASSIC.Toro/Generali (Mr. Urti) - REVET S.p.A.

This is a dispute with Assicurazione Generali Italia S.p.A. relating to an indemnity that the insurance company must pay Revet.

Significant events after the reporting period

Reference should be made to the paragraph on “Significant events after the reporting period” of the Report on Operations.

Information required by Article 1, paragraph 125, of Law 124 of 4 August 2017

By referring to the information reported in the National State Aid Register (*Registro Nazionale Aiuti di Stato*) of the Ministry of Economic Development, it is noted that the Company received the following grants from public entities or bodies during the year under Law 124/2017:

ALIA spa

ENTITY	GRANT	COLLECTION DATE	GROSS AMOUNT		NET AMOUNT	
METROPOLITAN CITY	IMPLEMENTATION OF WASTE REDUCTION ACTIONS	15/02/2018	Euro	5,359	Euro	5,359
TUSCANY REGIONAL AGENCY FOR AGRICULTURE GRANTS	BIOHYDROGEN AND BIOMETHANE FROM ANAEROBIC CO-DIGESTION OF ORGANIC FRACTION OF MUNICIPAL SOLID WASTE, PRODUCTION OF ENERGY SOURCES AND FERTILIZERS FOR IMPROVING EFFICIENCY OF PUBLIC UTILITY PLANTS	04/06/2018	Euro	22,620	Euro	5,359
TUSCANY REGION	IMPLEMENTATION OF WASTE REDUCTION ACTIONS	03/05/2018	Euro	234,000	Euro	5,359
TUSCANY REGION	IMPLEMENTATION OF WASTE REDUCTION ACTIONS	14/05/2018	Euro	126,000	Euro	5,359
TUSCANY REGION	GLASS MONOMATERIAL COLLECTION	18/09/2018	Euro	178,386	Euro	178,386
GESTORE SERVIZI ENERGETICI SPA	INCENTIVE RATE	31/01/2018	Euro	21,888	Euro	21,013
GESTORE SERVIZI ENERGETICI SPA	INCENTIVE RATE	28/02/2018	Euro	47,390	Euro	45,495
GESTORE SERVIZI ENERGETICI SPA	INCENTIVE RATE	29/03/2018	Euro	18,845	Euro	18,091
GESTORE SERVIZI ENERGETICI SPA	INCENTIVE RATE	30/04/2018	Euro	18,845	Euro	18,091
GESTORE SERVIZI ENERGETICI SPA	INCENTIVE RATE	31/05/2018	Euro	18,845	Euro	18,091
GESTORE SERVIZI	INCENTIVE RATE	02/07/2018	Euro	17,540	Euro	16,838

ENERGETICI SPA					
GESTORE SERVIZI ENERGETICI SPA	INCENTIVE RATE	31/07/2018	Euro	17,540	Euro 16,838
GESTORE SERVIZI ENERGETICI SPA	INCENTIVE RATE	31/08/2018	Euro	17,540	Euro 16,838
GESTORE SERVIZI ENERGETICI SPA	INCENTIVE RATE	01/10/2018	Euro	16,117	Euro 15,472
GESTORE SERVIZI ENERGETICI SPA	INCENTIVE RATE	31/10/2018	Euro	16,117	Euro 15,472
GESTORE SERVIZI ENERGETICI SPA	INCENTIVE RATE	30/11/2018	Euro	16,117	Euro 15,472
GESTORE SERVIZI ENERGETICI SPA	INCENTIVE RATE	31/12/2018	Euro	15,018	Euro 14,418
GESTORE SERVIZI ENERGETICI SPA	GRIN (Incentive Payment Management) AGREEMENT	31/01/2018	Euro	158,087	Euro 151,763
GESTORE SERVIZI ENERGETICI SPA	GRIN (Incentive Payment Management) AGREEMENT	29/03/2018	Euro	99,601	Euro 95,617
GESTORE SERVIZI ENERGETICI SPA	GRIN (Incentive Payment Management) AGREEMENT	28/06/2018	Euro	66,572	Euro 63,909
GESTORE SERVIZI ENERGETICI SPA	GRIN (Incentive Payment Management) AGREEMENT	28/09/2018	Euro	81,478	Euro 78,219
GESTORE SERVIZI ENERGETICI SPA	GRIN (Incentive Payment Management) AGREEMENT	31/12/2018	Euro	67,225	Euro 64,536
TOTAL			Euro	1,281,129	Euro 885,995

REVET spa

Euro 99 thousand against the submission of specific quarterly requests, with the Customs authorities acknowledging the credit to be used for offsetting.

Contribution to Fondimpresa training for Euro 7 thousand received on 2 March 2018.

ENTITY	GRANT	COLLECTION DATE	GROSS AMOUNT	NET AMOUNT
CUSTOMS	REFUND OF EXCISE DUTIES ON TRANSPORT FUEL	QUARTERLY	Euro 99,000	Euro 99,000
FONDIMPRESA	GRANT TO TRAINING	02/03/2018	Euro 7,000	Euro 7,000

Authorisation for publication

This document was published on 29 June 2019 upon authorisation by the Chairman and Chief Executive Officer.

For the Board of Directors

The Chairman

Paolo Regini

Certification of the Consolidated Financial Statements under Article 81-ter of CONSOB regulation 11971 of 14 May 1999, as amended and supplemented

1. We, the undersigned Alessia Scappini in her capacity as Chief Executive Officer and Gustavo Giani in his capacity as Financial Reporting Manager of Alia Servizi Ambientali S.p.A. hereby certify, also taking account of the provisions of Article 154-bis, paragraphs 3 and 4, of Legislative Decree 58 of 24 February 1998:

- adequacy in relation to the characteristics of the business (also taking account of any possible changes that occurred during the year) and
- actual application of administrative and accounting procedures for the preparation of the consolidated financial statements at 31 December 2018.

2. No significant issues are reported in this regard.

3. Furthermore, it is certified that the consolidated financial statements:

- a) have been prepared in accordance with the applicable International Accounting Standards acknowledged by the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- b) correspond to the results in the accounting books and records;
- c) are suitable to give a true and fair view of the financial position, results of operations and cash flows of the issuer, together with a description of the main risks and uncertainties to which they are exposed.

Date: 14 June 2019

Delegated Governing Body

(Signed)

.....

Financial Reporting

Manager

(Signed)

.....

**Independent Auditor’s Report on the Consolidated
Financial Statements**



Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Alia Servizi Ambientali SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Alia Servizi Ambientali SpA (hereinafter the "Company") and its subsidiaries (hereinafter the "Alia Group"), which comprise the statement of financial position as of 31 December 2018, the income statement, statement of comprehensive income, statement of changes in equity, consolidated cash flow statement of 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 Alia Group as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 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 this report. We are independent of Alia Servizi Ambientali SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhler 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311



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.

Key Audit Matters	Auditing procedures performed in response to key audit matters
<p>First application of IFRIC 12 “Service concession arrangements”</p> <p><i>Ref.: Note 1 – General information and significant events during the year and Note 3 to the consolidated financial statements – Accounting policies and basis of preparation – Explanatory notes to the asset items: “note 2 Concession rights”</i></p> <p>On 31 August 2017 Alia Servizi Ambientali SpA (also the Concessionaire and/or Operator) and ATO Toscana Centro signed the “Service contract for integrated municipal waste management” pursuant to Article 26, paragraph 6, Regional Law no. 61/2017 and Article 203, of Legislative Decree no. 152/2006”. At the end of 2017, the transitional period ended and from 1 January 2018, the term started for the concession involving the integrated management of municipal waste on an exclusive basis.</p> <p>At the inception of the Concession, all plants, real estate and other capital assets that had been used by the former operators until that date were transferred to the Operator Alia S.p.A., as well as those owned by the local Bodies, granted to it under a loan for use agreement.</p> <p>The Operator is obliged to keep the transferred plants in operation and held under management in full working order,</p>	<p>As a part of our audit activity of the consolidated financial statements as at 31 December 2018, we understood and evaluated the capitalisation process of the concession rights adopted by the Company. In particular, we carried out an understanding, evaluation and verification of the significant criteria underlying the capitalisation of such intangible assets.</p> <p>We obtained and examined, on a sample basis, the documentation related to the “service contract for integrated municipal waste management”.</p> <p>We obtained the breakdown of the capitalised costs, analysing, on a sample basis, the increases and decreases in the year. During our verifications we paid particular attention to the compliance with the requirements of “IFRIC 12 - Service concession arrangements” and “IAS 38 – Intangible assets” adopted by the European Union for the capitalisation of such intangible assets, with particular reference to the identifiability of capitalised costs and the existence of future economic benefits deriving from the investment.</p> <p>As part of our audit procedures we also held discussions with management and with the technical function managers, in order to</p>

Key Audit Matters

Auditing procedures performed in response to key audit matters

implementing the routine maintenance Plan and performing non-routine maintenance, when necessary, having agreed on them with ATO in advance. The Operator is also obliged to maintain the transferred plants in operation but not managed, as well as the transferred plants that are not in operation, in safe conditions, implementing the Plans to maintain them in safe conditions. At the end of the Concession term, capital assets and their appurtenances, required for the service management, are transferred to the successor Operator free of charge and free of burdens and encumbrances. If, at the time of termination of operations, these assets have not been depreciated in full, the successor Operator will pay Alia S.p.A. an amount equal to the original book value of the fixed asset.

In light of the foregoing, the concession was recognised applying the intangible asset model, as provided for by “*IFRIC 12 – Service concession arrangements*”; accordingly, at 31 December 2018 the Company recognised “Concession rights” for Euro 119.6 million representing 26% of the Company’s assets and the “Provision for restoration and replacement” equal to Euro 0.3 million, in compliance with the requirements envisaged by the concession agreement. During the year costs were capitalised for Euro 8.6 million related to concession rights.

Considering the significance of the investments and the use of estimates by management in order to verify the compliance with the requirements under “*IFRIC 12 – Service concession arrangements*” and “*IAS 38 – Intangible assets*” adopted by the European Union, we paid special attention to the evaluations performed by the directors.

understand the criteria used for the first recognition of the assets under concession, the related provision and the assumptions underlying the routine and non-routine maintenance Plan.

We examined on a sample basis, also involving the PwC network experts, the main assumptions used for the estimate of the planned future investments considered in the long-term plans prepared by management, and the related estimated future cash flows in order to verify the adequacy of the accrual to the “Provision for restoration and replacement”.

Finally, we examined the completeness and accuracy of the disclosures provided by the Directors in the financial statements.



Key Audit Matters	Auditing procedures performed in response to key audit matters
<p>Post-landfill management provisions</p> <p><i>Ref.: Note 16 to the consolidated financial statements – Provisions for risks and charges</i></p> <p>The value of post-landfill management provisions recognised within the liabilities of the statement of financial position of the consolidated financial statements at 31 December 2018 amounted to Euro 29.6 million, which represented 6% of the Company’s liabilities.</p> <p>Such amount was determined by the Directors on the basis of the applicable accounting standards, in particular in accordance with “IAS 37 - Provisions, contingent liabilities and contingent assets” and with the current provisions of law (Legislative Decree 36/2003) supported by external independent professionals for estimating the expected cash flows related to such provision.</p> <p>Given the significance of the amounts under analysis and the use of estimates made by management to verify the compliance with the requirements under “IAS 37 - Provisions, contingent liabilities and contingent assets” adopted by the European Union, we paid special attention to reviewing the liabilities at issue.</p>	<p>As part of our audit of the consolidated financial statements as at 31 December 2018, we carried out the procedures specified below.</p> <p>We understood and evaluated the procedure adopted by the Company for the determination of the accruals to the post-landfill management provisions.</p> <p>We verified that the accrual was made in accordance with the current provisions of law, in particular in compliance with Legislative Decree 36/2003.</p> <p>Moreover, we obtained and analysed, through discussions with the Company’s personnel, the external appraisal reports used by management to determine the above-mentioned provisions and therefore we verified that the data contained in the reports had been adequately used for the determination of the accrual through the discounting process under “IAS 37 - Provisions, contingent liabilities and contingent assets”. We also verified the reasonableness and adequacy of the discount rate used by the Directors to calculate the amount of the provision recognised in the financial statements.</p> <p>Finally, we verified the mathematical accuracy of the calculation and assessed the adequacy of the disclosures in the notes to the financial statements.</p>



Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the ability of the Alia Group to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the parent company Alia Servizi Ambientali SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, 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 auditors' 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we 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 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 evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
 - We concluded on the appropriateness of the 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 consolidated financial statements or, if such disclosures are inadequate, to modify 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 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 obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We 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 identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other 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 determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.



Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 16 February 2017 the shareholders of Alia Servizi Ambientali SpA in general meeting engaged us to perform the statutory audit of the Company's financial statements and on 20 December 2017 of the consolidated financial statements, for the years ending 31 December 2017 to 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Alia Servizi Ambientali SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Alia Group as of 31 December 2018, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Alia Group as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Alia Group as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.



Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

The directors of Alia Servizi Ambientali SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016. We have verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Florence, 14 June 2019

PricewaterhouseCoopers SpA

Signed by

Luigi Necci
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers.